



Mary Taylor, CPA  
Auditor of State



**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 19, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$1,266,592, which represents a 37.89% decrease from 2005.
- General revenues accounted for \$19,114,954 in revenue or 85.28% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$3,299,221 or 14.72% of total revenues of \$22,414,175.
- The District had \$23,680,767 in expenses related to governmental activities; only \$3,299,221 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,114,954 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$19,711,981 in revenues and other financing sources and \$19,855,161 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund deficit balance increased \$143,180 from a deficit of \$2,619,699 to a deficit of \$2,762,879.
- The permanent improvement fund had \$745,050 in revenues and \$343,690 in expenditures. During fiscal 2006, the permanent improvement fund's fund balance increased \$401,360 from \$1,342,082 to \$1,743,442.

**Using the Basic Financial Statements (BFS)**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical benefits. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

***Reporting the District's Fiduciary Responsibilities***

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

***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 24-51 of this report.

**The District as a Whole**

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

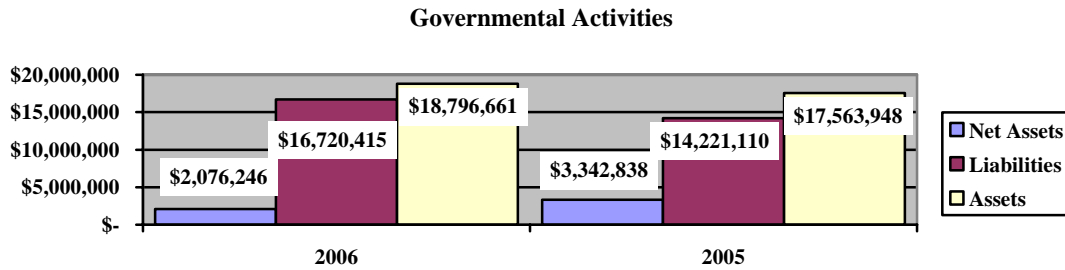
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 14,049,759	\$ 12,462,622
Capital assets	<u>4,746,902</u>	<u>5,101,326</u>
Total assets	<u>18,796,661</u>	<u>17,563,948</u>
<b><u>Liabilities</u></b>		
Current liabilities	13,137,595	12,015,037
Long-term liabilities	<u>3,582,820</u>	<u>2,206,073</u>
Total liabilities	<u>16,720,415</u>	<u>14,221,110</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,738,116	5,079,484
Restricted	2,034,983	1,657,823
Unrestricted	<u>(4,696,853)</u>	<u>(3,394,469)</u>
Total net assets	<u>\$ 2,076,246</u>	<u>\$ 3,342,838</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$2,076,246. A portion of the District's net assets, \$2,034,983, represents resources that are subject to external restriction on how they may be used.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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At fiscal year-end, capital assets represented 25.15% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$4,738,116. These capital assets are used to provide services to the students and are not available for future spending.



The table below shows the change in net assets for fiscal years 2006 and 2005.

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,279,527	\$ 1,314,875
Operating grants and contributions	2,019,694	2,131,817
Capital grants and contributions	-	20,475
General revenues:		
Property taxes	10,461,934	10,279,971
Grants and entitlements	7,979,876	7,697,973
Investment earnings	100,816	67,719
Other	<u>572,328</u>	<u>258,258</u>
Total revenues	<u>22,414,175</u>	<u>21,771,088</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	9,478,973	9,551,069
Special	2,719,687	2,444,101
Vocational	658,353	564,211
Adult/Continuing	521,056	438,315
Other	1,370,251	958,447
Support services:		
Pupil	954,530	927,554
Instructional staff	669,919	887,840
Board of education	64,461	42,281
Administration	1,983,090	1,726,193
Fiscal	662,188	633,074
Business	14,892	10,150
Operations and maintenance	2,197,940	1,956,501
Pupil transportation	571,789	588,909
Central	240,790	225,578
Operations of non-instructional services	144,278	82,265
Extracurricular activities	706,942	674,144
Food service operations	697,073	651,967
Interest and fiscal charges	<u>24,555</u>	<u>-</u>
Total expenses	<u>23,680,767</u>	<u>22,362,599</u>
Change in net assets	(1,266,592)	(591,511)
Net assets at beginning of year	<u>3,342,838</u>	<u>3,934,349</u>
Net assets at end of year	<u>\$ 2,076,246</u>	<u>\$ 3,342,838</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,266,592. Total governmental expenses of \$23,680,767 were more than program revenues of \$3,299,221 and general revenues of \$19,114,954. Program revenues supported 13.93% of the total governmental expenses.

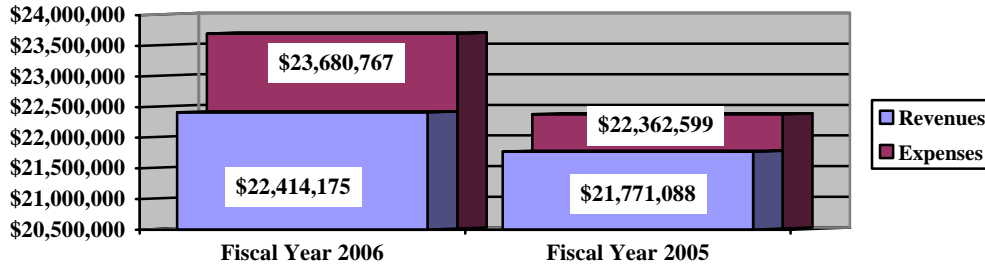
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.28% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 9,478,973	\$ 8,844,188	\$ 9,551,069	\$ 8,813,547
Special	2,719,687	1,656,534	2,444,101	1,413,395
Vocational	658,353	658,353	564,211	564,211
Adult/Continuing	521,056	325,293	438,315	278,373
Other	1,370,251	1,063,027	958,447	646,754
Support services:				
Pupil	954,530	948,761	927,554	804,623
Instructional staff	669,919	647,100	887,840	860,711
Board of education	64,461	64,461	42,281	42,281
Administration	1,983,090	1,912,377	1,726,193	1,627,630
Fiscal	662,188	662,188	633,074	625,406
Business	14,892	14,892	10,150	10,150
Operations and maintenance	2,197,940	2,191,572	1,956,501	1,955,893
Pupil transportation	571,789	571,789	588,909	560,053
Central	240,790	207,017	225,578	225,578
Operations of non-instructional services	144,278	34,986	82,265	(8,462)
Extracurricular activities	706,942	471,292	674,144	418,458
Food service operations	697,073	83,161	651,967	56,831
Interest and fiscal charges	24,555	24,555	-	-
<b>Total expenses</b>	<u>\$ 23,680,767</u>	<u>\$ 20,381,546</u>	<u>\$ 22,362,599</u>	<u>\$ 18,895,432</u>

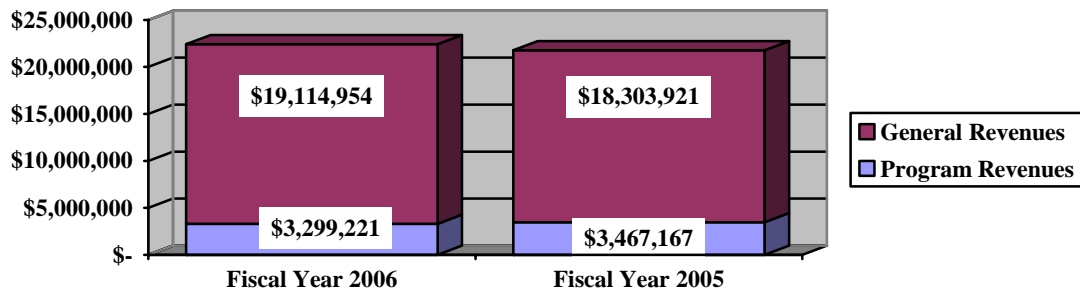
**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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The dependence upon tax and other general revenues for governmental activities is apparent, 85.08% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.07%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined deficit of \$700,458, which is lower than last year's deficit balance of \$831,139. Fund balance at July 1, 2005 in the general fund and nonmajor governmental funds has been restated (See Note 3.B for further details). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) <u>June 30, 2006</u>	(Restated) Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease)
General	\$ (2,762,879)	\$ (2,619,699)	\$ (143,180)
Permanent Improvement	1,743,442	1,342,082	401,360
Other Governmental	<u>318,979</u>	<u>446,478</u>	<u>(127,499)</u>
Total	<u>\$ (700,458)</u>	<u>\$ (831,139)</u>	<u>\$ 130,681</u>

**General Fund**

The District's general fund deficit balance increased \$143,180. The increase in fund deficit balance can be attributed to expenditures increasing faster than revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 9,569,315	\$ 9,065,207	5.56%
Tuition	411,273	407,573	0.91%
Earnings on investments	94,806	61,931	53.08%
Extracurricular	4,333	1,914	126.38%
Intergovernmental	7,919,445	7,632,144	3.76%
Other revenues	<u>412,809</u>	<u>257,206</u>	60.50%
Total	<u>\$ 18,411,981</u>	<u>\$ 17,425,975</u>	5.66%
<b><u>Expenditures</u></b>			
Instruction	\$ 12,424,414	\$ 11,636,158	6.77%
Support services	6,904,234	6,496,677	6.27%
Operation of non-instructional services	2,431	-	100.00%
Extracurricular activities	398,138	386,282	3.07%
Facilities acquisitions and construction	160		
Principal retirement	13,056	4,352	200.00%
Interest and fiscal charges	<u>22,354</u>	<u>-</u>	100.00%
Total	<u>\$ 19,764,787</u>	<u>\$ 18,523,469</u>	6.70%

***Permanent Improvement Fund***

The permanent improvement fund had \$745,050 in revenues and \$343,690 in expenditures. During fiscal 2006, the permanent improvement fund's fund balance increased \$401,360 from \$1,342,082 to \$1,743,442. The increase in fund balance can be attributed primarily to the decrease in expenditures of \$316,269.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$22,007,146, which is higher than the original budgeted revenues estimate of \$16,704,545. Actual revenues and other financing sources for fiscal 2006 was \$21,063,665. This represents a \$943,481 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,081,736 were increased to \$21,942,412 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$22,084,568, which was \$142,156 more than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2006, the District had \$4,746,902 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to the amounts in 2005:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 609,577	\$ 609,577
Land improvements	220,103	249,030
Building and improvements	3,329,295	3,575,885
Furniture and equipment	237,085	264,238
Vehicles	350,842	402,596
Total	\$ 4,746,902	\$ 5,101,326

Total additions to capital assets for 2006 were \$46,552. The District recorded \$400,976 in depreciation expense for fiscal 2006.

**Debt Administration**

At June 30, 2006, the District had \$8,786 in asbestos removal loans and \$1,300,000 in tax anticipation notes outstanding. Of this total, \$8,786 is due within one year and \$1,300,000 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2006	Governmental Activities 2005
Asbestos removal loan	\$ 8,786	\$ 21,842
Tax anticipation not	1,300,000	-
Total	\$ 1,308,786	\$ 21,842

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

During 2006 the District issued a tax anticipation note in the amount of \$1,300,000. The note was issued to help the district pay current expenses. The note is scheduled to mature in fiscal year 2009. Payment of the principal on the tax anticipation note is being made from the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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At June 30, 2006, the District's overall legal debt margin was \$27,989,938 with an unvoted debt margin of \$325,444. The District maintains an A-1 bond rating.

**Current Financial Related Activities**

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

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

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

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

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

**Contacting the District's Financial Management**

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



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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,486,012
Receivables:	
Taxes . . . . .	12,364,172
Intergovernmental . . . . .	144,559
Prepayments . . . . .	43,841
Materials and supplies inventory. . . . .	11,175
Capital assets:	
Land . . . . .	609,577
Depreciable capital assets, net . . . . .	4,137,325
Total capital assets, net. . . . .	4,746,902
Total assets. . . . .	18,796,661
<b>Liabilities:</b>	
Accounts payable. . . . .	50,423
Accrued wages and benefits . . . . .	1,688,584
Pension obligation payable. . . . .	364,425
Intergovernmental payable . . . . .	263,259
Deferred revenue . . . . .	10,440,571
Accrued interest payable . . . . .	2,201
Claims payable . . . . .	328,132
Long-term liabilities:	
Due within one year. . . . .	526,979
Due in more than one year . . . . .	3,055,841
Total liabilities . . . . .	16,720,415
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,738,116
Restricted for:	
Capital projects . . . . .	1,819,410
Locally funded program. . . . .	54,299
State funded program . . . . .	34,700
Federally funded program . . . . .	30,391
Student activities. . . . .	59,689
Other purposes . . . . .	36,494
Unrestricted (deficit). . . . .	(4,696,853)
Total net assets . . . . .	\$ 2,076,246

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, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 9,478,973	\$ 476,601	\$ 158,184	\$ (8,844,188)
Special . . . . .	2,719,687	-	1,063,153	(1,656,534)
Vocational . . . . .	658,353	-	-	(658,353)
Adult/Continuing. . . . .	521,056	-	195,763	(325,293)
Other . . . . .	1,370,251	307,224	-	(1,063,027)
Support services:				
Pupil. . . . .	954,530	-	5,769	(948,761)
Instructional staff . . . . .	669,919	-	22,819	(647,100)
Board of education . . . . .	64,461	-	-	(64,461)
Administration . . . . .	1,983,090	-	70,713	(1,912,377)
Fiscal. . . . .	662,188	-	-	(662,188)
Business. . . . .	14,892	-	-	(14,892)
Operations and maintenance . . . . .	2,197,940	-	6,368	(2,191,572)
Pupil transportation . . . . .	571,789	-	-	(571,789)
Central . . . . .	240,790	-	33,773	(207,017)
Operation of non-instructional services . . . . .	144,278	-	109,292	(34,986)
Extracurricular activities. . . . .	706,942	235,383	267	(471,292)
Food service operations . . . . .	697,073	260,319	353,593	(83,161)
Interest and fiscal charges . . . . .	24,555	-	-	(24,555)
<b>Totals . . . . .</b>	<b>\$ 23,680,767</b>	<b>\$ 1,279,527</b>	<b>\$ 2,019,694</b>	<b>(20,381,546)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	9,764,117
Capital outlay. . . . .	697,817
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	100,816
Miscellaneous . . . . .	572,328
<b>Total general revenues . . . . .</b>	<b>19,114,954</b>
Change in net assets . . . . .	(1,266,592)
<b>Net assets at beginning of year . . . . .</b>	<b>3,342,838</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 2,076,246</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 750,914	\$ 461,697	\$ 1,212,611
Receivables:				
Taxes . . . . .	11,613,732	750,440	-	12,364,172
Intergovernmental . . . . .	-	-	144,559	144,559
Interfund loans . . . . .	50,636	-	-	50,636
Due from other funds . . . . .	-	970,220	-	970,220
Prepayments . . . . .	43,002	-	839	43,841
Materials and supplies inventory . . . . .	-	-	11,175	11,175
Advances to other funds . . . . .	3,033	-	-	3,033
Total assets . . . . .	<u>\$ 11,710,403</u>	<u>\$ 2,471,574</u>	<u>\$ 618,270</u>	<u>\$ 14,800,247</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 23,901	\$ 8,385	\$ 9,541	\$ 41,827
Accrued wages and benefits . . . . .	1,540,299	-	148,284	1,688,583
Compensated absences payable . . . . .	480,867	-	9,494	490,361
Pension obligation payable . . . . .	330,108	-	34,317	364,425
Intergovernmental payable . . . . .	248,833	-	14,427	263,260
Advances from other funds . . . . .	-	-	3,033	3,033
Interfund loan payable . . . . .	-	-	50,636	50,636
Due to other funds . . . . .	970,220	-	-	970,220
Deferred revenue . . . . .	10,879,054	719,747	29,559	11,628,360
Total liabilities . . . . .	<u>14,473,282</u>	<u>728,132</u>	<u>299,291</u>	<u>15,500,705</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	4,299	117,770	24,162	146,231
Reserved for underground storage . . . . .	11,000	-	-	11,000
Reserved for materials and supplies inventory . . . . .	-	-	11,175	11,175
Reserved for property tax unavailable for appropriation . . . . .	412,097	30,693	-	442,790
Reserved for prepayments . . . . .	43,002	-	839	43,841
Reserved for advances . . . . .	3,033	-	-	3,033
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(3,236,310)	-	-	(3,236,310)
Special revenue funds . . . . .	-	-	282,803	282,803
Capital projects funds . . . . .	-	1,594,979	-	1,594,979
Total fund balances (deficit) . . . . .	<u>(2,762,879)</u>	<u>1,743,442</u>	<u>318,979</u>	<u>(700,458)</u>
Total liabilities and fund balances . . . . .	<u>\$ 11,710,403</u>	<u>\$ 2,471,574</u>	<u>\$ 618,270</u>	<u>\$ 14,800,247</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$	(700,458)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,746,902
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,158,230	
Intergovernmental revenue		29,559	
Total			1,187,789
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(63,327)
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.			
Accrued interest payable		(2,201)	
Compensated absences		(1,783,673)	
Asbestos abatement loan		(8,786)	
Tax anticipation note		(1,300,000)	
Total			(3,094,660)
<b>Net assets of governmental activities</b>		\$	2,076,246

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, 2006

	<b>General</b>	<b>Permanent Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 9,569,315	\$ 684,410	\$ -	\$ 10,253,725
Tuition . . . . .	411,273	-	278,041	689,314
Transportation fees . . . . .	-	-	7,800	7,800
Charges for services . . . . .	-	-	260,319	260,319
Earnings on investments . . . . .	94,806	-	6,010	100,816
Extracurricular . . . . .	4,333	-	235,383	239,716
Classroom materials and fees . . . . .	-	-	82,378	82,378
Other local revenues . . . . .	412,809	209	159,310	572,328
Intergovernmental - State . . . . .	7,838,263	60,431	285,836	8,184,530
Intergovernmental - Federal . . . . .	81,182	-	1,750,825	1,832,007
<b>Total revenues . . . . .</b>	<b>18,411,981</b>	<b>745,050</b>	<b>3,065,902</b>	<b>22,222,933</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	8,885,875	199,636	277,279	9,362,790
Special . . . . .	1,536,847	760	1,139,018	2,676,625
Vocational . . . . .	639,341	-	4,253	643,594
Adult/Continuing . . . . .	-	-	515,434	515,434
Other . . . . .	1,362,351	-	-	1,362,351
Support Services:				
Pupil . . . . .	845,479	5,979	96,489	947,947
Instructional staff . . . . .	674,682	-	28,253	702,935
Board of education . . . . .	64,461	-	-	64,461
Administration . . . . .	1,891,931	1,419	92,946	1,986,296
Fiscal . . . . .	646,163	15,514	-	661,677
Business . . . . .	14,444	-	-	14,444
Operations and maintenance . . . . .	2,037,710	32,404	8,199	2,078,313
Pupil transportation . . . . .	512,516	-	500	513,016
Central . . . . .	216,848	-	29,148	245,996
Food service operations . . . . .	-	-	675,103	675,103
Operation of non-instructional services . . . . .	2,431	-	141,441	143,872
Extracurricular activities . . . . .	398,138	-	267,621	665,759
Facilities acquisition and construction . . . . .	160	87,978	77	88,215
Debt service:				
Principal retirement . . . . .	13,056	-	-	13,056
Interest and fiscal charges . . . . .	22,354	-	-	22,354
<b>Total expenditures . . . . .</b>	<b>19,764,787</b>	<b>343,690</b>	<b>3,275,761</b>	<b>23,384,238</b>
Excess of revenues over(under) expenditures.	(1,352,806)	401,360	(209,859)	(1,161,305)
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	90,374	90,374
Transfers (out) . . . . .	(90,374)	-	-	(90,374)
Sale of notes . . . . .	1,300,000	-	-	1,300,000
<b>Total other financing sources (uses) . . . . .</b>	<b>1,209,626</b>	<b>-</b>	<b>90,374</b>	<b>1,300,000</b>
Net change in fund balances . . . . .	(143,180)	401,360	(119,485)	138,695
<b>Fund balances at beginning of year (restated)</b>	<b>(2,619,699)</b>	<b>1,342,082</b>	<b>446,478</b>	<b>(831,139)</b>
<b>Decrease in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>(8,014)</b>	<b>(8,014)</b>
<b>Fund balances (deficit) at end of year . . . . .</b>	<b>\$ (2,762,879)</b>	<b>\$ 1,743,442</b>	<b>\$ 318,979</b>	<b>\$ (700,458)</b>

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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	138,695
<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 cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.		
Capital asset additions	46,552	
Current year depreciation	(400,976)	(354,424)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	208,209	
Intergovernmental	(16,967)	191,242
 Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		(8,014)
 Repayment of loan principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.		
		13,056
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		(2,201)
 Proceeds of notes are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement net assets.		
		(1,300,000)
 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.		
		124,863
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(69,809)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(1,266,592)</b>

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 7,000,066	\$ 9,222,131	\$ 9,052,949	\$ (169,182)
Tuition . . . . .	313,696	413,274	411,273	(2,001)
Earnings on investments . . . . .	72,804	95,914	94,806	(1,108)
Extracurricular . . . . .	3,272	4,310	4,333	23
Other local revenues . . . . .	287,143	378,292	413,085	34,793
Intergovernmental - State . . . . .	6,177,361	8,138,269	7,838,264	(300,005)
Intergovernmental - Federal . . . . .	66,176	87,182	81,182	(6,000)
<b>Total revenues . . . . .</b>	<u>13,920,518</u>	<u>18,339,372</u>	<u>17,895,892</u>	<u>(443,480)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,997,620	8,884,277	9,047,055	(162,778)
Special . . . . .	1,250,371	1,616,752	1,616,575	177
Vocational . . . . .	500,165	646,659	646,652	7
Other . . . . .	1,042,747	1,348,151	1,348,143	8
Support Services:				
Pupil . . . . .	633,897	819,823	819,550	273
Instructional staff . . . . .	547,390	708,198	707,708	490
Board of education . . . . .	58,087	76,910	75,099	1,811
Administration . . . . .	1,456,177	1,881,655	1,882,657	(1,002)
Fiscal . . . . .	1,972,498	2,554,078	2,550,196	3,882
Business . . . . .	11,215	14,340	14,499	(159)
Operations and maintenance . . . . .	1,617,187	2,101,196	2,090,823	10,373
Pupil transportation . . . . .	409,496	534,141	529,427	4,714
Central . . . . .	162,954	210,580	210,679	(99)
Operation of non-instructional . . . . .	2,409	3,215	3,114	101
Extracurricular activities . . . . .	310,332	401,266	401,221	45
Facilities and acquisitions . . . . .	124	160	160	-
<b>Total expenditures . . . . .</b>	<u>16,972,669</u>	<u>21,801,401</u>	<u>21,943,558</u>	<u>(142,157)</u>
Excess of revenues under expenditures . . . . .	<u>(3,052,151)</u>	<u>(3,462,029)</u>	<u>(4,047,666)</u>	<u>(585,637)</u>
<b>Other financing sources (uses):</b>				
Transfers (out) . . . . .	(69,902)	(90,375)	(90,374)	1
Advances in . . . . .	382,390	503,774	3,773	(500,001)
Advances (out) . . . . .	(39,165)	(50,636)	(50,636)	-
Sale of notes . . . . .	2,401,637	3,164,000	3,164,000	-
<b>Total other financing sources (uses) . . . . .</b>	<u>2,674,960</u>	<u>3,526,763</u>	<u>3,026,763</u>	<u>(500,000)</u>
Net change in fund balance . . . . .	(377,191)	64,734	(1,020,903)	(1,085,637)
<b>Fund balance at beginning of year (restated) . . . . .</b>	20,556	20,556	20,556	-
<b>Prior year encumbrances appropriated . . . . .</b>	25,828	25,828	25,828	-
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ (330,807)</u>	<u>\$ 111,118</u>	<u>\$ (974,519)</u>	<u>\$ (1,085,637)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 273,401
Total assets . . . . .	273,401
<b>Liabilities:</b>	
Accounts payable. . . . .	8,596
Claims payable . . . . .	328,132
Total liabilities . . . . .	336,728
<b>Net assets:</b>	
Unrestricted (deficit) . . . . .	(63,327)
Total net assets (deficit) . . . . .	\$ (63,327)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Sales/charges for services. . . . .	\$ 4,273,910
Total operating revenues . . . . .	4,273,910
<b>Operating expenses:</b>	
Purchased services. . . . .	13,856
Claims expense. . . . .	4,329,863
Total operating expenses. . . . .	4,343,719
Change in net assets . . . . .	(69,809)
<b>Net assets at beginning of year . . . . .</b>	<b>6,482</b>
<b>Net assets (deficit) at end of year . . . . .</b>	<b>\$ (63,327)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services. . . . .	\$ 4,273,910
Cash payments for purchased services . . . . .	(6,230)
Cash payments for claims expenses . . . . .	(4,210,392)
	57,288
Net cash provided by operating activities . . . . .	57,288
Net increase in cash and cash equivalents . . . . .	57,288
<b>Cash and cash equivalents at beginning of year. . .</b>	<b>216,113</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 273,401</b>
	<b>273,401</b>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (69,809)
Changes in assets and liabilities:	
Increase in accounts payable. . . . .	7,626
Increase in claims payable. . . . .	119,471
	127,097
Net cash provided by operating activities . . . . .	\$ 57,288

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2006

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 40,163
Total assets . . . . .	\$ 40,163
<b>Liabilities:</b>	
Intergovernmental payable . . . . .	\$ 4
Due to students . . . . .	40,159
Total liabilities . . . . .	\$ 40,163

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Salem City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 229<sup>th</sup> largest by total enrollment among the 615 public school districts in the state. It is staffed by 172 certified employees and 92 non-certified employees who provided services to 2,337 students and other community members.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

*JOINTLY GOVERNED ORGANIZATIONS*

Area Cooperative Computerized Education Service System (ACCESS)

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

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Columbiana County Schools Employee Insurance Consortium

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

*RELATED ORGANIZATION*

Salem Public Library

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

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

*PROPRIETARY FUNDS*

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

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

*FIDUCIARY FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

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

**D. Basis of Accounting**

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

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

**E. Budgets**

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

Tax Budget:

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

Estimated Resources:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

Appropriations:

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

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

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

**F. Cash and Investments**

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

During fiscal year 2006, 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 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$94,806, which includes \$93,535 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, 2006  
(Continued)

**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 endowment fund. No public funds were used to acquire the stock. At June 30, 2006 the common stock value was \$ 53,139.

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**M. Operating Revenues and Expenses**

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

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. As of June 30, 2006, net assets restricted by enabling legislation were \$1,673,945 in the statement of net assets

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

**O. Prepayments**

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

**P. Estimates**

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

**Q. Interfund Activity**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Prior Period Adjustment**

A prior period adjustment has been made to reclassify \$(251,816) in cash from the debt service fund to the general fund. This prior period adjustment decreased the June 30, 2005 General fund balance from \$(2,367,883) to \$(2,619,699) and the June 30, 2005, Debt Service fund balance increased from \$(251,816) to \$0. The prior period adjustment did not have an effect on total governmental fund balance or net assets previously reported at June 30, 2005.

The prior period adjustment also decreases unencumbered cash in the general fund at June 30, 2005 from \$272,372 to \$20,556.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**C. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ 2,762,879
<u>Nonmajor Funds</u>	
Food Service	36,993
Management Information Systems	167
School Net Professional Development	36
Poverty Based Assistance	4,310
Title VI-B	6,230
Title I	30,927
Classroom Reduction Grant	7,353
Miscellaneous State Grants	2,810

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

**D. Noncompliance**

The District had a negative cash fund balance in the general fund at June 30, 2006, in the amount of \$970,220, indicating that revenue from other sources were used to pay obligations of this fund contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, this amount has been reported as a fund liability.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash on Hand**

At year-end, the District had \$6,599 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$1,316,389. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,483,638 of the District's bank balance of \$1,583,638 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 150,048	\$ 150,048
Common Stock	53,139	53,139
	<u>\$ 203,187</u>	<u>\$ 203,187</u>

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio and AAA money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 150,048	73.85%
Common Stock	53,139	26.15%
	<u>\$ 203,187</u>	<u>100.00%</u>

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,316,389
Investments	203,187
Cash on hand	6,599
Total	\$ 1,526,175
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,486,012
Agency fund	40,163
Total	\$ 1,526,175

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 50,636

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from General fund to:	<u>Amount</u>
Nonmajor Governmental funds	\$ 90,374

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

C. Due to/from other funds consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Permanent Improvement Fund	General Fund	\$ 970,220

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

D. Advances to/from other funds consisted of the following at June 30, 2006, as reported on the fund statement:

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

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

Advances to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2005 with real property taxes.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 6 - PROPERTY TAXES – (Continued)**

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$412,097 in the general fund and \$30,693 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$218,313 in the general fund, \$16,913 in the Permanent Improvement capital projects fund.

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 6 - PROPERTY TAXES – (Continued)**

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 242,339,770	78.62	\$ 261,218,940	80.25
Public utility personal	10,715,510	3.47	10,715,510	3.29
Tangible personal property	<u>55,192,480</u>	<u>17.91</u>	<u>53,509,310</u>	<u>16.46</u>
 Total	 <u>\$ 308,247,760</u>	 <u>100.00</u>	 <u>\$ 325,443,760</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 47.10		 \$ 46.70	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities</b>	
Property taxes	\$ 12,364,172
Intergovernmental	<u>144,559</u>
Total	<u>\$ 12,508,731</u>

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
<i>Capital assets, not being depreciated:</i>				
Land	\$ 609,577	\$ -	\$ -	\$ 609,577
<i>Capital assets, being depreciated:</i>				
Land improvements	1,017,626	-	-	1,017,626
Building and improvements	13,274,663	22,317	-	13,296,980
Furniture and equipment	1,171,327	24,235	-	1,195,562
Vehicles	873,652	-	-	873,652
Total capital assets, being depreciated	16,337,268	46,552	-	16,383,820
<i>Less: accumulated depreciation:</i>				
Land improvements	(768,596)	(28,927)	-	(797,523)
Building and improvements	(9,698,778)	(268,907)	-	(9,967,685)
Furniture and equipment	(907,089)	(51,388)	-	(958,477)
Vehicles	(471,056)	(51,754)	-	(522,810)
Total accumulated depreciation	(11,845,519)	(400,976)	-	(12,246,495)
Governmental activities capital assets, net	\$ 5,101,326	\$ (354,424)	\$ -	\$ 4,746,902

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 169,367
Special	13,612
Vocational	4,675
 <u>Support Services:</u>	
Pupil	13,696
Instructional staff	4,891
Administration	27,309
Business	448
Operations and maintenance	45,914
Pupil transportation	63,234
Central	3,785
Extracurricular activities	39,759
Food service operation	13,387
Facilities, acquisitions & constr.	899
Total depreciation expense	\$ 400,976

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
<b>Governmental Activities:</b>					
<u>Loans and Notes Payable:</u>					
Asbestos removal loans	\$ 21,842	\$ -	\$ (13,056)	\$ 8,786	\$ 8,786
Tax anticipation note	-	1,300,000	-	1,300,000	-
Total loans and notes payable	<u>\$ 21,842</u>	<u>\$ 1,300,000</u>	<u>\$ (13,056)</u>	<u>\$ 1,308,786</u>	<u>\$ 8,786</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	2,184,231	360,496	(270,693)	2,274,034	518,193
Total other long-term obligations	<u>\$ 2,184,231</u>	<u>\$ 360,496</u>	<u>\$ (270,693)</u>	<u>\$ 2,274,034</u>	<u>\$ 518,193</u>
Total governmental activities	<u>\$ 2,206,073</u>	<u>\$ 1,660,496</u>	<u>\$ (283,749)</u>	<u>\$ 3,582,820</u>	<u>\$ 526,979</u>

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

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

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

- B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

Fiscal Year Ended	Asbestos Removal Loans			Tax Anticipation Note		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 8,786	\$ -	\$ 8,786	\$ -	\$ 52,823	\$ 52,823
2008	-	-	-	433,000	45,940	478,940
2009	-	-	-	433,000	27,581	460,581
2010	-	-	-	434,000	9,201	443,201
Total	<u>\$ 8,786</u>	<u>\$ -</u>	<u>\$ 8,786</u>	<u>\$1,300,000</u>	<u>\$ 135,545</u>	<u>\$ 1,435,545</u>



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$29,989,938 and an unvoted debt margin of \$325,444.

**NOTE 10 – NOTE PAYABLE**

On December 28, 2005, the District issued a \$1,864,000 current tax revenue note for the purpose of paying current expenses of the District in fiscal year 2006, in anticipation of current property tax revenues. This note was authorized by the Ohio Revised Code, particularly section 133.10. The note had an annual interest rate of 3.69% and matured on May 1, 2006. The note was receipted into the general fund, which made the principal and interest payments.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

**B. Retirement Bonus**

During fiscal year 2006 the District offered a "second chance" retirement bonus for those employees who were eligible to retire through the State Teacher's Retirement System of Ohio (STRS) and did not accept the retirement bonus when he/she was first eligible to retire under STRS guidelines and who retire effective the end of the 2005-2006 school year. Eligible employees had to notify the Superintendent of their intent to retire by March 15, 2006. Persons eligible include anyone who qualified under the STRS guidelines including the STRS rule 25/55 and/or STRS rule 5/60. STRS eligibility includes any purchases made of STRS credit. The amount of the one-time retirement bonus depended upon the number of employees that elected to take part in the bonus offered by the District. Ten employees accepted the retirement bonus, making the bonus equal to 30% of the salary received in the 2005-2006 school year, including the 5% pick-up and extended service days, but excluding supplemental contracts. Two payments shall be made in equal amounts with the first payment date at the second payroll date in January 2007, and the second payroll date of January 2008. A liability for the retirement incentive payments has been recorded in the fund financial statements and the Statement of Net Assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - OTHER EMPLOYEE BENEFITS – (Continued)**

During fiscal year 2006 the District offered a “second chance” retirement bonus of 30% of annual salary, including applicable pick-up but excluding any overtime or supplemental contracts to employees who were eligible to retire through the School Employees Retirement System (SERS) and did not accept the 35% initiative when first eligible. The Superintendent must have received irrevocable notice of intent to retire by May 12, 2006 in order to receive the “second chance” incentive. A one time retirement bonus of 35% of annual salary is offered to employees in the year in which the employee becomes eligible for retirement including the applicable pick-up, but excluding any overtime or supplemental contracts, the bonus is available to employees who become first-time eligible for retirement or reach 30 years of service under SERS guidelines and retire effective at the end of the school year in which they qualify. Persons eligible include anyone who qualified under the SERS guidelines including the SERS rule 25/55 and/or SERS rule 5/60. If individuals choose not to retire when first eligible with less than 30 years of service, he/she would not become eligible again until reaching 30 years of SERS service. Two payments shall be made in equal amounts: the first being in January of the calendar year following the retirement and the second being the next January. Three employees eligible in 2006 took advantage of the retirement bonus. A liability for the retirement incentive has been recorded in the fund financial statements and the Statement of Net Assets.

**C. Life Insurance**

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

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted with Leonard Insurance Services for liability insurance. Coverage provided by Leonard Insurance Services is as follows:

Building and Contents – replacement cost (\$5,000 deductible)	
\$60,319.030	
Equipment Breakdown (\$5,000 deductible)	60,319,030
Crime Insurance/Employee Dishonesty (\$500 deductible)	10,000/50,000
Commercial Auto	1,000,000
Auto Medical Payments	5,000
Uninsured Motorists (\$500 deductible on Comp and Collision)	
1,000,000	
General Liability	2,000,000
Commercial Umbrella Liability	4,000,000
Inland Marine (\$250 deductible)	11,850
Miscellaneous Property Floater Coverage (\$500 deductible)	10,000 – 50,000

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**B. Employee Medical Benefits**

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

The claims liability of \$328,132 reported in the fund at June 30, 2006, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2006	\$ 208,661	\$ 4,329,863	\$ (4,210,392)	\$ 328,132
2005	315,563	3,095,694	(3,202,596)	208,661

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

**D. OSBA Group Workers Compensation Rating Plan**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$202,435, \$210,412, and \$148,164; 40.56 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$91,270 represents the unpaid contribution for fiscal year 2005.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS – (Continued)**

This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, 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 recommendation 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 fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,243,965, \$1,249,934 and \$1,259,675; 86.91 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$177,441 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$1,515 made by the District and \$10,592 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$95,690 for fiscal year 2006.

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(Continued)

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$95,557 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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

	<u>General Fund</u>
Budget basis	\$ (1,020,903)
Net adjustment for revenue accruals	516,089
Net adjustment for expenditure accruals	2,174,472
Net adjustment for other sources/uses	(1,817,137)
Adjustment for encumbrances	<u>4,299</u>
GAAP basis	<u>\$ (143,180)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (46,801)	\$ (528,142)
Current year set-aside requirement	-	360,665
Qualifying disbursements	-	<u>(102,766)</u>
Total	<u>\$ (46,801)</u>	<u>\$ (270,243)</u>
Balance carried forward to FY 2007	<u>\$ (46,801)</u>	<u>\$ (270,243)</u>

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

The District was declared to be in fiscal watch during fiscal year 2006; therefore, the District waived the set-aside requirement for textbooks in accordance with Ohio Revised Code 3316.031.



**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$67,131		\$67,131
School Breakfast Program		10.553	\$ 42,190		\$ 42,190	
National School Lunch Program		10.555	196,530		196,530	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>238,720</u>	<u>67,131</u>	<u>238,720</u>	<u>67,131</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BSF-2005 6BSF-2006	84.027	0 585,449		19,402 567,607	
Total Special Education Cluster			<u>585,449</u>		<u>587,009</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2005 C1S1-2006	84.010	140,968 485,975		155,346 491,042	
Total Grants to Local Educational Agencies (ESEA Title I)			<u>626,943</u>		<u>646,388</u>	
Innovative Educational Program Strategies	C2S1-2005 C2S1-2006	84.298	5,107 6,852		9,004 5,622	
Total Innovative Educational Program Strategies			<u>11,959</u>		<u>14,626</u>	
Drug-Free Schools Grant	DRS1-2005 DRS1-2006	84.186	6,468 13,137		7,328 11,267	
Total Drug Free Schools Grant			<u>19,605</u>		<u>18,595</u>	
Education Technology State Grants	TJS1-2005 TJS1-2006	84.318	2,690 11,968		6,702 9,636	
Total Education Technology State Grants			<u>14,658</u>		<u>16,338</u>	
Improving Teacher Quality State Grants	TRS1-2005 TRS1-2006	84.367	35,653 85,463		38,536 95,028	
Total Improving Teacher Quality State Grants			<u>121,116</u>		<u>133,564</u>	
Total U.S. Department of Education			<u>1,379,730</u>		<u>1,416,520</u>	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program		93.778	81,182		81,182	
Total U.S. Department of Health and Human Services			<u>81,182</u>		<u>81,182</u>	
<b>Totals</b>			<u><u>\$1,699,632</u></u>	<u><u>\$67,131</u></u>	<u><u>\$1,736,422</u></u>	<u><u>\$67,131</u></u>

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

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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

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



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 19, 2007, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated January 19, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

January 19, 2007



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Salem City School District, Columbiana County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

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

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 19, 2007

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

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions 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)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title VI-B (84.027)
<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?	Yes

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

**FINDING NUMBER 2006-001**

**Material Noncompliance**

**Ohio Revised Code § 5705.10 (H)**, states that "that money paid into any fund shall be used only for the purpose for which such fund was established. The existence of a deficit fund balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit balance."

At the end of June 2006, the District had the following fund with a negative fund balances:

General Fund (001)	-1,146,453.00
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**FINDING NUMBER 2006-001**  
(Continued)

This indicates money from other funds has been used to pay the obligations of these funds.

The School District Treasurer should monitor fund balances to ensure overspending does not occur and to assure that monies are being used for the purpose for which the funds were established.

We recommend that the District implement policies and procedures to monitor fund balances to ensure that overspending does not occur and to assure that monies are being used for the purposes for which the funds were established in compliance with Ohio Revised Code Section 5705.10.

Response: The School District obtained an emergency levy in May of 2006. This levy will generate \$1.3 million in revenue and was used to obtain a Tax Anticipation Notes (TAN's). This TAN will be repaid through December 2009. It is the hope of the District to have the general fund deficit resolved by fiscal year end June 30, 2007.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None**





Mary Taylor, CPA  
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**  
**MAY 10, 2007**