



Dave Yost • Auditor of State

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended Jun 30, 2013, the District adopted the provisions of Governmental Accounting Standard Board Statement No 63, "*Financial Reporting of deferred Outflows of resources, Deferred Inflows of Resources, and Net Position*" and No. 65, "*Items Previously reported as Assets and Liabilities*". We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Award Receipts and Expenditures Schedule (the Schedule) also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

April 3, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- The District restated net position at June 30, 2012 as described in Note 3.A to the basic financial statements. In total, net position of governmental activities increased \$465,096, which represents a 7.19% increase from fiscal year 2012.
- General revenues accounted for \$18,210,505 in revenue or 80.21% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$4,491,866 in revenue or 19.79% of total revenues of \$22,702,371.
- The District had \$22,237,275 in expenses related to governmental activities; \$4,491,866 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 \$18,210,505 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 \$19,446,141 in revenues and \$19,327,940 in expenditures. During fiscal year 2013, the general fund's fund balance increased \$118,201 from \$447,822 to \$566,023.
- The permanent improvement fund had \$818,741 in revenues and \$429,123 in expenditures. During fiscal year 2013, the permanent improvement fund's fund balance increased \$389,618 from \$846,869 to \$1,236,487.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position 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 the District do financially during fiscal year 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in net position. This change in net position 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 position 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 position and statement of activities can be found on pages 15-16 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 11. 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 that 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 position 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 17-21 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for a memorial program. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. This activity is reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 22-23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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 24-53 of this report.

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been restated by the District for fiscal year 2012 to conform to fiscal year 2013 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The table below provides a summary of the District's net position at June 30, 2013 and June 30, 2012.

	Net Position	
	Governmental Activities	(Restated) Governmental Activities
	2013	2012
<u>Assets</u>		
Current assets	\$ 13,618,774	\$ 13,621,595
Capital assets, net	<u>7,683,653</u>	<u>7,859,146</u>
Total assets	<u>21,302,427</u>	<u>21,480,741</u>
<u>Liabilities</u>		
Current liabilities	2,048,634	2,500,889
Long-term liabilities	<u>3,631,858</u>	<u>3,914,903</u>
Total liabilities	<u>5,680,492</u>	<u>6,415,792</u>
<u>Deferred Inflows</u>	<u>8,686,239</u>	<u>8,594,349</u>
<u>Net Position</u>		
Net investment in capital assets	5,724,590	5,727,942
Restricted	1,034,172	852,024
Unrestricted (deficit)	<u>176,934</u>	<u>(109,366)</u>
Total net position	<u>\$ 6,935,696</u>	<u>\$ 6,470,600</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets exceeded liabilities and deferred inflows by \$6,935,696.

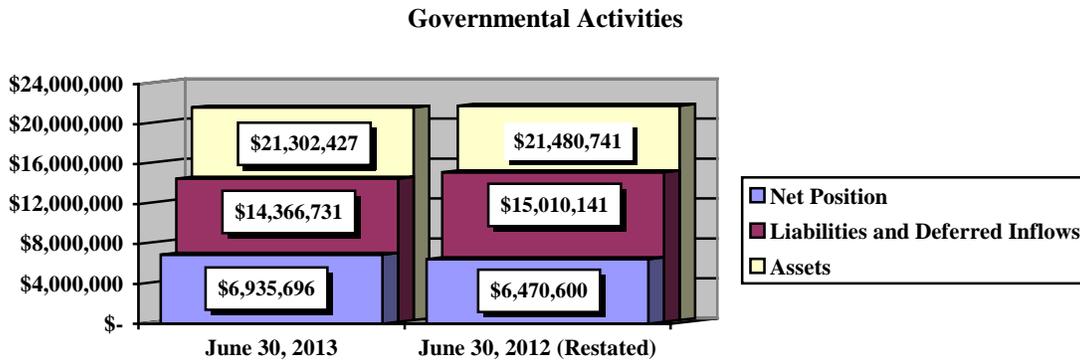
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

At fiscal year end, capital assets represented 36.07% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. The District's net investment in capital assets at June 30, 2013 was \$5,724,590. 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 position, \$1,034,172, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$176,934 may be used to meet the District's ongoing obligations to the students and creditors.

The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The graph below illustrates the District's assets, liabilities, deferred inflows, and net position at June 30, 2013 and June 30, 2012.



The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The table below shows the changes in net position for governmental activities for fiscal years 2013 and 2012.

	Change in Net Position	
	Governmental Activities 2013	(Restated) Governmental Activities 2012
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,860,882	\$ 1,590,417
Operating grants and contributions	2,593,392	2,649,405
Capital grants and contributions	37,592	26,762
General revenues:		
Property taxes	9,052,714	8,943,767
Grants and entitlements	8,721,454	9,090,524
Income taxes	8,719	4,331
Investment earnings	864	2,449
Other	426,754	197,854
Total revenues	22,702,371	22,505,509

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

	Change in Net Position	
	Governmental	(Restated)
	Activities	Governmental
	2013	2012
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,261,486	8,137,245
Special	2,915,000	2,703,658
Vocational	235,721	279,676
Adult/continuing	628,453	636,967
Other	1,656,273	1,895,758
Support services:		
Pupil	1,008,195	1,010,162
Instructional staff	562,837	570,366
Board of education	29,811	39,210
Administration	1,915,058	2,115,957
Fiscal	598,442	584,169
Business	7,409	12,946
Operations and maintenance	1,683,968	1,708,534
Pupil transportation	862,843	901,662
Central	150,496	168,186
Operation of non-instructional services:		
Other non-instructional services	128,757	146,094
Food service operations	704,899	701,162
Extracurricular activities	794,842	729,602
Interest and fiscal charges	92,785	103,321
Total expenses	<u>22,237,275</u>	<u>22,444,675</u>
Change in net position	465,096	60,834
Net position at beginning of year (restated)	<u>6,470,600</u>	<u>6,409,766</u>
Net position at end of year	<u><u>\$ 6,935,696</u></u>	<u><u>\$ 6,470,600</u></u>

Governmental Activities

Net position of the District's governmental activities increased \$465,096. Total governmental expenses of \$22,237,275 were offset by program revenues of \$4,491,866 and general revenues of \$18,210,505. Program revenues supported 20.20% 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 78.29% of total governmental revenue. The increase in charges for services and sales revenue is primarily attributable to both an increase in tuition received from the District's adult education program and the recognition of the remaining oil and gas lease bonus revenue in the permanent improvement fund during fiscal year 2013. Other revenue increased mainly because of a funding surplus in the employee insurance benefits fund (part of the general fund on a GAAP basis).

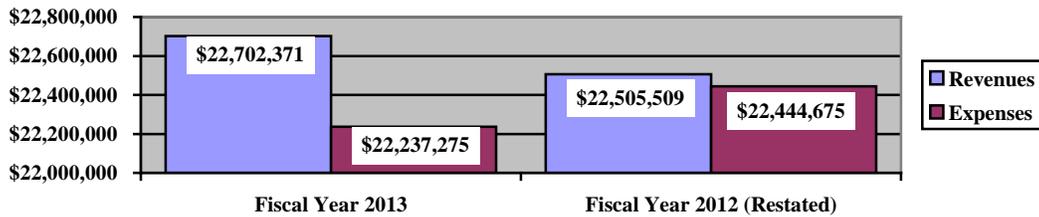
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,696,933 or 61.59% of total governmental expenses for fiscal year 2013.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The graph below presents the District's governmental activities revenues and expenses for fiscal years 2013 and 2012.

Governmental Activities - Revenues and Expenses



The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2013 and 2012. 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 2013	Net Cost of Services 2013	(Restated) Total Cost of Services 2012	(Restated) Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 8,261,486	\$ 7,609,081	\$ 8,137,245	\$ 7,542,372
Special	2,915,000	1,405,460	2,703,658	1,244,293
Vocational	235,721	195,719	279,676	239,674
Adult/continuing	628,453	10,557	636,967	72,679
Other	1,656,273	1,656,273	1,895,758	1,892,699
Support services:				
Pupil	1,008,195	943,697	1,010,162	943,678
Instructional staff	562,837	389,926	570,366	569,713
Board of education	29,811	29,811	39,210	39,210
Administration	1,915,058	1,689,421	2,115,957	1,912,093
Fiscal	598,442	594,985	584,169	582,040
Business	7,409	7,409	12,946	12,946
Operations and maintenance	1,683,968	1,678,881	1,708,534	1,704,604
Pupil transportation	862,843	753,781	901,662	680,800
Central	150,496	143,296	168,186	160,986
Operation of non-instructional services:				
Other non-instructional services	128,757	25,473	146,094	35,803
Food service operations	704,899	64,200	701,162	(5,544)
Extracurricular activities	794,842	454,654	729,602	446,724
Interest and fiscal charges	92,785	92,785	103,321	103,321
Total expenses	\$ 22,237,275	\$ 17,745,409	\$ 22,444,675	\$ 18,178,091

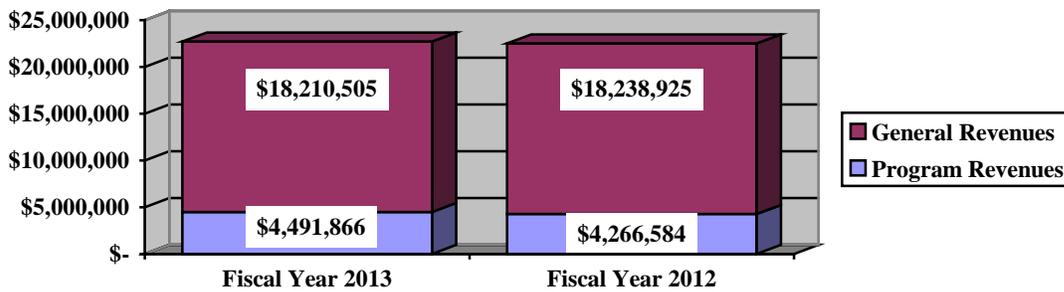
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 79.41% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.80%. 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 2013 and 2012.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,135,301, which is greater than last year's total balance of \$1,501,076. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and June 30, 2012.

	Fund Balance <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	<u>Increase</u>
General	\$ 566,023	\$ 447,822	\$ 118,201
Permanent improvement	1,236,487	846,869	389,618
Nonmajor governmental	<u>332,791</u>	<u>206,385</u>	<u>126,406</u>
Total	<u>\$ 2,135,301</u>	<u>\$ 1,501,076</u>	<u>\$ 634,225</u>

General Fund

The District's general fund balance increased \$118,201, mainly due to increasing revenues outpacing decreasing expenditures as explained on the following page.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

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

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 8,555,117	\$ 8,385,141	\$ 169,976	2.03 %
Tuition	1,074,655	896,823	177,832	19.83 %
Earnings on investments	864	2,449	(1,585)	(64.72) %
Intergovernmental	9,135,174	9,575,841	(440,667)	(4.60) %
Other revenues	<u>680,331</u>	<u>430,594</u>	<u>249,737</u>	58.00 %
Total	<u>\$ 19,446,141</u>	<u>\$ 19,290,848</u>	<u>\$ 155,293</u>	0.81 %
<u>Expenditures</u>				
Instruction	\$ 12,414,125	\$ 12,333,059	\$ 81,066	0.66 %
Support services	6,160,830	6,324,490	(163,660)	(2.59) %
Operation of non-instructional services	46,354	16,675	29,679	177.99 %
Extracurricular activities	441,173	412,379	28,794	6.98 %
Capital outlay	-	191,286	(191,286)	(100.00) %
Principal retirement	172,141	156,082	16,059	10.29 %
Interest and fiscal charges	<u>93,317</u>	<u>102,704</u>	<u>(9,387)</u>	(9.14) %
Total	<u>\$ 19,327,940</u>	<u>\$ 19,536,675</u>	<u>\$ (208,735)</u>	(1.07) %

Overall revenues of the general fund increased \$155,293 or 0.81%. Tuition increased \$177,832 or 19.83% primarily due to an increase in tuition received from the District's adult education program. Other revenues increased \$249,737 or 58.00% mainly due to a funding surplus in the employee insurance benefits fund (part of the general fund on a GAAP basis). Earnings on investments decreased \$1,585 or 64.72% due to declining interest rates. All other revenue classifications remained comparable to the prior year.

Overall expenditures of the general fund decreased \$208,735 or 1.07%. Capital outlay decreased \$191,286 or 100.00% due to a capital lease obligation entered into during fiscal year 2012. Principal retirement increased \$16,059 or 10.29% due to the first full year of capital lease obligation payments incurred by the District during fiscal year 2013. All other expenditure classifications remained comparable to the prior year.

Permanent Improvement Fund

The permanent improvement fund had \$818,741 in revenues and \$429,123 in expenditures. During fiscal year 2013, the permanent improvement fund's fund balance increased \$389,618 from \$846,869 to \$1,236,487. This increase is primarily attributable to a reduction in facilities acquisition and construction spending from the permanent improvement fund during fiscal year 2013 in comparison to fiscal year 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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 \$18,069,952, which is greater than the original budgeted revenues and other financing sources estimate of \$17,381,954. Actual revenues and other financing sources for fiscal year 2013 were \$18,069,952. Therefore, no variances related to resources were reported.

General fund original appropriations (appropriated expenditures plus other financing uses) were \$18,012,528, which is less than the final budgeted expenditures estimate of \$18,574,214. The actual budget basis expenditures matched exactly to the final budget. Therefore, no variances related to appropriations were reported.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2013, the District had \$7,683,653 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2013 balances compared to June 30, 2012:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 707,799	\$ 671,533
Construction in progress	37,592	-
Land improvements	474,465	383,605
Buildings and improvements	5,483,241	5,754,994
Furniture and equipment	546,383	594,437
Vehicles	<u>434,173</u>	<u>454,577</u>
Total	<u>\$ 7,683,653</u>	<u>\$ 7,859,146</u>

Total additions to capital assets for fiscal year 2013 were \$390,007. The District recorded \$565,500 in depreciation expense for fiscal year 2013. See Note 7 to the basic financial statements for more detail on the District's capital assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Debt Administration

At June 30, 2013, the District had \$1,510,000 in energy conservation improvement bonds, \$320,000 in energy conservation improvement notes, and \$129,063 in capital lease obligations outstanding. Of this total, \$173,766 is due within one year and \$1,785,297 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2013 and June 30, 2012.

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Energy conservation improvement bonds	\$ 1,510,000	\$ 1,625,000
Energy conservation improvement notes	320,000	341,000
Capital lease obligations	<u>129,063</u>	<u>165,204</u>
Total	<u>\$ 1,959,063</u>	<u>\$ 2,131,204</u>

At June 30, 2013, the District's overall legal debt margin was \$27,352,221 with an unvoted debt margin of \$303,914.

See Note 9 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 of Education; freezing salaries for administrative and central office staff; and reducing staff levels through attrition. In addition, the Board of Education has opened Quaker Tech, offering online instruction to District students that otherwise would have enrolled in a community school, which prevents the District from losing funding.

The greatest obstacle to District 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, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 3,852,878
Receivables:	
Property taxes	9,599,741
Income taxes.	8,719
Accounts.	1,006
Accrued interest	65
Intergovernmental	129,828
Prepayments	11,244
Materials and supplies inventory.	15,293
Capital assets:	
Nondepreciable capital assets	745,391
Depreciable capital assets, net.	6,938,262
Capital assets, net	7,683,653
Total assets.	21,302,427
 Liabilities:	
Accounts payable.	94,069
Accrued wages and benefits payable	1,544,474
Pension obligation payable.	346,096
Intergovernmental payable	56,879
Accrued interest payable	7,116
Long-term liabilities:	
Due within one year.	391,602
Due in more than one year.	3,240,256
Total liabilities	5,680,492
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	8,686,239
Total deferred inflows of resources	8,686,239
 Net position:	
Net investment in capital assets	5,724,590
Restricted for:	
Capital projects	746,363
Locally funded programs	5,075
State funded programs.	15,291
Federally funded programs	49,876
Student activities	1,378
Other purposes	216,189
Unrestricted	176,934
Total net position.	\$ 6,935,696

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 8,261,486	\$ 639,819	\$ 12,586	\$ -	\$ (7,609,081)
Special	2,915,000	14,901	1,494,639	-	(1,405,460)
Vocational	235,721	-	40,002	-	(195,719)
Adult/continuing	628,453	589,930	27,966	-	(10,557)
Other	1,656,273	-	-	-	(1,656,273)
Support services:					
Pupil	1,008,195	64,498	-	-	(943,697)
Instructional staff	562,837	1,991	170,920	-	(389,926)
Board of education	29,811	-	-	-	(29,811)
Administration	1,915,058	138,663	86,974	-	(1,689,421)
Fiscal	598,442	-	3,457	-	(594,985)
Business	7,409	-	-	-	(7,409)
Operations and maintenance	1,683,968	5,087	-	-	(1,678,881)
Pupil transportation	862,843	-	109,062	-	(753,781)
Central	150,496	-	7,200	-	(143,296)
Operation of non-instructional services:					
Other non-instructional services	128,757	-	103,284	-	(25,473)
Food service operations	704,899	147,661	493,038	-	(64,200)
Extracurricular activities	794,842	258,332	44,264	37,592	(454,654)
Interest and fiscal charges	92,785	-	-	-	(92,785)
Total governmental activities	\$ 22,237,275	\$ 1,860,882	\$ 2,593,392	\$ 37,592	(17,745,409)
General revenues:					
Property taxes levied for:					
General purposes 8,512,093					
Capital projects 540,621					
Income taxes levied for:					
General purposes 8,719					
Grants and entitlements not restricted					
to specific programs 8,721,454					
Investment earnings 864					
Miscellaneous 426,754					
Total general revenues 18,210,505					
Change in net position 465,096					
Net position at beginning of year (restated) 6,470,600					
Net position at end of year \$ 6,935,696					

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments.	\$ 2,174,923	\$ 1,217,386	\$ 460,569	\$ 3,852,878
Receivables:				
Property taxes.	9,026,287	573,454	-	9,599,741
Income taxes	8,719	-	-	8,719
Accounts	6	-	1,000	1,006
Accrued interest	62	-	3	65
Intergovernmental.	112,160	-	17,668	129,828
Prepayments.	11,244	-	-	11,244
Materials and supplies inventory.	-	-	15,293	15,293
Total assets	<u>\$ 11,333,401</u>	<u>\$ 1,790,840</u>	<u>\$ 494,533</u>	<u>\$ 13,618,774</u>
Liabilities:				
Accounts payable	\$ 66,458	\$ 813	\$ 26,798	\$ 94,069
Accrued wages and benefits payable	1,453,875	-	90,599	1,544,474
Compensated absences payable	95,297	-	-	95,297
Intergovernmental payable	53,403	-	3,476	56,879
Pension obligation payable	305,227	-	40,869	346,096
Total liabilities.	<u>1,974,260</u>	<u>813</u>	<u>161,742</u>	<u>2,136,815</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year. . .	8,167,745	518,494	-	8,686,239
Delinquent property tax revenue not available. . .	550,190	35,046	-	585,236
Intergovernmental revenue not available.	75,183	-	-	75,183
Total deferred inflows of resources	<u>8,793,118</u>	<u>553,540</u>	<u>-</u>	<u>9,346,658</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	15,293	15,293
Prepays.	11,244	-	-	11,244
Restricted:				
Capital improvements	-	722,999	-	722,999
Food service operations	-	-	76,384	76,384
Non-public schools	-	-	15,380	15,380
Special education	-	-	1,983	1,983
Targeted academic assistance	-	-	75,190	75,190
Extracurricular activities	-	-	1,378	1,378
Other purposes.	-	-	147,204	147,204
Committed:				
Capital improvements	-	513,488	-	513,488
Other purposes.	11,000	-	-	11,000
Assigned:				
Insurance benefits	202,217	-	-	202,217
Adult education	341,562	-	-	341,562
Unassigned (deficit)	-	-	(21)	(21)
Total fund balances	<u>566,023</u>	<u>1,236,487</u>	<u>332,791</u>	<u>2,135,301</u>
Total liabilities, deferred inflows of resources and fund balances.	<u>\$ 11,333,401</u>	<u>\$ 1,790,840</u>	<u>\$ 494,533</u>	<u>\$ 13,618,774</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	2,135,301
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,683,653
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	585,236	
Intergovernmental receivable		<u>75,183</u>	
Total			660,419
On the statement of net position interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(7,116)
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		(1,510,000)	
Energy conservation improvement notes payable		(320,000)	
Capital lease obligations payable		(129,063)	
Compensated absences payable		<u>(1,577,498)</u>	
Total			<u>(3,536,561)</u>
Net position of governmental activities		<u>\$</u>	<u>6,935,696</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 8,546,398	\$ 543,046	\$ -	\$ 9,089,444
Income taxes	8,719	-	-	8,719
Tuition	1,074,655	-	-	1,074,655
Earnings on investments	864	-	4,541	5,405
Charges for services	-	-	128,534	128,534
Extracurricular	68,717	-	226,688	295,405
Classroom materials and fees	179,773	-	-	179,773
Rental income	5,087	-	-	5,087
Contributions and donations	9,986	-	57,634	67,620
Other local revenues	416,768	126,657	53,777	597,202
Intergovernmental - state	8,983,594	149,038	79,104	9,211,736
Intergovernmental - federal	151,580	-	1,929,137	2,080,717
Total revenues	<u>19,446,141</u>	<u>818,741</u>	<u>2,479,415</u>	<u>22,744,297</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,969,837	-	11,203	7,981,040
Special	1,938,070	-	980,621	2,918,691
Vocational	221,744	-	-	221,744
Adult/continuing	627,281	-	-	627,281
Other	1,657,193	-	-	1,657,193
Support services:				
Pupil	990,959	-	-	990,959
Instructional staff	418,014	-	137,258	555,272
Board of education	29,811	-	-	29,811
Administration	1,723,460	-	78,484	1,801,944
Fiscal	582,546	13,303	2,442	598,291
Business	7,409	-	-	7,409
Operations and maintenance	1,632,245	8,880	-	1,641,125
Pupil transportation	632,690	77,295	69,494	779,479
Central	143,696	-	7,200	150,896
Operation of non-instructional services:				
Other non-instructional services	46,354	-	82,434	128,788
Food service operations	-	-	665,795	665,795
Extracurricular activities	441,173	-	310,633	751,806
Facilities acquisition and construction	-	329,645	-	329,645
Debt service:				
Principal retirement	172,141	-	-	172,141
Interest and fiscal charges	93,317	-	-	93,317
Total expenditures	<u>19,327,940</u>	<u>429,123</u>	<u>2,345,564</u>	<u>22,102,627</u>
Net change in fund balances	118,201	389,618	133,851	641,670
Fund balances at beginning of year	447,822	846,869	206,385	1,501,076
Decrease in reserve for inventory	-	-	(7,445)	(7,445)
Fund balances at end of year	<u>\$ 566,023</u>	<u>\$ 1,236,487</u>	<u>\$ 332,791</u>	<u>\$ 2,135,301</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds	\$	641,670
 <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. Depreciation expense exceeds capital outlay in the current period accordingly.		
Capital asset additions	\$ 390,007	
Current year depreciation	<u>(565,500)</u>	
Total		(175,493)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(36,730)	
Intergovernmental revenue	<u>(42,788)</u>	
Total		(79,518)
 Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		(7,445)
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		172,141
 In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. A decrease in accrued interest payable resulted in additional interest being reported in the funds.		
		532
 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>(86,791)</u>
Change in net position of governmental activities	\$	<u>465,096</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 8,153,378	\$ 8,476,097	\$ 8,476,097	\$ -
Income taxes.	4,166	4,331	4,331	-
Tuition.	505,675	525,690	525,690	-
Earnings on investments	771	802	802	-
Rental income	4,893	5,087	5,087	-
Contributions and donations	4,810	5,000	5,000	-
Other local revenues	18,131	18,849	18,849	-
Intergovernmental - state	8,608,103	8,948,821	8,948,821	-
Intergovernmental - federal	71,694	74,532	74,532	-
Total revenues	<u>17,371,621</u>	<u>18,059,209</u>	<u>18,059,209</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,875,624	8,121,211	8,121,211	-
Special.	1,853,486	1,911,283	1,911,283	-
Vocational.	214,292	220,974	220,974	-
Other.	1,607,122	1,657,237	1,657,237	-
Support services:				
Pupil.	913,139	941,613	941,613	-
Instructional staff	455,171	469,365	469,365	-
Board of education	28,844	29,743	29,743	-
Administration.	1,590,006	1,639,587	1,639,587	-
Fiscal	711,600	733,790	733,790	-
Business	7,628	7,866	7,866	-
Operations and maintenance.	1,617,207	1,667,636	1,667,636	-
Pupil transportation	628,604	648,206	648,206	-
Central.	64,392	66,400	66,400	-
Operation of non-instructional services:				
Other non-instructional services	27,733	28,598	28,598	-
Extracurricular activities.	417,680	430,705	430,705	-
Total expenditures	<u>18,012,528</u>	<u>18,574,214</u>	<u>18,574,214</u>	<u>-</u>
Excess of expenditures over revenues.	<u>(640,907)</u>	<u>(515,005)</u>	<u>(515,005)</u>	<u>-</u>
Other financing sources:				
Refund of prior year's expenditures	7,592	7,893	7,893	-
Advances in.	1,312	1,364	1,364	-
Sale of capital assets	1,429	1,486	1,486	-
Total other financing sources	<u>10,333</u>	<u>10,743</u>	<u>10,743</u>	<u>-</u>
Net change in fund balance	(630,574)	(504,262)	(504,262)	-
Fund balance at beginning of year	1,431,917	1,431,917	1,431,917	-
Prior year encumbrances appropriated	28,463	28,463	28,463	-
Fund balance at end of year	<u>\$ 829,806</u>	<u>\$ 956,118</u>	<u>\$ 956,118</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private-Purpose Trust	
	Memorial	Agency
Assets:		
Equity in pooled cash and investments	\$ 115	\$ 62,766
Total assets.	115	\$ 62,766
Liabilities:		
Accounts payable.	-	\$ 800
Due to students.	-	61,966
Total liabilities	-	\$ 62,766
Net position:		
Held in trust for memorial	115	
Total net position.	\$ 115	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Private-Purpose Trust
	Memorial
Additions:	
Gifts and contributions.	\$ 1,115
Deductions:	
Memorial costs.	1,000
Change in net position	115
Net position at beginning of year.	-
Net position at end of year	\$ 115

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 147 certified employees and 77 non-certified employees who provided services to 2,089 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 (BFS) 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". 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 government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 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 member districts 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 of Directors. 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 (the "Consortium") Health Benefits 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 (GRP) is a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The GRP is comprised of the Treasurers of the members who have been appointed by the respective governing body of each member.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 District 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. Bradley Stephens, Fiscal Officer, at 821 State Street, Salem, Ohio 44460.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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 plus deferred outflows and liabilities plus deferred inflows 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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. Proprietary funds are classified as either enterprise or internal service. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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's only trust funds are private-purpose trust funds, which account for a student memorial program. 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 position 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 are 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 comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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 deferred outflows and current liabilities and deferred inflows 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report results of operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

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 5).

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 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.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows 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 inflows of resources.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 2013, 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 2013. 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, 2013.

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 2013 amounted to \$864, which includes \$333 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013, the common stock value was \$35,449.

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 fiscal 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 financial 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 position, 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

All reported capital assets except land and construction in progress 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:

Description	Governmental Activities Estimated Lives
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 position. The District did not have any outstanding interfund balances as of June 30, 2013.

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, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

M. Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or liabilities used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no net position restricted for enabling legislation. The amount restricted for other purposes represents amounts restricted for food service operations, endowment resources, and education foundation activities.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepayments 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. The District did not report any interfund activity as of June 30, 2013.

Q. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are expensed during the fiscal year in which they are incurred. The District did not incur any bond issuance costs during fiscal year 2013, but the District did restate net position at June 30, 2012 due to the elimination of unamortized bond issuance costs as described in Note 3.A.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

R. Contributions of Capital

Contributions of capital in the government-wide financial statements arise from outside contributions of capital assets. During fiscal year 2013, the District received \$37,592 in capital contributions, which consisted of renovation activities associated with the District's Reilly Wall Project donated by an outside source.

S. 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 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the District:

	Governmental Activities
Net assets as previously reported	\$ 6,501,469
Expensing prior unamortized bond issuance costs	(30,869)
Net position at July 1, 2012	\$ 6,470,600

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Race to the Top	\$ 21

The general fund is liable for any deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all District deposits was \$3,867,088. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$3,632,071 of the District's bank balance of \$3,882,071 was exposed to custodial risk as discussed below, while \$250,000 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2013, 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	\$ 35,449	\$ 35,449
STAR Ohio	6,622	6,622
Total	<u>\$ 42,071</u>	<u>\$ 42,071</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.

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.

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 investments 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.

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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Common stock	\$ 35,449	84.26
STAR Ohio	6,622	15.74
Total	<u>\$ 42,071</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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 position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,867,088
Investments	42,071
Cash on hand	<u>6,600</u>
Total	<u>\$ 3,915,759</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,852,878
Private-purpose trust fund	115
Agency fund	<u>62,766</u>
Total	<u>\$ 3,915,759</u>

NOTE 5 - 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 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$308,352 in the general fund and \$19,914 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$238,051 in the general fund and \$15,276 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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 reported as a deferred inflow.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 291,566,600	96.86	\$ 292,984,120	96.40
Public utility personal	<u>9,462,660</u>	<u>3.14</u>	<u>10,929,450</u>	<u>3.60</u>
Total	<u>\$ 301,029,260</u>	<u>100.00</u>	<u>\$ 303,913,570</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 51.00		\$ 51.00	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consisted of property taxes, income taxes, accounts (billings for user charged services and student fees), accrued interest, 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 position follows:

Governmental activities:	
Property taxes	\$ 9,599,741
Income taxes	8,719
Accounts	1,006
Accrued interest	65
Intergovernmental	<u>129,828</u>
Total	<u>\$ 9,739,359</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>06/30/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/13</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 671,533	\$ 36,266	\$ -	\$ 707,799
Construction in progress	-	37,592	-	37,592
Total capital assets, not being depreciated	<u>671,533</u>	<u>73,858</u>	<u>-</u>	<u>745,391</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,385,416	124,247	-	1,509,663
Buildings and improvements	17,367,455	63,029	-	17,430,484
Furniture and equipment	1,927,367	51,578	-	1,978,945
Vehicles	1,375,580	77,295	-	1,452,875
Total capital assets, being depreciated	<u>22,055,818</u>	<u>316,149</u>	<u>-</u>	<u>22,371,967</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,001,811)	(33,387)	-	(1,035,198)
Buildings and improvements	(11,612,461)	(334,782)	-	(11,947,243)
Furniture and equipment	(1,332,930)	(99,632)	-	(1,432,562)
Vehicles	(921,003)	(97,699)	-	(1,018,702)
Total accumulated depreciation	<u>(14,868,205)</u>	<u>(565,500)</u>	<u>-</u>	<u>(15,433,705)</u>
Governmental activities capital assets, net	<u>\$ 7,859,146</u>	<u>\$ (175,493)</u>	<u>\$ -</u>	<u>\$ 7,683,653</u>

Depreciation expense was charged to governmental activities as follows:

<u>Instruction:</u>	
Regular	\$ 234,635
Special	16,135
Vocational	12,852
<u>Support services:</u>	
Pupil	10,807
Instructional staff	5,358
Administration	57,847
Fiscal	268
Operations and maintenance	45,464
Pupil transportation	109,928
Central	282
Other non-instructional services	297
Food service operations	30,452
Extracurricular activities	41,175
Total depreciation expense	<u>\$ 565,500</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, 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, 2013 for this equipment was \$57,386, leaving a current book value of \$133,900. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2013 totaled \$36,141 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, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 42,695
2015	42,695
2016	42,695
2017	<u>10,674</u>
Total minimum lease payments	138,759
Less amount representing interest	<u>(9,696)</u>
Total	<u>\$ 129,063</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2013, 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, 2012</u>			<u>June 30, 2013</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Energy conservation improvement bonds	\$ 1,625,000	\$ -	\$ (115,000)	\$ 1,510,000	\$ 115,000
Energy conservation improvement notes	341,000	-	(21,000)	320,000	21,000
Capital lease obligations	165,204	-	(36,141)	129,063	37,766
Compensated absences	<u>1,783,699</u>	<u>300,372</u>	<u>(411,276)</u>	<u>1,672,795</u>	<u>217,836</u>
Total governmental activities long-term liabilities	<u>\$ 3,914,903</u>	<u>\$ 300,372</u>	<u>\$ (583,417)</u>	<u>\$ 3,631,858</u>	<u>\$ 391,602</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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 8 for details.

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, 2013 in the amount of \$1,510,000 has been included on the statement of net position.

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, 2013 in the amount of \$320,000 has been included on the statement of net position.

- 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,	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
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	120,000	50,235	170,235
2019 - 2023	580,000	161,415	741,415
2024 - 2026	<u>345,000</u>	<u>26,392</u>	<u>371,392</u>
Total	<u>\$ 1,510,000</u>	<u>\$ 499,035</u>	<u>\$ 2,009,035</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Year Ending June 30,	Energy Conservation Improvement Notes - Series 2011		
	Principal	Interest	Total
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	25,000	9,200	34,200
2019 - 2023	140,000	30,200	170,200
2024 - 2025	<u>65,000</u>	<u>3,920</u>	<u>68,920</u>
Total	<u>\$ 320,000</u>	<u>\$ 89,320</u>	<u>\$ 409,320</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The 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, 2013, are a voted debt margin of \$27,352,221 and an unvoted debt margin of \$303,914.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty 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 days 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 the Stark County Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided to all applicable employees.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

C. Retirement Bonus

A one time retirement bonus of thirty-five percent 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 thirty years of service under SERS or STRS guidelines and retire effective at the end of the school year in which they qualify. If individuals choose not to retire when first eligible with less than thirty years of service in accordance with the State retirement systems' guidelines, he/she would not become eligible again until reaching thirty years of SERS or STRS service. The retirement bonus consists of two payments that are to be made in equal amounts in January of each of the following two calendar years. Two employees eligible in fiscal year 2012 took advantage of the retirement bonus. None of the District's employees eligible in fiscal year 2013 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 position as part of long-term liabilities.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, 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 the 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 - RISK MANAGEMENT - (Continued)

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 13. As such, no funding provisions are required by the District.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.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 performance is compared to the overall savings percentage 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 12 - 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 2013, 13.05 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, 2013, 2012 and 2011 were \$259,495, \$250,662 and \$232,978, respectively; 67.07 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - 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 2013, 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, 2013, 2012 and 2011 were \$1,135,860, \$1,167,225 and \$1,151,449, respectively; 82.71 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$34,140 made by the District and \$24,386 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, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - 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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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, 2013, 2012 and 2011 were \$32,748, \$50,600 and \$64,790, respectively; 67.07 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011 were \$14,658, \$14,803 and \$14,993, respectively; 67.07 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**SALEM CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - 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 2013, 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, 2013, 2012 and 2011 were \$87,374, \$89,787 and \$88,573, respectively; 82.71 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to 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
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 14 - 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	\$ (504,262)
Net adjustment for revenue accruals	153,285
Net adjustment for expenditure accruals	550,260
Net adjustment for other sources/uses	(10,743)
Funds budgeted elsewhere	(89,057)
Adjustment for encumbrances	18,718
GAAP basis	<u>\$ 118,201</u>

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 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 - 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 and other applicable offsets 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, 2012	\$ -
Current year set-aside requirement	356,295
Current year offsets	<u>(687,446)</u>
Total	<u>\$ (331,151)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u><u>\$ -</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, 2013, since permanent improvement tax proceeds were used as the offset.

NOTE 17 - 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>Year End Encumbrances</u>
<u>Fund</u>	
General	\$ 12,663
Permanent improvement	64,082
Nonmajor governmental funds	<u>30,932</u>
Total	<u><u>\$ 107,677</u></u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 18 - 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. During fiscal year 2012, \$25,331 of this revenue was recognized, with the remaining \$126,657 being recognized during fiscal year 2013. The District will also receive a 17.5 percent royalty on any oil or gas that is produced.

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**SALEM CITY DISTRICT
COLUMBIANA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i>		Federal		Non-Cash		Non-Cash
Program Title	Year	CFDA	Receipts	Receipts	Disbursements	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	2013	10.555		\$ 26,793		\$ 26,793
Cash Assistance:						
School Breakfast Program	2013	10.553	\$ 86,110		\$ 86,110	
National School Lunch Program	2013	10.555	364,451		364,451	
Summer Food Service Program for Children	2013	10.559	21,659		24,493	
Total U.S. Department of Agriculture			472,220	26,793	475,054	26,793
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	2012	84.010	53,290		82,399	
Title I Grants to Local Educational Agencies	2013	84.010	647,103		570,109	
Title I Grants to Local Educational Agencies - Sub A	2013	84.010	51,366		37,452	
Total Title I Grants to Local Educational Agencies			751,759		689,960	
Special Education - Grants to States	2012	84.027	29,101		35,336	
	2013	84.027	437,071		407,041	
Total Special Education - Grants to States			466,172		442,377	
Improving Teacher Quality	2012	84.367	(9,741)		5,279	
	2013	84.367	171,352		123,793	
Total Improving Teacher Quality			161,611		129,072	
ARRA - Race to the Top	2013	84.395	3,500		3,500	
Rural Education	2013	84.358	39,154		39,154	
Education Jobs Fund	2012	84.410	12,146		22,964	
School Improvement Grant	2013	84.377	1,364		1,364	
Direct:						
Student Financial Assistance Cluster						
Federal Pell Grant Program	2013	84.063	268,817		268,817	
Federal Direct Student Loans	2013	84.268	476,633		476,633	
Total Student Financial Assistance Cluster			745,450		745,450	
Total Department of Education			2,181,156	-	2,073,841	-
Total			\$ 2,653,376	\$ 26,793	\$ 2,548,895	\$ 26,793

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, 2013**

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 AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 3, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Dave Yost
Auditor of State
Columbus, Ohio

April 3, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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:

Report on Compliance for Each Major Federal Program

We have audited the Salem City School District's (the District) compliance with the applicable 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, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Salem City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as items 2013-001 and 2013-002. These findings did not require us to modify our compliance opinion on each major federal program.

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

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 2013-001 and 2013-002.

The District's responses to the internal control over compliance 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.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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Dave Yost
Auditor of State
Columbus, Ohio

April 3, 2014

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**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Student Financial Assistance Cluster – CFDA #84.063 & #84.268 Title I – Grants to Local Educational Agencies – CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Student Financial Aid Programs Direct Loan Reconciliations – Special Tests and Provisions

Finding Number	2013-001
CFDA Title and Number	Federal Direct Student Loan Program– CFDA #84.268
Federal Award Number / Year	2013
Federal Agency	US Department of Education
Pass-Through Agency	N/A

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

As prescribed in **34 CFR 685.102(b)(3)**, 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.

The District did not perform the required monthly reconciliations for the Direct Loan Program during fiscal year 2013.

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

Official’s Response: See Corrective Action Plan

2. Schedule of Federal Awards - Federal Student Financial Aid Refunds

Finding Number	2013-002
CFDA Title and Number	Student Financial Assistance Cluster – CFDA# 84.063 & 84.268
Federal Award Number / Year	2013
Federal Agency	US Department of Education
Pass-Through Agency	N/A

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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 and Pell Grants under CFDA #84.063. The Schools must maintain sufficient documentation to enable them to report the amounts on their Federal Awards Receipts and Expenditures Schedule.

Per Auditor of State Bulletin 2009-002, there are instances in which a school must return federal student financial aid monies to the federal government. In these cases, the school must return the unearned portion of the loan or Pell grant and exclude receipts and disbursements related to material returns from its Federal Awards Receipts and Expenditures Schedule.

In fiscal year 2013, the District returned \$3,575 of Pell Grant and \$58,782 of Direct Loan proceeds to the U.S Department of Education. These refunds were not excluded from the Federal Awards Receipts and Expenditures Schedule as described above. The Schedule has been updated to exclude these amounts.

The District should institute policies and procedures to help ensure federal student financial aid monies returned to the U.S. Department of Education are excluded from the Federal Awards Receipts and Expenditures Schedule.

Official's Response: See Corrective Action Plan

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Significant Deficiency- Federal Student Financial Aid-Accounting for Funds	Yes	N/A
2012-02	Noncompliance & Significant Deficiency –34 CFR 685.102- The District did not perform the required reconciliations for the Direct Loan Program CFDA 84.268	No	See Finding 2013-001
2012-03	Noncompliance & significant deficiency- OMB Circular A-133, Compliance Supplement Part 5, Section III(C) – The District did not maintain sufficient documentation for student loans issued to enable accurate reporting of the Federal Awards Receipts and Expenditures Schedule.	No	Partially Corrected; see Finding 2013-002 and portion reported in management letter.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
June 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	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, 2013	James Wilson, Treasurer
2013-002	The Treasurer will exclude the refunds of Pell Grant and Direct Loan proceeds to the U.S. Department of Education from the Federal Awards Receipts and Expenditures Schedule.	March 3, 2014	James Wilson, Treasurer

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Salem City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 17, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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Dave Yost
Auditor of State

April 3, 2014

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Dave Yost • Auditor of State

SALEM CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 22, 2014**