



Dave Yost • Auditor of State



**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We were unable to obtain sufficient evidence to support the accuracy and completeness of Hannah E. Mullins School of Practical Nursing revenue reported in the tuition, classroom materials and fees, and other local revenue in which these comprised 4% of revenues of the governmental activities, and 5% of revenues in the General Fund for the year ended June 30, 2011.

In our opinion, except for the effects of such adjustments, if any as might have been necessary had we been able to examine evidence regarding tuition, classroom materials and fees, and other local revenue reported in the governmental activities and the General Fund as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Salem City School District, Columbiana County, Ohio, as of June 30, 2011, and the changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Permanent Improvement Fund and Other Governmental Funds, for the Salem City School District, Columbiana County, Ohio, as of June 30, 2011 and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Dave Yost**  
Auditor of State

March 22, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(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, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities decreased \$1,060,210 which represents a 14.13% decrease from fiscal year 2010.
- General revenues accounted for \$17,566,835 in revenue or 76.19% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$5,489,385 or 23.81% of total revenues of \$23,056,220.
- The District had \$24,116,430 in expenses related to governmental activities; only \$5,489,385 of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,566,835 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The District restated fund balances at June 30, 2010 as described in Note 3.B to the basic financial statements. The general fund had \$18,993,326 in revenues and \$20,177,830 in expenditures. During fiscal year 2011, the general fund balance decreased \$1,184,504 from \$1,689,349 to \$504,845.
- The permanent improvement fund had \$725,492 in revenues and \$732,711 in expenditures. During fiscal year 2011, the permanent improvement fund's fund balance decreased \$7,219 from \$886,175 to \$878,956.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, operation of non-instructional services, extracurricular activities, food service operations, and interest and fiscal charges.

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

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

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-49 of this report.

**The District as a Whole**

Recall that the statement of net assets provides the perspective of the District as a whole. A comparative analysis for government-wide financial statements using the full accrual basis of accounting at June 30, 2011 and June 30, 2010 is presented below.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<b><u>Assets</u></b>		
Current and other assets	\$ 13,880,984	\$ 13,560,716
Capital assets, net	<u>7,371,550</u>	<u>5,723,428</u>
Total assets	<u>21,252,534</u>	<u>19,284,144</u>
<b><u>Liabilities</u></b>		
Current liabilities	11,164,405	9,903,387
Long-term liabilities	<u>3,645,193</u>	<u>1,877,611</u>
Total liabilities	<u>14,809,598</u>	<u>11,780,998</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	5,631,550	5,723,428
Restricted	1,116,867	1,566,846
Unrestricted (deficit)	<u>(305,481)</u>	<u>212,872</u>
Total net assets	<u>\$ 6,442,936</u>	<u>\$ 7,503,146</u>

The increase in overall liabilities during fiscal year 2011 is due to the issuance of energy conservation bonds that resulted in additional long-term liabilities.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$6,442,936. A portion of the District's net assets, \$1,116,867, represents resources that are subject to external restriction on how they may be used.

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

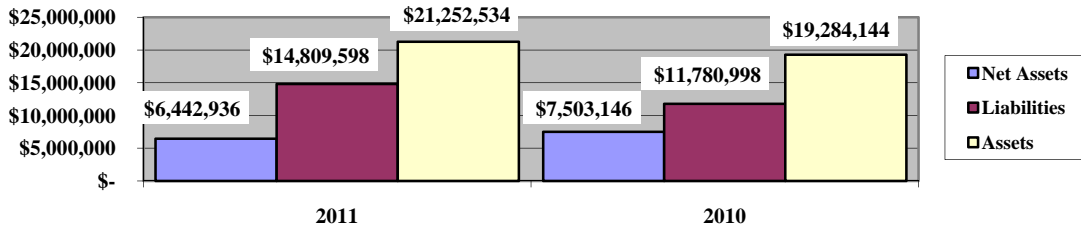
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

At fiscal year-end, capital assets represented 34.69% 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, 2011, were \$5,631,550. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,116,867, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$305,481.

The graphs below present the District's governmental net assets at June 30, 2011 and June 30, 2010.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2011 and 2010.

**Change in Net Assets**

	Governmental Activities 2011	Governmental Activities 2010
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,882,381	\$ 1,583,471
Operating grants and contributions	3,607,004	3,013,784
General revenues:		
Property taxes	8,199,561	9,449,507
Grants and entitlements	9,154,690	9,824,572
Income taxes	3,888	7,623
Investment earnings	7,111	5,902
Other	201,585	136,407
Total revenues	<u>23,056,220</u>	<u>24,021,266</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

**Change in Net Assets**

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	8,699,987	7,988,782
Special	2,922,231	3,074,853
Vocational	302,886	308,240
Adult/continuing	595,466	419,615
Other	1,933,652	1,937,099
Support services:		
Pupil	973,918	836,120
Instructional staff	489,178	795,265
Board of education	39,985	31,531
Administration	2,071,091	1,592,088
Fiscal	1,141,714	565,540
Business	17,492	17,351
Operations and maintenance	1,999,192	2,008,651
Pupil transportation	1,016,473	840,775
Central	271,896	116,842
Operations of non-instructional services:		
Other non-instructional services	128,360	106,818
Food service operations	713,808	647,101
Extracurricular activities	737,689	717,640
Interest and fiscal charges	<u>61,412</u>	<u>2,436</u>
Total expenses	<u>24,116,430</u>	<u>22,006,747</u>
Change in net assets	(1,060,210)	2,014,519
Net assets at beginning of year	<u>7,503,146</u>	<u>5,488,627</u>
Net assets at end of year	<u>\$ 6,442,936</u>	<u>\$ 7,503,146</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,060,210. Total governmental expenses of \$24,116,430 were offset by program revenues of \$5,489,385 and general revenues of \$17,566,835. Program revenues supported 22.76% of the total governmental expenses.

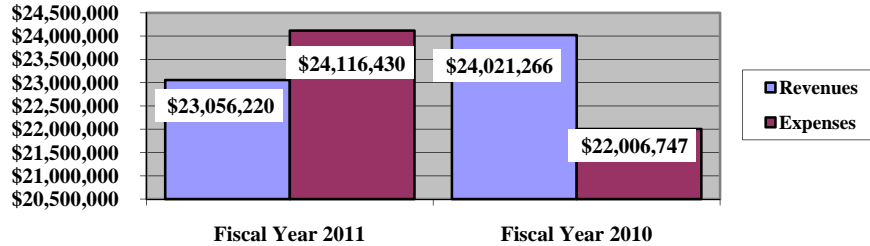
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 75.27% of total governmental revenue. The increase in operating grants and contributions is attributable to monies received during fiscal year 2011 related to the PAtHway to Student Success program, which is administered through the Ohio Department of Education. The increase is also attributable to federal monies available during fiscal year 2011 related to the Education Jobs program. The decrease in property tax revenue is attributable to a decrease in the amount of tax advances available to the District from the County Auditor at June 30, 2011. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2011 and 2010. 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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
<b>Program expenses</b>				
Instruction:				
Regular	\$ 8,699,987	\$ 7,568,677	\$ 7,988,782	\$ 7,215,108
Special	2,922,231	1,297,150	3,074,853	1,469,400
Vocational	302,886	262,884	308,240	268,536
Adult/continuing	595,466	(299,327)	419,615	(155,623)
Other	1,933,652	1,791,137	1,937,099	1,901,577
Support services:				
Pupil	973,918	883,642	836,120	749,884
Instructional staff	489,178	487,885	795,265	780,943
Board of education	39,985	39,985	31,531	31,531
Administration	2,071,091	1,801,508	1,592,088	1,334,269
Fiscal	1,141,714	1,138,906	565,540	486,649
Business	17,492	17,492	17,351	17,351
Operations and maintenance	1,999,192	1,995,991	2,008,651	2,004,901
Pupil transportation	1,016,473	887,854	840,775	730,727
Central	271,896	206,041	116,842	104,784
Operations of non-instructional services:				
Other non-instructional services	128,360	8,368	106,818	31,329
Food service operations	713,808	22,960	647,101	(34,225)
Extracurricular activities	737,689	454,480	717,640	469,915
Interest and fiscal charges	61,412	61,412	2,436	2,436
<b>Total expenses</b>	<u>\$ 24,116,430</u>	<u>\$ 18,627,045</u>	<u>\$ 22,006,747</u>	<u>\$ 17,409,492</u>

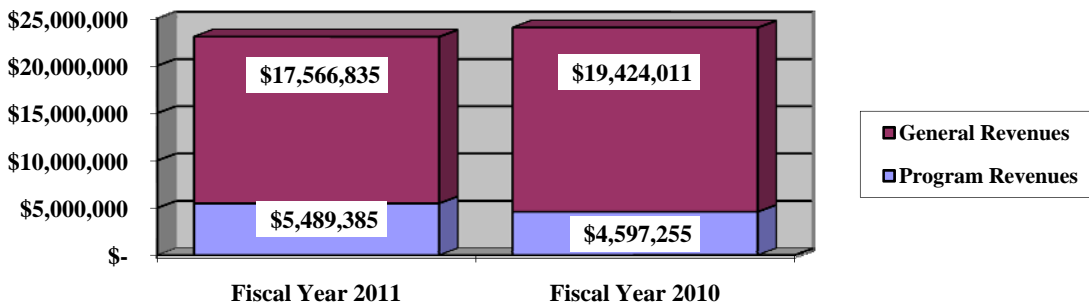
**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

The dependence upon tax and other general revenues for governmental activities is apparent, 73.48% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.24%. The District's taxpayers and unrestricted grants and entitlements from the State are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,569,124, which is less than last year's total restated balance of \$2,690,145 (as described in Note 3.B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010.

	Fund Balance <u>June 30, 2011</u>	(Restated) Fund Balance <u>June 30, 2010</u>	Increase/ <u>(Decrease)</u>
General	\$ 504,845	\$ 1,689,349	\$ (1,184,504)
Permanent Improvement	878,956	886,175	(7,219)
Other Governmental	<u>185,323</u>	<u>114,621</u>	<u>70,702</u>
Total	<u>\$ 1,569,124</u>	<u>\$ 2,690,145</u>	<u>\$ (1,121,021)</u>

**General Fund**

The District's general fund balance decreased \$1,184,504.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

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

	2011 <u>Amount</u>	(Restated) 2010 <u>Amount</u>	Increase/ (Decrease)	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 7,730,225	\$ 8,761,935	\$ (1,031,710)	(11.77) %
Tuition	1,210,245	898,424	311,821	34.71 %
Earnings on investments	7,111	5,902	1,209	20.48 %
Intergovernmental	9,600,239	9,706,632	(106,393)	(1.10) %
Other revenues	<u>445,506</u>	<u>407,482</u>	<u>38,024</u>	<u>9.33</u> %
Total	<u>\$ 18,993,326</u>	<u>\$ 19,780,375</u>	<u>\$ (787,049)</u>	<u>(3.98)</u> %
<b><u>Expenditures</u></b>				
Instruction	\$ 12,452,172	\$ 11,586,174	\$ 865,998	7.47 %
Support services	7,247,311	6,091,008	1,156,303	18.98 %
Operation of non-instructional services	19,827	12,442	7,385	59.36 %
Extracurricular activities	405,769	405,242	527	0.13 %
Interest and fiscal charges	<u>52,751</u>	<u>2,436</u>	<u>50,315</u>	<u>2,065.48</u> %
Total	<u>\$ 20,177,830</u>	<u>\$ 18,097,302</u>	<u>\$ 2,080,528</u>	<u>11.50</u> %

Overall revenues of the general fund decreased \$787,049 or 3.98%. The most significant decrease was in the area of taxes, which decreased \$1,031,710 or 11.77%. This decrease is attributable to the amount of tax advances available from the County Auditor at June 30, 2011 compared to June 30, 2010. At June 30, 2011 the District reported \$180,822 in tax advances available as opposed to the \$712,345 that was reported at June 30, 2010. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed. Tuition increased \$311,821 or 34.71% mainly due to an increase in adult education program services provided during fiscal year 2011.

Overall expenditures of the general fund increased \$2,080,528 or 11.50%. The most significant increase was in the area of support services, which increased \$1,156,303 or 18.98%. This increase is primarily attributable to increases in administration and fiscal cash expenditures made out of the general fund during fiscal year 2011. Interest and fiscal charges increased \$50,315 or 2,065.48% due to debt related payments made on the energy conservation improvement bonds issued by the District during fiscal year 2011.

***Permanent Improvement Fund***

The permanent improvement fund had \$725,492 in revenues and \$732,711 in expenditures. During fiscal year 2011, the permanent improvement fund's fund balance decreased \$7,219 from \$886,175 to \$878,956.

***General Fund Budgeting Highlights***

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

For the general fund, final budgeted revenues and other financing sources were \$18,211,756, which is more than the original budgeted revenues and other financing sources estimate of \$18,020,123. Actual revenues and other financing sources for fiscal year 2011 were \$18,212,253. This represents a \$497 increase from final budgeted amounts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

General fund original appropriations (appropriated expenditures plus other financing uses) of \$18,088,903 were increased to \$19,080,461 in the final budget. The actual budget basis expenditures for fiscal year 2011 totaled \$19,080,462.

**Capital Assets and Debt Administration**

*Capital Assets*

At June 30, 2011, the District had \$7,371,550 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2011 balances compared to June 30, 2010:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>
Land	\$ 616,076	\$ 616,076
Land improvements	321,147	331,781
Building and improvements	5,498,724	3,809,579
Furniture and equipment	413,297	420,749
Vehicles	<u>522,306</u>	<u>545,243</u>
Total	<u>\$ 7,371,550</u>	<u>\$ 5,723,428</u>

Total additions to capital assets for fiscal year 2011 were \$2,133,122. The District recorded \$485,000 in depreciation expense for fiscal year 2011. See Note 8 to the basic financial statements for more detail on the District's capital assets.

*Debt Administration*

At June 30, 2011 the District had \$1,740,000 in energy conservation improvement bonds outstanding. Of this total, \$115,000 is due within one year and \$1,625,000 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2011 and June 30, 2010.

<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>
Energy conservation improvement bonds	<u>\$ 1,740,000</u>	<u>\$ -</u>
Total	<u>\$ 1,740,000</u>	<u>\$ -</u>

At June 30, 2011, the District's overall legal debt margin was \$27,786,392 with an unvoted debt margin of \$308,738.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Unaudited)

**Current Financial Related Activities**

The District was officially released from "Fiscal Watch" in December of 2009. With the release and a slight increase in enrollment, the District's financial picture is steady through fiscal year 2015. However, the current decline in the economy and the State funding budget cuts the District has received will place a financial strain upon the District in future fiscal years. The District received approximately \$1.3 million in cuts from State funding, beginning in fiscal year 2012. These cuts will have the District in a potential cash deficit position by the end of fiscal year 2013.

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

The Board of Education will continue to address funding issues with reductions to current budgets and continued monitoring of issues at the State level that could aid the District in this time of financial difficulty.

**Contacting the District's Financial Management**

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



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

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . . .	\$ 4,078,835
Cash with escrow agent . . . . .	106,203
Receivables:	
Property taxes . . . . .	9,356,013
Income taxes. . . . .	3,888
Accounts. . . . .	3,270
Intergovernmental . . . . .	275,308
Prepayments . . . . .	11,207
Materials and supplies inventory. . . . .	13,090
Unamortized bond issuance costs . . . . .	33,170
Capital assets:	
Land . . . . .	616,076
Depreciable capital assets, net. . . . .	6,755,474
Total capital assets, net. . . . .	7,371,550
 Total assets. . . . .	 21,252,534
 <b>Liabilities:</b>	
Accounts payable. . . . .	384,904
Contracts payable. . . . .	106,203
Accrued wages and benefits . . . . .	1,556,783
Pension obligation payable. . . . .	444,501
Intergovernmental payable . . . . .	92,392
Accrued interest payable . . . . .	7,031
Unearned revenue . . . . .	8,572,591
Long-term liabilities:	
Due within one year. . . . .	510,634
Due in more than one year. . . . .	3,134,559
 Total liabilities . . . . .	 14,809,598
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	5,631,550
Restricted for:	
Capital projects . . . . .	621,695
Locally funded programs . . . . .	6,671
State funded programs. . . . .	19,927
Federally funded programs . . . . .	185,024
Student activities . . . . .	5,605
Other purposes . . . . .	277,945
Unrestricted (deficit). . . . .	(305,481)
 Total net assets . . . . .	 \$ 6,442,936

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, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 8,699,987	\$ 417,577	\$ 713,733	\$ (7,568,677)
Special . . . . .	2,922,231	-	1,625,081	(1,297,150)
Vocational . . . . .	302,886	-	40,002	(262,884)
Adult/continuing. . . . .	595,466	805,085	89,708	299,327
Other . . . . .	1,933,652	-	142,515	(1,791,137)
Support services:				
Pupil. . . . .	973,918	56,668	33,608	(883,642)
Instructional staff . . . . .	489,178	416	877	(487,885)
Board of education . . . . .	39,985	-	-	(39,985)
Administration. . . . .	2,071,091	171,219	98,364	(1,801,508)
Fiscal. . . . .	1,141,714	347	2,461	(1,138,906)
Business. . . . .	17,492	-	-	(17,492)
Operations and maintenance . . . . .	1,999,192	3,201	-	(1,995,991)
Pupil transportation. . . . .	1,016,473	-	128,619	(887,854)
Central . . . . .	271,896	-	65,855	(206,041)
Operation of non-instructional services:				
Other non-instructional services . . . . .	128,360	-	119,992	(8,368)
Food service operations . . . . .	713,808	187,632	503,216	(22,960)
Extracurricular activities. . . . .	737,689	240,236	42,973	(454,480)
Interest and fiscal charges . . . . .	61,412	-	-	(61,412)
Totals . . . . .	<u>\$ 24,116,430</u>	<u>\$ 1,882,381</u>	<u>\$ 3,607,004</u>	<u>(18,627,045)</u>

**General revenues:**

Property taxes levied for:	
General purposes . . . . .	7,708,672
Capital projects. . . . .	490,889
Income taxes levied for:	
General purposes . . . . .	3,888
Grants and entitlements not restricted	
to specific programs . . . . .	9,154,690
Investment earnings . . . . .	7,111
Miscellaneous . . . . .	201,585
Total general revenues . . . . .	<u>17,566,835</u>
Change in net assets . . . . .	(1,060,210)
<b>Net assets at beginning of year. . . . .</b>	<u>7,503,146</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 6,442,936</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<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 investments. . . . .	\$ 2,607,614	\$ 969,067	\$ 430,816	\$ 4,007,497
Cash with escrow agent. . . . .	-	-	106,203	106,203
Receivables:				
Property taxes. . . . .	8,800,289	555,724	-	9,356,013
Income taxes . . . . .	3,888	-	-	3,888
Accounts . . . . .	3,270	-	-	3,270
Intergovernmental. . . . .	-	-	275,308	275,308
Prepayments. . . . .	11,207	-	-	11,207
Materials and supplies inventory. . . . .	-	-	13,090	13,090
Loans receivable. . . . .	3,033	-	-	3,033
Restricted assets:				
Equity in pooled cash and investments . . . . .	71,338	-	-	71,338
<b>Total assets . . . . .</b>	<b><u>\$ 11,500,639</u></b>	<b><u>\$ 1,524,791</u></b>	<b><u>\$ 825,417</u></b>	<b><u>\$ 13,850,847</u></b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 275,052	\$ 101,698	\$ 8,154	\$ 384,904
Contracts payable. . . . .	-	-	106,203	106,203
Accrued wages and benefits. . . . .	1,367,126	-	189,657	1,556,783
Compensated absences payable . . . . .	266,210	-	-	266,210
Pension obligation payable . . . . .	389,393	-	55,108	444,501
Intergovernmental payable . . . . .	78,546	-	13,846	92,392
Loans payable. . . . .	-	-	3,033	3,033
Deferred revenue . . . . .	555,289	35,724	264,093	855,106
Unearned revenue. . . . .	8,064,178	508,413	-	8,572,591
<b>Total liabilities. . . . .</b>	<b><u>10,995,794</u></b>	<b><u>645,835</u></b>	<b><u>640,094</u></b>	<b><u>12,281,723</u></b>
<b>Fund Balances:</b>				
Nonspendable:				
Prepayments. . . . .	11,207	-	-	11,207
Materials and supplies inventory. . . . .	-	-	13,090	13,090
Long-term loans. . . . .	3,033	-	-	3,033
Restricted:				
Capital improvements . . . . .	-	585,971	-	585,971
Food service operations . . . . .	-	-	73,906	73,906
Non-public schools . . . . .	-	-	20,510	20,510
Targeted academic assistance . . . . .	-	-	22,724	22,724
Extracurricular activities. . . . .	-	-	5,605	5,605
Textbooks. . . . .	71,338	-	-	71,338
Other purposes. . . . .	-	-	141,213	141,213
Committed:				
Capital improvements . . . . .	-	292,985	-	292,985
Other purposes. . . . .	11,000	-	-	11,000
Assigned:				
Student instruction . . . . .	32,185	-	-	32,185
Student and staff support. . . . .	73,303	-	-	73,303
Insurance benefits . . . . .	379,254	-	-	379,254
School supplies . . . . .	15,499	-	-	15,499
Adult education. . . . .	534,403	-	-	534,403
Other purposes. . . . .	11,168	-	-	11,168
Unassigned (deficit). . . . .	(637,545)	-	(91,725)	(729,270)
<b>Total fund balances . . . . .</b>	<b><u>504,845</u></b>	<b><u>878,956</u></b>	<b><u>185,323</u></b>	<b><u>1,569,124</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 11,500,639</u></b>	<b><u>\$ 1,524,791</u></b>	<b><u>\$ 825,417</u></b>	<b><u>\$ 13,850,847</u></b>

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, 2011

<b>Total governmental fund balances</b>		\$	1,569,124
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,371,550
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	591,013	
Intergovernmental receivable		<u>264,093</u>	
Total			855,106
Unamortized bond issuance costs are not recognized in the funds.			33,170
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(7,031)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation improvement bonds payable		(1,740,000)	
Compensated absences payable		<u>(1,638,983)</u>	
Total			<u>(3,378,983)</u>
<b>Net assets of governmental activities</b>		<u>\$</u>	<u>6,442,936</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 7,726,337	\$ 492,048	\$ -	\$ 8,218,385
Income taxes . . . . .	3,888	-	-	3,888
Tuition . . . . .	1,210,245	-	-	1,210,245
Charges for services . . . . .	-	-	176,087	176,087
Earnings on investments . . . . .	7,111	-	10,676	17,787
Extracurricular . . . . .	57,909	-	199,483	257,392
Classroom materials and fees . . . . .	182,811	-	-	182,811
Rental income . . . . .	3,201	-	-	3,201
Contributions and donations . . . . .	35,565	-	43,640	79,205
Other local revenues . . . . .	166,020	-	52,645	218,665
Intergovernmental - state . . . . .	9,479,670	233,444	91,325	9,804,439
Intergovernmental - federal . . . . .	120,569	-	2,653,070	2,773,639
Total revenues . . . . .	<u>18,993,326</u>	<u>725,492</u>	<u>3,226,926</u>	<u>22,945,744</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,906,099	-	578,948	8,485,047
Special . . . . .	1,808,300	-	1,113,568	2,921,868
Vocational . . . . .	292,730	-	-	292,730
Adult/continuing . . . . .	596,571	-	-	596,571
Other . . . . .	1,848,472	-	85,045	1,933,517
Support services:				
Pupil . . . . .	933,860	5,875	33,448	973,183
Instructional staff . . . . .	482,054	-	834	482,888
Board of education . . . . .	39,985	-	-	39,985
Administration . . . . .	1,958,019	44,860	78,018	2,080,897
Fiscal . . . . .	1,120,652	13,065	2,643	1,136,360
Business . . . . .	17,492	-	-	17,492
Operations and maintenance . . . . .	1,793,471	2,834	-	1,796,305
Pupil transportation . . . . .	706,556	77,301	114,114	897,971
Central . . . . .	195,222	-	62,499	257,721
Operation of non-instructional services:				
Other non-instructional services . . . . .	19,827	-	107,934	127,761
Food service operations . . . . .	-	-	696,843	696,843
Extracurricular activities . . . . .	405,769	-	289,202	694,971
Facilities acquisition and construction . . . . .	-	588,776	1,705,200	2,293,976
Debt service:				
Interest and fiscal charges . . . . .	52,751	-	-	52,751
Bond issuance costs . . . . .	-	-	34,800	34,800
Total expenditures . . . . .	<u>20,177,830</u>	<u>732,711</u>	<u>4,903,096</u>	<u>25,813,637</u>
Excess of expenditures over revenues . . . . .	<u>(1,184,504)</u>	<u>(7,219)</u>	<u>(1,676,170)</u>	<u>(2,867,893)</u>
<b>Other financing sources:</b>				
Sale of bonds . . . . .	-	-	1,740,000	1,740,000
Total other financing sources . . . . .	<u>-</u>	<u>-</u>	<u>1,740,000</u>	<u>1,740,000</u>
Net change in fund balances . . . . .	(1,184,504)	(7,219)	63,830	(1,127,893)
<b>Fund balances at beginning of year (restated).</b>	1,689,349	886,175	114,621	2,690,145
<b>Increase in reserve for inventory . . . . .</b>	-	-	6,872	6,872
<b>Fund balances at end of year . . . . .</b>	<u>\$ 504,845</u>	<u>\$ 878,956</u>	<u>\$ 185,323</u>	<u>\$ 1,569,124</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<b>Net change in fund balances - total governmental funds</b>		\$ (1,127,893)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. Capital outlay exceeds depreciation expense in the current period accordingly.		
Capital asset additions	\$ 2,133,122	
Current year depreciation	<u>(485,000)</u>	
Total		1,648,122
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(18,824)	
Intergovernmental revenue	<u>129,300</u>	
Total		110,476
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		6,872
Issuance of bonds is recorded as an other financing source in the funds; however, in the statement of activities, it is not reported as revenues as it increases liabilities on the statement of net assets.		
		(1,740,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Increase in accrued interest payable	(7,031)	
Amortization of bond issuance costs	<u>(1,630)</u>	
Total		(8,661)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		34,800
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>16,074</u>
<b>Change in net assets of governmental activities</b>		<u>\$ (1,060,210)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 8,207,016	\$ 8,257,860	\$ 8,257,860	\$ -
Income taxes . . . . .	7,686	7,623	7,623	-
Tuition . . . . .	407,695	448,588	448,588	-
Earnings on investments . . . . .	10,054	6,614	7,111	497
Rental income . . . . .	3,526	3,201	3,201	-
Other local revenues . . . . .	42,199	24,148	24,148	-
Intergovernmental - state . . . . .	9,311,619	9,423,863	9,423,863	-
Intergovernmental - federal . . . . .	30,205	24,929	24,929	-
<b>Total revenues . . . . .</b>	<u>18,020,000</u>	<u>18,196,826</u>	<u>18,197,323</u>	<u>497</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,675,687	7,828,712	7,829,213	(501)
Special . . . . .	1,706,837	1,840,925	1,840,925	-
Vocational . . . . .	267,113	290,594	290,594	-
Other . . . . .	1,813,381	1,836,827	1,836,827	-
Support services:				
Pupil . . . . .	834,556	874,050	874,050	-
Instructional staff . . . . .	528,919	550,615	550,615	-
Board of education . . . . .	28,550	39,955	39,955	-
Administration . . . . .	1,724,494	1,734,393	1,734,393	-
Fiscal . . . . .	568,306	1,117,142	1,116,642	500
Business . . . . .	19,588	20,109	20,109	-
Operations and maintenance . . . . .	1,794,907	1,783,325	1,783,325	-
Pupil transportation . . . . .	643,571	701,339	701,339	-
Central . . . . .	57,191	55,287	55,287	-
Operation of non-instructional services:				
Other non-instructional services . . . . .	11,150	11,384	11,384	-
Extracurricular activities . . . . .	414,653	395,804	395,804	-
<b>Total expenditures . . . . .</b>	<u>18,088,903</u>	<u>19,080,461</u>	<u>19,080,462</u>	<u>(1)</u>
 Excess of expenditures over revenues . . . . .	 (68,903)	 (883,635)	 (883,139)	 496
<b>Other financing sources:</b>				
Refund of prior year's expenditures . . . . .	18	2,236	2,236	-
Sale of capital assets . . . . .	105	12,694	12,694	-
<b>Total other financing sources . . . . .</b>	<u>123</u>	<u>14,930</u>	<u>14,930</u>	<u>-</u>
 Net change in fund balance . . . . .	 (68,780)	 (868,705)	 (868,209)	 496
 <b>Fund balance at beginning of year (restated) . .</b>	 2,179,188	 2,179,188	 2,179,188	 -
<b>Prior year encumbrances appropriated . . . . .</b>	<b>15,996</b>	<b>15,996</b>	<b>15,996</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<u><b>\$ 2,126,404</b></u>	<u><b>\$ 1,326,479</b></u>	<u><b>\$ 1,326,975</b></u>	<u><b>\$ 496</b></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2011

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . . .	\$ 50,214
Total assets. . . . .	\$ 50,214
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 2,602
Due to students. . . . .	47,612
Total liabilities . . . . .	\$ 50,214

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 242<sup>nd</sup> largest by total enrollment among the 918 public and community school districts in the State. It is staffed by 155 certified employees and 74 non-certified employees who provided services to 2,093 students and other community members.

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

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

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Area Cooperative Computerized Education Service System (ACCESS)

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

*PUBLIC ENTITY RISK POOLS*

Risk Sharing Pool

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

Insurance Purchasing Pool

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*RELATED ORGANIZATION*

Salem Public Library

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

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

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

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**D. Basis of Accounting**

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

**E. Budgets**

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

Tax Budget:

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

Estimated Resources:

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Appropriations:

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

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

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

**F. Cash and Investments**

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

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and shares of common stock (see below). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$7,111, which includes \$1,945 assigned from other District funds.

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its education foundation fund (a nonmajor governmental fund). No public funds were used to acquire the stock. At June 30, 2011, the common stock value was \$27,632.

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

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

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

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

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

**H. Capital Assets**

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

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



**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

**L. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for the food service, special trust and education foundation funds (all nonmajor governmental funds). The amount also includes amounts restricted by State statute for textbooks/instructional materials.

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks/instructional materials. See Note 16 for details.

**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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. The District did not make any interfund transfers during fiscal year 2011.

**R. Unamortized Bond Issuance Costs**

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Permanent Improvement	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,440,884	\$ 886,175	\$ 363,086	\$ 2,690,145
Fund reclassifications:				
Uniform school supplies fund	5,125	-	(5,125)	-
Adult education fund	205,664	-	(205,664)	-
Public school support fund	37,676	-	(37,676)	-
Total fund reclassifications	248,465	-	(248,465)	-
Restated fund balance at July 1, 2010	\$ 1,689,349	\$ 886,175	\$ 114,621	\$ 2,690,145

The fund reclassifications did not have an effect on net assets as previously reported.

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**C. Budgetary Prior Period Adjustment**

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

<b>Budgetary Basis</b>	<u>General Fund</u>
Balance at June 30, 2010	\$ 2,619,409
Funds budgeted elsewhere	<u>(440,221)</u>
Restated balance at July 1, 2010	<u>\$ 2,179,188</u>

**D. Deficit Fund Balances**

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Miscellaneous State grants	\$ 2,810
Education Jobs	9,024
IDEA Part B	16,332
Title I	63,559

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

**A. Cash on Hand**

At fiscal year end, the District had \$6,600 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and investments”.

**B. Cash with Escrow Agent**

At fiscal year end, \$106,203 was on deposit for payments yet to be released for construction projects. These funds are included in the total amount of “Deposits with Financial Institutions” below.

**C. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$4,194,406. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$3,627,364 of the District’s bank balance of \$4,233,567 was exposed to custodial risk as discussed below, while \$606,203 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**D. Investments**

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>6 months or less</u>
Common stock	\$ 27,632	\$ 27,632
STAR Ohio	6,614	6,614
Total	<u>\$ 34,246</u>	<u>\$ 34,246</u>

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Common stock	\$ 27,632	80.69
STAR Ohio	6,614	19.31
Total	<u>\$ 34,246</u>	<u>100.00</u>

**E. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,194,406
Investments	34,246
Cash on hand	<u>6,600</u>
Total	<u>\$ 4,235,252</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,185,038
Agency fund	<u>50,214</u>
Total	<u>\$ 4,235,252</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Loans receivable/payable consisted of the following at June 30, 2011, as reported on the fund statement:

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

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



**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Loans receivable/payable between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$180,822 in the general fund and \$11,587 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$712,345 in the general fund and \$44,440 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 292,410,120	97.13	\$ 299,580,080	97.03
Public utility personal	<u>8,644,580</u>	<u>2.87</u>	<u>9,157,610</u>	<u>2.97</u>
Total	<u>\$ 301,054,700</u>	<u>100.00</u>	<u>\$ 308,737,690</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$51.00		\$51.00	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services) and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Property taxes	\$ 9,356,013
Income taxes	3,888
Accounts	3,270
Intergovernmental	<u>275,308</u>
Total	<u>\$ 9,638,479</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 616,076	\$ -	\$ -	\$ 616,076
<i>Capital assets, being depreciated:</i>				
Land improvements	1,271,940	22,999	-	1,294,939
Building and improvements	14,799,671	1,984,888	-	16,784,559
Furniture and equipment	1,619,144	47,934	-	1,667,078
Vehicles	<u>1,290,874</u>	<u>77,301</u>	<u>(24,540)</u>	<u>1,343,635</u>
Total capital assets, being depreciated	<u>18,981,629</u>	<u>2,133,122</u>	<u>(24,540)</u>	<u>21,090,211</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(940,159)	(33,633)	-	(973,792)
Building and improvements	(10,990,092)	(295,743)	-	(11,285,835)
Furniture and equipment	(1,198,395)	(55,386)	-	(1,253,781)
Vehicles	<u>(745,631)</u>	<u>(100,238)</u>	<u>24,540</u>	<u>(821,329)</u>
Total accumulated depreciation	<u>(13,874,277)</u>	<u>(485,000)</u>	<u>24,540</u>	<u>(14,334,737)</u>
Governmental activities capital assets, net	<u>\$ 5,723,428</u>	<u>\$ 1,648,122</u>	<u>\$ -</u>	<u>\$ 7,371,550</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 196,764
Special	14,636
Vocational	8,690
<u>Support services:</u>	
Pupil	9,377
Instructional staff	4,594
Administration	23,652
Fiscal	268
Operations and maintenance	49,598
Pupil transportation	111,722
Other non-instructional services	297
Extracurricular activities	42,173
Food service operation	<u>23,229</u>
Total depreciation expense	<u>\$ 485,000</u>

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2011</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Energy conservation improvement bonds	\$ -	\$ 1,740,000	\$ -	\$ 1,740,000	\$ 115,000
Compensated absences	<u>1,877,611</u>	<u>380,667</u>	<u>(353,085)</u>	<u>1,905,193</u>	<u>395,634</u>
Total governmental activities long-term liabilities	<u>\$ 1,877,611</u>	<u>\$ 2,120,667</u>	<u>\$ (353,085)</u>	<u>\$ 3,645,193</u>	<u>\$ 510,634</u>

*Compensated Absences:* Compensated absences are paid primarily from the general fund and the food service fund (a nonmajor governmental fund).

*Energy Conservation Improvement Bonds - Series 2010:* On October 27, 2010, the District issued \$1,740,000 in energy conservation improvement bonds. The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the District's buildings. These bonds bear an annual interest rate of 5.1% and are scheduled to mature in fiscal year 2026. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund. The balance of these bonds at June 30, 2011 in the amount of \$1,740,000 has been included on the statement of net assets.

- B. The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation improvement bonds:

Year Ending <u>June 30</u>	<u>Energy Conservation Improvement Bonds - Series 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 115,000	\$ 85,808	\$ 200,808
2013	115,000	79,942	194,942
2014	115,000	74,078	189,078
2015	115,000	68,212	183,212
2016	115,000	62,348	177,348
2017-2021	590,000	221,085	811,085
2022-2026	<u>575,000</u>	<u>73,312</u>	<u>648,312</u>
Total	<u>\$ 1,740,000</u>	<u>\$ 664,785</u>	<u>\$ 2,404,785</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$27,786,392 and an unvoted debt margin of \$308,738.

**NOTE 10 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 300 days for classified employees and 270 for certified employees. Upon retirement, payment is made for twenty-five percent of accrued, but unused sick leave credit.

**B. Insurance Benefits**

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

**C. Retirement Bonus**

A one time retirement bonus of 35% of annual salary is offered to employees in the year in which the employee becomes eligible for retirement including the applicable pick-up, but excluding any overtime or supplemental contracts. The bonus is available to employees who become first-time eligible for retirement or reach 30 years of service under SERS guidelines and retire effective at the end of the school year in which they qualify. Persons eligible include anyone who qualified under the SERS guidelines including the SERS rule of 25 years of service and age 55 and/or SERS rule of 5 years of service and age 60. If individuals choose not to retire when first eligible with less than 30 years of service, he/she would not become eligible again until reaching 30 years of SERS service. Two payments shall be made in equal amounts in January of each of the next two calendar years. Three employees eligible in fiscal year 2010 took advantage of the retirement bonus. Six employees eligible in fiscal year 2011 took advantage of the retirement bonus. A liability for the retirement incentive has been recorded in the fund financial statements as part of compensated absences payable and on the statement of net assets as part of long-term liabilities.

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the District contracted with Leonard Insurance Services for liability insurance. Coverage provided by Leonard Insurance Services is as follows:

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

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

**B. Employee Health Benefits**

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

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

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

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation**

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

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

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$232,978, \$226,053 and \$153,698, respectively; 42.10 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 12 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,151,449, \$1,132,606 and \$1,086,272, respectively; 80.99 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$29,283 made by the District and \$20,916 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.



**SALEM CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$64,790, \$42,344 and \$95,016, respectively; 42.10 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$14,993, \$13,443 and \$12,681, respectively; 42.10 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$88,573, \$87,124 and \$83,559, respectively; 80.99 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (868,209)
Net adjustment for revenue accruals	(467,887)
Net adjustment for expenditure accruals	(428,273)
Net adjustment for other sources/uses	(14,930)
Funds budgeted elsewhere	303,314
Adjustment for encumbrances	291,481
GAAP basis	<u>\$ (1,184,504)</u>

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

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 16 - SET-ASIDES**

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 150,902	\$ -
Current year set-aside requirement	315,806	315,806
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(395,370)	-
Excess qualified expenditures from prior years	-	-
Current year offsets	-	(758,345)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ 71,338</u>	<u>\$ (442,539)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ 71,338</u>	<u>\$ -</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not being presented as being carried forward to the future fiscal year. During fiscal year 2011, the District issued \$1,740,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$1,740,000 at June 30, 2011.

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for textbooks	<u>\$ 71,338</u>
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**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 - OTHER COMMITMENTS**

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

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ 89,580
Permanent improvement	308,266
Other governmental	<u>76,512</u>
Total	<u>\$ 474,358</u>

**NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT**

On August 24, 2011, the District issued notes in the amount of \$356,000 for various improvements to school buildings. These notes bear an interest rate of 4.00% and mature on June 1, 2025.

SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education.</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$ 72,474	\$ 1,349	\$ 72,474	\$ 1,349
National School Lunch Program	10.555	360,882	32,380	360,882	32,380
National School Lunch Summer Feeding	10.559	18,959		15,272	
<i>Total Nutrition Cluster</i>		452,316	33,729	448,629	33,729
Nutrition Education	10.574	(82)		0	
Total U. S. Department of Agriculture		<u>452,234</u>	<u>33,729</u>	<u>448,629</u>	<u>33,729</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education.</i>					
Title I, Grants to Local Educational Agencies	84.010	645,780		627,959	
Title I, Grants to Local Educational Agencies - ARRA	84.389	153,327		155,870	
Total Title I		799,107		783,830	
Special Education Grants to States	84.027	432,815		431,762	
Special Education Grants to States - ARRA	84.391	53,426		56,176	
Total Special Education		486,241		487,938	
Safe and Drug Free Schools and Communities - State Grants	84.186	2,113		3,113	
Education Technology State Grants	84.318	4,233		3,814	
Improving Teacher Quality State Grants	84.367	197,262		173,260	
State Stabilization Funds - ARRA	84.394	537,363		503,076	
Education Job Funds	84.410	149,344		141,344	
<i>Direct Award</i>					
Student Financial Assistance Cluster:					
Federal Pell Grant Program	84.063	426,443		426,443	
Federal Direct Student Loans	84.268	778,193		778,193	
<i>Total Student Financial Assistance Cluster</i>		1,204,636		1,204,636	
Total U.S. Department of Education		<u>3,380,300</u>		<u>3,301,010</u>	
<b>Totals</b>		<u><u>\$3,832,534</u></u>	<u><u>\$33,729</u></u>	<u><u>\$3,749,639</u></u>	<u><u>\$33,729</u></u>

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

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

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# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2012. We qualified our report because there was a lack of sufficient evidence to support the accuracy and completeness of the Statement of Activities' and Other Governmental Funds' tuition, classroom materials and fees, and other local revenue for the year ended June 30, 2011. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-02 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-02.

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

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

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

**Dave Yost**  
Auditor of State

March 22, 2012



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of the Salem City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Salem City School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in findings 2011-03 through 2011-07 and 2011-09 in the accompanying schedule of findings, the District did not comply with requirements regarding cash management, eligibility, and special test and provisions applicable to its Student Financial Assistance major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Salem City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-03, 2011-04, 2011-06 and 2011-08 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-07 and 2011-09 to be significant deficiencies.

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

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



**Dave Yost**  
Auditor of State

March 22, 2012

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<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 weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified (Student Financial Assistance Cluster)
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster (10.553 and 10.555) Title I (84.010) Title I ARRA (84.389) Title VI-B (84.027) Title VI-B ARRA (84.391) State Fiscal Stabilization Fund ARRA (84.394) Student Financial Aid Cluster (84.063 and 84.268)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2011-01**

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

See Federal Finding 2011-08 in Section 3 below. We believe this finding also represents a material weakness under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**FINDING NUMBER 2011-02**

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

See Federal Finding 2011-07 in Section 3 below. We believe this finding also represents a material noncompliance and significant deficiency under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*, which resulted in adjustments to the financial statements.

**3. FINDINGS FOR FEDERAL AWARDS**

**1. Student Financial Aid Cluster - Cash Management**

<b>Finding Number</b>	<b>2011-03</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Noncompliance and Material Weakness**

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

Testing of this requirement revealed that in fiscal year 2011, \$41,069 was not disbursed within the required time frame. Amounts varying from \$834 to \$7,502 were disbursed one to thirty-three days after receipt. Interest earned on these funds using the U.S. Treasurer Current Value of Funds rate totals \$14.

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

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

<b>Finding Number</b>	<b>2011-04</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Noncompliance and Material Weakness**

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

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

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

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

The Hannah E. Mullins School of Practical Nursing did not have the written policies and procedures as required by 34 CFR 668 Subpart E during fiscal year 2011. However, these policies were developed in October 2011.

We recommend the Hannah E. Mullins School of Practical Nursing establish policies and procedures to ensure information contained in a student aid application is verified.

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

<b>Finding Number</b>	<b>2011-05</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Noncompliance**

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

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

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

**4. Student Financial Aid Cluster - Eligibility Redeterminations**

<b>Finding Number</b>	<b>2011-06</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A



**FINDING NUMBER 2011-06  
 (Continued)**

**Noncompliance and Material Weakness**

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

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

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

Of the seventeen students tested who received a Pell Grant or Direct Loans in the second payment period, we found no evidence that a redetermination of any of these students eligibility was performed. Only documentation of the initial eligibility determination was contained in the student files. Not performing the required determination of eligibility before each payment period or loan disbursement can lead to ineligible students obtaining federal funding.

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

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

<b>Finding Number</b>	<b>2011-07</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Noncompliance and Significant Deficiency**

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

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

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

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

**FINDING NUMBER 2011-07  
 (Continued)**

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

The result is the District financial statements do not properly report the receipts and disbursements of the Federal Pell Grant and Direct Loan Programs or other HEMSPN revenues in the tuition, classroom materials and fees, and intergovernmental revenue line items in the Adult Education Fund. Intergovernmental revenue was overstated by \$341,687 and tuition and classroom materials and fees were understated by \$222,409 and \$119,277, respectively. The financial statements have been adjusted.

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

**6. Hannah E. Mullins School of Practical Nursing Documentation and Controls**

<b>Finding Number</b>	<b>2011-08</b>
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA # 84.063 and 84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Material Weakness**

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

AOS was unable to conclusively determine the tuition and fee payments made by or on behalf of each HEMSPN student the period July 1, 2010 to October 31, 2010 due to an overall lack of documentation. For example:

1. Although there were deposits made to the treasurer's office, no receipts were written for the period June 18, 2010 to August 15, 2010.
2. HEMSPN did not maintain a record of tuition and fee payments made by a particular student or a running account balance to show amounts a student owes or is due to be refunded for the period July 1, 2010 through January 2011.
3. HEMSPN did not have any documents or a system in place to document fees paid by individuals who do not ultimately enroll in the program until January, 2011.

**FINDING NUMBER 2011-08  
 (Continued)**

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

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

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

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

<b>Finding Number</b>	2011-09
<b>CFDA Title and Number</b>	Student Financial Aid Cluster CFDA #84.268
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	N/A

**Noncompliance and Significant Deficiency**

As prescribed in **34 CFR 685.102(b)(3)**, when originating a Direct Loan, “the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, receives funds electronically, disburses funds, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis.”

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

The District did not perform the required reconciliations for the Direct Loan Program during fiscal year 2011.

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

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

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**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2011**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2011-01	See 2011-09 below		
2011-02	See 2011-08 below		
2011-03	Due to the timeliness of issuing refunds to the students (3 days) and federal cash management rules, the Treasurer will not draw any federal monies until the requisitions stating the refunded amount are received in the Treasurer's office. Along with these requisitions the Treasurer's office will need a listing of amounts to be receipted into the 012 fund. Once these documents are in hand, the Treasurer will draw the federal money, issue the refunds and properly receipt the money in the 012 fund. The Treasurer's office will follow AOS bulletins 88-31 and 2009-002.	July 2011	Jill Rowe – Treasurer
2011-04	ISIR requires verification or aids in verification along with professional judgment. Written policies and procedures for verification are in place.	January 2011	Kathy Reagan - Director
2011-05	Verification tracking log implemented for each academic year and kept in separate file for Auditors to review and easily know which student file to go to for inspection.	January 2011	Kathy Reagan – Director
2011-06	Satisfactory Academic Progress (SAP) policy is being implemented. Financial Aid Administrator along with a faculty representative attended the Financial Aid Coordinator's Association Fall Conference on federal updates which specifically targeted SAP policy compliance and verification. HEMSPN's SAP policy is currently under review. HEMSPN maintains COA sheets in the student files that include determination and redetermination.	January 2011	Kathy Reagan – Director
2011-07	The Treasurer's office will receipt the Pell and Direct Loans into an agency fund (Fund 022) once received from the federal government. The student refunds will be refunded out of the agency fund (Fund 022). The remaining balance in the agency fund will be transferred to HEMSPN fund (Fund 012) to meet the obligations for the program. The amounts receipted into the 012 fund will accurately reflect the specific category of the money, i.e. tuition, classroom supplies, etc. Any money due back to the federal government will be refunded out of the 012 fund. This is in accordance with AOS Bulletin 88-31 and 2009-002.	July 2011	Jill Rowe – Treasurer

<p><b>2011-08</b></p>	<p>1.1 A five (5) copy receipt system is now in place</p> <ol style="list-style-type: none"> <li>1. Student (Original)</li> <li>2. Student File</li> <li>3. Intact in receipt book</li> <li>4. Copy sent with deposit to Treasurer</li> <li>5. Copy of above kept with deposit</li> </ol> <p>1.2 See 1.1 above</p> <p>1.3 All receipt books are kept in a locked file cabinet with minimal personnel access. The receipt books utilize a continuous numbering sequence and will be utilized in order.</p> <p>1.4 Student Track software is being utilized for individual student accounts. Thorough and accurate bookkeeping practices are now in place. All Pell and Direct Loans are through the federal government website G5. Copies of disbursement rosters will be on file with the Treasurer's Office and HEMSPN.</p> <p>1.5 See 1.4 (Student Track software) Each student receives a statement the 1<sup>st</sup> week of the program, the 22<sup>nd</sup> week and at the end of the program. Statements are available to students upon request. Along with the Student Track software receipt book system and a checklist noting amounts due or payments will be in the applicants file.</p> <p>1.6 See 1.4 (Student Track software)</p> <p>1.7 Required loan documents are maintained in the student files.</p> <p>1.8 Verification process being followed as per FSA handbook. Written verification policy is being implemented. A checklist is being kept in students' file and a system to log verifications to be kept for each academic year.</p> <p>1.9 All documents are maintained in the student files. Files audited prior to admission and during junior and senior level. Loans are also being processed by third party servicer (EMS). Loans cannot be processed unless proof of eligibility provided to federal government.</p> <p>1.10 Each academic year eligibility is re-determined for each student by completing another FAFSA and financial aid administrator completing process in office</p>	<p><b>January 2011</b></p>	<p><b>Kathy Reagan - Director</b></p>
<p><b>2011-09</b></p>	<p>The Treasurer will work with Education Management Services, the third party administrator of the School of Nursing, to ensure the reports are received monthly and the required requisitions are being completed.</p>	<p><b>July 2011</b></p>	<p><b>Jill Rowe – Treasurer</b></p>



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

The Board amended the policy on February 24, 2011. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666

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

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

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

March 22, 2012







# Dave Yost • Auditor of State

**SALEM CITY SCHOOL DISTRICT**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 10, 2012**