

***SALEM CITY SCHOOL DISTRICT***

***COLUMBIANA COUNTY***

**Audit Report**

**For the Year Ended June 30, 2015**







# Dave Yost • Auditor of State

Board of Education  
Salem City School District  
1226 E State St.  
Salem, OH 44460

We have reviewed the *Independent Auditor's Report* of the Salem City School District, Columbiana County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Salem City School District is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

March 17, 2016

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**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY  
AUDIT REPORT  
For the Year Ending June 30, 2015**

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**INDEPENDENT AUDITORS' REPORT**

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

To the Board of Education:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, as of June 30, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 22 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We did not modify our opinion regarding these matters.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary Information***

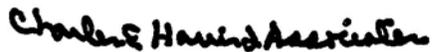
Our audit was conducted to opine on the District's basic financial statements taken as a whole.

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

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



*Charles E. Harris & Associates, Inc.*  
December 30, 2015

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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As management of the Salem City School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

- Capital asset additions included renovations to the baseball field and track, roof replacements to facilities, replacement doors, tile repairs and new lighting, amongst other items.
- Outstanding long-term obligations decreased during fiscal year 2015 due to annual debt payments and a reduction in the net pension liability.
- The School District implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements for the School District.
- Certified base salaries increased 1.00 percent in fiscal year 2015. Classified base salaries increased 2.00 percent in fiscal year 2015.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements are comprised of three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

**Government-wide Financial Statements** The government-wide financial statements are designed to provide the reader with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statement distinguishes functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those that are primarily supported through user charges (*business-type activities*). The School District has no business-type activities. The governmental activities of the School District include instruction, support services, extracurricular activities, operation of non-instructional services and interest and fiscal charges.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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***Fund Financial Statements*** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like the State and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. These fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement fund. All of the funds of the School District can be divided into two categories: governmental and fiduciary.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general governmental 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 difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Fiduciary Fund*** A fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the School District's own programs. These funds use the accrual basis of accounting.

***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.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2015 compared to 2014.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**Table 1**  
 Net Position  
 Governmental Activities

	2015	2014	Change
<b>Assets</b>			
Current and Other Assets	\$13,778,807	\$13,753,123	\$25,684
Capital Assets, Net	7,130,928	7,484,460	(353,532)
<i>Total Assets</i>	<u>20,909,735</u>	<u>21,237,583</u>	<u>(327,848)</u>
<b>Deferred Outflows of Resources</b>	<u>1,670,103</u>	<u>1,376,706</u>	<u>293,397</u>
<b>Liabilities</b>			
Current Liabilities	2,273,141	2,130,253	(142,888)
Long-Term Liabilities			
Due Within One Year	323,557	321,010	(2,547)
Due In More Than One Year			
Net Pension Liability	23,654,589	28,122,124	4,467,535
Other Amounts	2,661,657	3,024,797	363,140
<i>Total Liabilities</i>	<u>28,912,944</u>	<u>33,598,184</u>	<u>4,685,240</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	8,401,720	8,849,965	448,245
Pension	4,298,925	0	(4,298,925)
<i>Total Deferred Inflows of Resources</i>	<u>12,700,645</u>	<u>8,849,965</u>	<u>(3,850,680)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	5,522,094	5,699,163	(177,069)
Restricted for:			
Capital Projects	1,737,557	1,462,575	274,982
Unclaimed Monies	7,324	3,375	3,949
Other Purposes	676,894	846,179	(169,285)
Unrestricted (Deficit)	<u>(26,977,620)</u>	<u>(27,845,152)</u>	<u>867,532</u>
<i>Total Net Position (Deficit)</i>	<u>(\$19,033,751)</u>	<u>(\$19,833,860)</u>	<u>\$800,109</u>

During 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$6,911,558 to (\$19,833,860).

Cash and cash equivalents increased due to the School District having more revenues than expenses during the year. The decrease in intergovernmental receivables is due to the School District receiving less funding from outside sources. The decrease in property taxes receivable is due to a timing of advance settlements. The decrease in capital assets was due to an additional year of depreciation exceeding current year additions.

Total liabilities decreased during fiscal year 2015 which can be attributed to the reduction of the net pension liability along with annual payments on the School District's debt.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

Table 2 shows the changes in net position for fiscal year 2015 compared to 2014.

**Table 2**  
Change in Net Position  
Governmental Activities

	2015	2014	Change
<b>Program Revenues</b>			
Charges for Services	\$1,330,526	\$1,591,405	(\$260,879)
Operating Grants, Contributions and Interest	2,866,441	3,270,081	(403,640)
Capital Grants	117,582	185,505	(67,923)
<i>Total Program Revenues</i>	<u>4,314,549</u>	<u>5,046,991</u>	<u>(732,442)</u>
<b>General Revenues</b>			
Property Taxes	9,047,171	8,721,921	325,250
Income Taxes	665	3,896	(3,231)
Grants and Entitlements	9,417,431	8,775,485	641,946
Investment Earnings	25,155	596	24,559
Miscellaneous	211,028	183,048	27,980
<i>Total General Revenues</i>	<u>18,701,450</u>	<u>17,684,946</u>	<u>1,016,504</u>
<i>Total Revenues</i>	<u>23,015,999</u>	<u>22,731,937</u>	<u>284,062</u>
<b>Program Expenses</b>			
Instruction:			
Regular	10,205,448	10,121,862	(83,586)
Special	3,276,083	3,320,327	44,244
Vocational	267,434	229,109	(38,325)
Adult/Continuing	386,511	264,247	(122,264)
Student Intervention Services	14,333	36,876	22,543
Support Services:			
Pupils	1,036,014	1,027,250	(8,764)
Instructional Staff	434,172	284,833	(149,339)
Board of Education	27,764	30,939	3,175
Administration	1,757,585	1,790,484	32,899
Fiscal	543,463	468,000	(75,463)
Business	12,540	14,560	2,020
Operation and Maintenance of Plant	1,549,927	1,777,904	227,977
Pupil Transportation	748,039	841,075	93,036
Central	486,682	940,011	453,329
Extracurricular Activities	587,516	812,297	224,781
Operation of Non-Instructional Services	139,214	105,771	(33,443)
Operation of Food Service	660,323	598,915	(61,408)
Interest and Fiscal Charges	82,842	91,615	8,773
<i>Total Program Expenses</i>	<u>22,215,890</u>	<u>22,756,075</u>	<u>540,185</u>
<i>Change in Net Position</i>	800,109	(24,138)	824,247
Net Position (Deficit) Beginning of Year	<u>(19,833,860)</u>	N/A	
Net Position (Deficit) End of Year	<u>(\$19,033,751)</u>	<u>(\$19,833,860)</u>	<u>\$824,247</u>

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,376,706 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$984,168. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$22,215,890
2015 Pension expense under GASB 68	(984,168)
2015 contractually required contribution	1,446,175
Adjusted 2015 program expenses	22,677,897
Total 2014 program expenses under GASB 27	22,756,075
Decrease in program expenses not related to pension	(\$78,178)

As can be seen from Table 2, the School District relies heavily upon property taxes and foundation monies to support its operations. The School District also actively solicits and receives additional grant and entitlement funds to help offset operating costs.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

The school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 39.31 percent of revenues for governmental activities for the School District in fiscal year 2015 versus 38.37 percent in fiscal year 2014.

Program expenses decreased mainly due to decreases in operation and maintenance of plant and central support services. The decrease in the operation and maintenance of plant expenses is a result of less maintenance performed in the School District. The decrease in the central support services expense is the result of the School District's charge backs for health insurance premiums over the prior fiscal year. Instruction expenses comprise the largest portion of all program expenses for the School District. These expenses pay for teachers' salaries and benefits. Instructional expenses increased in fiscal year 2015 due to increases in severance, retirement incentive and small negotiated raises. The School District continues to show vigilance in monitoring all facets of spending.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2015 compared to 2014.

**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	2015		2014	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
<b>Instruction:</b>				
Regular	\$10,205,448	\$9,508,498	\$10,121,862	\$9,517,388
Special	3,276,083	1,281,791	3,320,327	1,881,213
Vocational	267,434	217,561	229,109	(690,088)
Adult/Continuing	386,511	340,665	264,247	190,770
Student Intervention Services	14,333	14,333	36,876	36,876
<b>Support Services:</b>				
Pupils	1,036,014	1,034,715	1,027,250	1,010,113
Instructional Staff	434,172	252,518	284,833	11,299
Board of Education	27,764	27,764	30,939	30,939
Administration	1,757,585	1,548,168	1,790,484	1,710,351
Fiscal	543,463	543,463	468,000	375,000
Business	12,540	12,540	14,560	14,560
Operation and Maintenance of Plant	1,549,927	1,539,785	1,777,904	1,678,906
Pupil Transportation	748,039	693,561	841,075	801,729
Central	486,682	244,772	940,011	363,049
Extracurricular Activities	587,516	469,823	812,297	671,268
Operation of Non-Instructional Services	139,214	77,215	105,771	56,063
Operation of Food Service	660,323	11,327	598,915	(41,967)
Interest and Fiscal Charges	82,842	82,842	91,615	91,615
<b>Total</b>	<b>\$22,215,890</b>	<b>\$17,901,341</b>	<b>\$22,756,075</b>	<b>\$17,709,084</b>

The dependence upon general revenues for governmental activities is apparent from Table 3. The majority of expenses are supported through taxes and other general revenues.

**Financial Analysis of the Government's Funds**

**Governmental Funds** Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had an increase in fund balance due to expenditures exceeding revenues in the current fiscal year as a result of reduced central expenditures from School District funding healthcare costs at a greater level in fiscal year 2015. This decrease was offset by annual salary increases and increases in the retirement incentive. Overall revenues increased resulting from additional intergovernmental monies that can be attributed to an increase in student count as well as additional State aid. The permanent improvement fund saw an increase in fund balance resulting from revenues continuing to outpace expenditures for the fiscal year.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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**General Fund Budgeting Highlights**

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2015, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was higher than the original budget estimate. The change was mainly attributed to an increase in property tax estimates as a better picture of actual receipts and awards became apparent.

The final budget appropriations were lower than the original budget appropriations of the general fund. The change was attributed to decreases in regular instruction and operation and maintenance of plant expenditures due to lower estimated expenditures expected.

**Capital Assets and Long-term Liabilities**

*Capital Assets*

Table 4 shows fiscal 2015 values compared to fiscal 2014.

**Table 4**  
 Capital Assets at June 30  
 Governmental Activities

	2015	2014
Land	\$707,799	\$707,799
Land Improvements	437,185	463,772
Buildings and Improvements	5,237,033	5,421,475
Furniture and Fixtures	489,634	551,745
Vehicles	259,277	339,669
Total Capital Assets	\$7,130,928	\$7,484,460

The decrease in capital assets was due to an additional year of depreciation offset by current year additions of building improvements and equipment at the instructional and athletic facilities. For more information about the School District's capital assets, see Note 9 to the basic financial statements.

*Long-term Liabilities*

Table 5 below summarizes the School District's long-term obligations.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**Table 5**  
**Outstanding Long-term Obligations at June 30**  
**Governmental Activities**

	2015	2014
Energy Conservation Improvement Bonds	\$1,280,000	\$1,395,000
Energy Conservation Improvement Notes	277,000	299,000
Net Pension Liability	23,654,589	28,122,124
Capital Lease	51,834	91,297
Special Termination Benefits	67,243	55,176
Compensated Absences	1,309,137	1,505,334
<b>Total</b>	<b>\$26,639,803</b>	<b>\$31,467,931</b>

On October 27, 2010, the School 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 School District's buildings.

On August 24, 2011, the School District issued \$356,000 in energy conservation improvement notes. The proceeds of these notes were used for building improvements intended to increase the energy efficiency of the School District's buildings.

The School District's capital lease is for copier equipment. The capital lease will be paid out of the general fund. Special termination benefits will be paid out of the general fund. Compensated absences will be paid from the general fund and the food service, title VI-B and title I grants special revenue funds.

The School District's overall legal debt margin was \$26,713,468 with an unvoted debt margin of \$296,816. For more information about the School District's long-term obligations, see Note 10 to the basic financial statements.

**School District Outlook**

The School District's financial results have been fairly steady the last three fiscal years. Looking ahead, the School District anticipates some difficulty in maintaining the current level of services and has taken several steps in response. These steps include a new collective bargaining agreement that reduces the cost of fringe benefits paid by the Board of Education.

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

**Contacting the School District's Financial Management**

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

**Salem City School District**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,346,607
Accounts Receivable	2,001
Intergovernmental Receivable	328,161
Inventory Held for Resale	10,567
Prepaid Items	12,687
Property Taxes Receivable	9,078,119
Income Tax Receivable	665
Nondepreciable Capital Assets	707,799
Depreciable Capital Assets, Net	<u>6,423,129</u>
<i>Total Assets</i>	<u>20,909,735</u>
<b>Deferred Outflows of Resources</b>	
Pension	<u>1,670,103</u>
<b>Liabilities</b>	
Accounts Payable	153,101
Accrued Wages and Benefits	1,572,429
Intergovernmental Payable	341,804
Matured Compensated Absences Payable	199,444
Accrued Interest Payable	6,363
Long-Term Liabilities:	
Due Within One Year	323,557
Due in More Than One Year	
Net Pension Liability	23,654,589
Other Amounts	<u>2,661,657</u>
<i>Total Liabilities</i>	<u>28,912,944</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	8,401,720
Pension	<u>4,298,925</u>
<i>Total Deferred Inflows of Resources</i>	<u>12,700,645</u>
<b>Net Position</b>	
Net Investment in Capital Assets	5,522,094
Restricted for:	
Capital Projects	1,737,557
Unclaimed Monies	7,324
Other Purposes	676,894
Unrestricted (Deficit)	<u>(26,977,620)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$19,033,751)</u></u>

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Program Revenues				Net Revenue/(Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$10,205,448	\$573,324	\$6,044	\$117,582	(\$9,508,498)
Special	3,276,083	0	1,994,292	0	(1,281,791)
Vocational	267,434	0	49,873	0	(217,561)
Adult/Continuing	386,511	45,846	0	0	(340,665)
Student Intervention Services	14,333	0	0	0	(14,333)
Support Services:					
Pupils	1,036,014	0	1,299	0	(1,034,715)
Instructional Staff	434,172	0	181,654	0	(252,518)
Board of Education	27,764	0	0	0	(27,764)
Administration	1,757,585	209,417	0	0	(1,548,168)
Fiscal	543,463	0	0	0	(543,463)
Business	12,540	0	0	0	(12,540)
Operation and Maintenance of Plant	1,549,927	10,142	0	0	(1,539,785)
Pupil Transportation	748,039	0	54,478	0	(693,561)
Central	486,682	234,710	7,200	0	(244,772)
Extracurricular Activities	587,516	115,368	2,325	0	(469,823)
Operation of Non-Instructional Services	139,214	0	61,999	0	(77,215)
Operation of Food Service	660,323	141,719	507,277	0	(11,327)
Interest and Fiscal Charges	82,842	0	0	0	(82,842)
<b>Totals</b>	<b>\$22,215,890</b>	<b>\$1,330,526</b>	<b>\$2,866,441</b>	<b>\$117,582</b>	<b>(17,901,341)</b>

**General Revenues**

Property Taxes Levied for:

  General Purposes 8,508,595

  Capital Outlay 538,576

Income Taxes Levied for General Purposes 665

Grants and Entitlements not Restricted  
to Specific Programs 9,417,431

Investment Earnings 25,155

Miscellaneous 211,028

**Total General Revenues 18,701,450**

Change in Net Position 800,109

*Net Position (Deficit) Beginning of Year*  
*(Restated - See Note 22)* (19,833,860)

*Net Position (Deficit) End of Year* **(\$19,033,751)**

See accompanying notes to the basic financial statements

**Salem City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2015*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,051,247	\$1,735,379	\$552,657	\$4,339,283
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	7,324	0	0	7,324
Accounts Receivable	2,001	0	0	2,001
Intergovernmental Receivable	965	0	327,196	328,161
Prepaid Items	12,687	0	0	12,687
Inventory Held for Resale	0	0	10,567	10,567
Property Taxes Receivable	8,537,272	540,847	0	9,078,119
Income Taxes Receivable	665	0	0	665
<i>Total Assets</i>	<u>\$10,612,161</u>	<u>\$2,276,226</u>	<u>\$890,420</u>	<u>\$13,778,807</u>
<b>Liabilities</b>				
Accounts Payable	\$105,874	\$37,713	\$9,514	\$153,101
Accrued Wages and Benefits	1,450,932	0	121,497	1,572,429
Intergovernmental Payable	321,406	0	20,398	341,804
Matured Compensated Absences Payable	199,444	0	0	199,444
<i>Total Liabilities</i>	<u>2,077,656</u>	<u>37,713</u>	<u>151,409</u>	<u>2,266,778</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	7,900,764	500,956	0	8,401,720
Unavailable Revenue	383,634	24,001	285,215	692,850
<i>Total Deferred Inflows of Resources</i>	<u>8,284,398</u>	<u>524,957</u>	<u>285,215</u>	<u>9,094,570</u>
<b>Fund Balances</b>				
Nonspendable	20,011	0	0	20,011
Restricted	0	1,713,556	464,813	2,178,369
Committed	237,168	0	0	237,168
Unassigned (Deficit)	(7,072)	0	(11,017)	(18,089)
<i>Total Fund Balances</i>	<u>250,107</u>	<u>1,713,556</u>	<u>453,796</u>	<u>2,417,459</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$10,612,161</u>	<u>\$2,276,226</u>	<u>\$890,420</u>	<u>\$13,778,807</u>

See accompanying notes to the basic financial statements

**Salem City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2015*

<b>Total Governmental Funds Balances</b>	\$2,417,459
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,130,928
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:	
Delinquent Property Taxes	406,970
Grants	285,215
Income Tax	665
Total	692,850
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,363)
The net pension liability is not due and payable in the current period; therefore, the liability and related inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,670,103
Deferred Inflows - Pension	(4,298,925)
Net Pension Liability	(23,654,589)
Total	(26,283,411)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Energy Conservation Bonds	(1,280,000)
Energy Conservation Notes	(277,000)
Capital Leases Payable	(51,834)
Special Termination Benefits	(67,243)
Compensated Absences	(1,309,137)
Total	(2,985,214)
<i>Net Position (Deficit) of Governmental Activities</i>	<i>(\$19,033,751)</i>

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2015*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$8,614,627	\$545,582	\$0	\$9,160,209
Intergovernmental	10,334,425	117,582	2,140,203	12,592,210
Interest	358	0	24,797	25,155
Charges for Services	0	0	141,719	141,719
Tuition and Fees	1,017,451	0	0	1,017,451
Extracurricular Activities	45,846	0	115,368	161,214
Rentals	10,142	0	0	10,142
Contributions and Donations	1,299	0	3,485	4,784
Miscellaneous	166,626	10,000	34,402	211,028
<i>Total Revenues</i>	<u>20,190,774</u>	<u>673,164</u>	<u>2,459,974</u>	<u>23,323,912</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,106,399	0	6,903	10,113,302
Special	2,195,865	0	1,158,931	3,354,796
Vocational	257,674	0	0	257,674
Adult/Continuing	395,777	0	0	395,777
Student Intervention Services	15,315	0	0	15,315
Support Services:				
Pupils	1,060,075	0	0	1,060,075
Instructional Staff	166,763	0	299,267	466,030
Board of Education	27,797	0	0	27,797
Administration	1,716,896	2,173	65,191	1,784,260
Fiscal	539,333	12,795	0	552,128
Business	12,540	0	0	12,540
Operation and Maintenance of Plant	1,536,454	4,165	0	1,540,619
Pupil Transportation	597,073	0	66,471	663,544
Central	483,486	0	7,200	490,686
Extracurricular Activities	411,123	0	126,604	537,727
Operation of Non-Instructional Services	60,625	0	89,455	150,080
Operation of Food Service	0	0	631,260	631,260
Capital Outlay	0	372,043	0	372,043
Debt Service:				
Principal Retirement	176,463	0	0	176,463
Interest and Fiscal Charges	83,404	0	0	83,404
<i>Total Expenditures</i>	<u>19,843,062</u>	<u>391,176</u>	<u>2,451,282</u>	<u>22,685,520</u>
<i>Net Change in Fund Balances</i>	347,712	281,988	8,692	638,392
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(97,605)</u>	<u>1,431,568</u>	<u>445,104</u>	<u>1,779,067</u>
<i>Fund Balances End of Year</i>	<u>\$250,107</u>	<u>\$1,713,556</u>	<u>\$453,796</u>	<u>\$2,417,459</u>

See accompanying notes to the basic financial statements

**Salem City Local School District**  
*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, 2015*

**Net Change in Fund Balances -Total Governmental Funds** \$638,392

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	219,474	
Current Year Depreciation	(573,006)	
Total		(353,532)

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

Delinquent Property Taxes	(113,038)	
Grants	(195,540)	
Income Tax	665	
Total		(307,913)

Repayment of bond, loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 176,463

Some expenses reported in the statement of activities, such as accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 562

Contractual required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 1,446,175

Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the statement of activities. (984,168)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Special Termination Benefits	(12,067)	
Compensated Absences	196,197	
Total		184,130

*Change in Net Position of Governmental Activities* \$800,109

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$8,370,366	\$8,562,658	\$8,562,658	\$0
Income Taxes	8,719	3,896	3,896	0
Intergovernmental	10,413,121	10,326,790	10,326,790	0
Interest	658	358	358	0
Tuition and Fees	605,222	573,324	573,324	0
Rentals	6,493	9,792	9,792	0
Miscellaneous	31,029	11,841	11,841	0
<i>Total Revenues</i>	<u>19,435,608</u>	<u>19,488,659</u>	<u>19,488,659</u>	<u>0</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,078,412	9,878,128	9,878,128	0
Special	2,165,251	2,184,066	2,184,066	0
Vocational	244,271	261,963	261,963	0
Student Intervention Services	0	26,580	26,580	0
Support Services:				
Pupils	954,814	999,783	999,783	0
Instructional Staff	203,532	165,376	165,376	0
Board of Education	37,091	28,591	28,591	0
Administration	1,637,900	1,553,636	1,553,636	0
Fiscal	584,271	538,920	538,920	0
Business	15,657	12,540	12,540	0
Operation and Maintenance of Plant	1,777,239	1,531,488	1,531,488	0
Pupil Transportation	771,544	616,006	616,006	0
Central	361,304	328,904	328,904	0
Extracurricular Activities	438,771	408,006	408,006	0
Operation of Non-Instructional Services	35,929	51,962	51,962	0
Debt Service:				
Principal	176,463	176,463	176,463	0
Interest	83,404	83,404	83,404	0
<i>Total Expenditures</i>	<u>19,565,853</u>	<u>18,845,816</u>	<u>18,845,816</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(130,245)</u>	<u>642,843</u>	<u>642,843</u>	<u>0</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	75,000	75,000	75,000	0
Transfers Out	(300,000)	(250,000)	(250,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(225,000)</u>	<u>(175,000)</u>	<u>(175,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(355,245)	467,843	467,843	0
<i>Fund Balance Beginning of Year</i>	806,760	806,760	806,760	0
Prior Year Encumbrances Appropriated	11,620	11,620	11,620	0
<i>Fund Balance End of Year</i>	<u>\$463,135</u>	<u>\$1,286,223</u>	<u>\$1,286,223</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2015*

	Private Purpose Trust	
	Memorial	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$115	\$83,129
<b>Liabilities</b>		
Due to Students	0	\$83,129
<b>Net Position</b>		
Held in Trust for Scholarships	\$115	

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Memorial
<b>Additions</b>	\$0
<b>Deductions</b>	0
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	115
<i>Net Position End of Year</i>	\$115

See accompanying notes to the basic financial statements

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 1 - Description of the School District and Reporting Entity**

Salem City School District (the School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four instructional/support facilities staffed by 142 certified employees and 81 classified employees who provide services to 2,071 students and other community members.

*Reporting Entity*

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with two jointly governed organizations, one related organization, one insurance purchasing pool and one risk sharing pool. These organizations are the Area Cooperative Computerized Education Services System, the Columbiana County Career and Technical Center, the Salem Public Library, the Stark County Schools Council Workers' Compensation Group Rating Program and the Stark County Schools Council of Governments Health Benefits Plan. These organizations are presented in Note 12, 13 and 15 of the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.

*Basis of Presentation*

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

***Fund Accounting***

The School 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. In reporting its financial activities, the School District uses two categories of funds: governmental 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

***General Fund*** The general fund is the operating fund of the School District and is used to account for and report all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the School District 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 and report property tax revenues restricted for the acquisition, construction or improvement of capital facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust funds are private-purpose trust funds, which account for a student memorial program. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities and federal student financial assistance.

***Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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.

The private purpose trust fund is reported using the economic resources measurement focus.

***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 and the statement presented for the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have

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been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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, fees and rentals.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 18)

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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***Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2015, investments were limited to STAR Ohio. 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 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 net asset value per share which is the price the investment could be sold for on June 30, 2015.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the endowment special revenue fund during fiscal year 2015 amounted to \$24,762, of which \$24,040 was assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

***Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of donated and purchased food held for resale.

***Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money set aside for unclaimed monies.

***Capital Assets***

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand five hundred dollars. The School 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 capitalized.

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*Notes to the Basic Financial Statements*  
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All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
Building and Improvements	25 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	6 - 10 years

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee who has accumulated unpaid leave is paid.

***Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, and are reported as obligations of the funds. However, claims and judgments and 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 fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

***Internal Activity***

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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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 financial statements.

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the School 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 category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School 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 School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State statute.

***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 used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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.

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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

**Salem City School District**  
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assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for auxiliary services and extracurricular activities.

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

***Estimates***

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

***Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund. Prior to June 30, the Board of Education adopted appropriations which match actual expenditures plus encumbrances and requested a certificate of estimated resources to match actual revenues.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

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 budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**Note 3 – Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Prepaid Items	\$12,687	\$0	\$0	\$12,687
Unclaimed Monies	7,324	0	0	7,324
<b><i>Total Nonspendable</i></b>	<b>20,011</b>	<b>0</b>	<b>0</b>	<b>20,011</b>
<b><i>Restricted for</i></b>				
Food Service Operations	0	0	196,602	196,602
Endowments	0	0	126,957	126,957
Athletics	0	0	39,301	39,301
Auxiliary Services	0	0	47,288	47,288
Student Programs	0	0	54,665	54,665
Capital Improvements	0	1,713,556	0	1,713,556
<b><i>Total Restricted</i></b>	<b>0</b>	<b>1,713,556</b>	<b>464,813</b>	<b>2,178,369</b>
<b><i>Committed to</i></b>				
Insurance	11,000	0	0	11,000
Termination Benefits	226,168	0	0	226,168
<b><i>Total Committed</i></b>	<b>237,168</b>	<b>0</b>	<b>0</b>	<b>237,168</b>
<b><i>Unassigned (Deficit)</i></b>	<b>(7,072)</b>	<b>0</b>	<b>(11,017)</b>	<b>(18,089)</b>
<b><i>Total Fund Balances</i></b>	<b>\$250,107</b>	<b>\$1,713,556</b>	<b>\$453,796</b>	<b>\$2,417,459</b>

**Note 4 – Accountability**

At June 30, 2015, the title VI-B and title I special revenue funds had deficit fund balances in the amounts of \$1,152 and \$9,865, respectively. The special revenue funds’ deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

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3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the adult education, rotary, public school support, self-insurance and termination benefits funds are classified to general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

	General
GAAP Basis	\$347,712
Net Adjustment for Revenue Accruals	327,291
Perspective Difference:	
Adult Education	143,636
Rotary	5,622
Public School Support	9,979
Self-Insurance	(22,769)
Termination Benefits	(90,878)
Net Adjustment for Expenditure Accruals	(233,354)
Encumbrances	(19,396)
Budget Basis	\$467,843

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board 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 held by the School District can be deposited or invested in the following securities:

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1. United States Treasury bills, bonds, notes, 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,915,932 of the School District's bank balance of \$4,415,932 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Salem City School District**  
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***Investments***

As of June 30, 2015, the School District had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$6,627 and a maturity of 53.4 days. The investment is an internal investment pool.

***Interest Rate Risk.*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

***Credit Risk*** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Note 7 – Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, 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 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2015 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 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

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The amount available as an advance at June 30, 2015, was \$253,539 in the general fund and \$15,890 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2014, was \$201,570 in the general fund and \$12,781 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 First Half Collections		2015 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$285,523,600	95.79%	\$283,367,430	95.47%
Public Utility Personal	12,563,200	4.21	13,448,880	4.53
Total	\$298,086,800	100.00%	\$296,816,310	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$51.00		\$51.00	

**Note 8 - Receivables**

Receivables at June 30, 2015, consisted of taxes and intergovernmental grants. 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. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title I	\$240,091
Title VI-B	40,108
Title I School Improvements	24,879
Reducing Class Size	14,270
Miscellaneous Federal Grants	5,307
Limited English Proficiency	2,541
CAFS Reimbursement	965
Total	\$328,161

**Salem City School District**  
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**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<b>Nondepreciable Capital Assets</b>				
Land	\$707,799	\$0	\$0	\$707,799
<b>Depreciable Capital Assets</b>				
Land Improvements	1,535,208	9,605	0	1,544,813
Buildings and Improvements	17,714,176	169,123	0	17,883,299
Furniture and Fixtures	2,086,646	40,746	0	2,127,392
Vehicles	1,452,875	0	0	1,452,875
<i>Total at Historical Cost</i>	<u>22,788,905</u>	<u>219,474</u>	<u>0</u>	<u>23,008,379</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	(1,071,436)	(36,192)	0	(1,107,628)
Buildings and Improvements	(12,292,701)	(353,565)	0	(12,646,266)
Furniture and Fixtures	(1,534,901)	(102,857)	0	(1,637,758)
Vehicles	(1,113,206)	(80,392)	0	(1,193,598)
<i>Total Accumulated Depreciation</i>	<u>(16,012,244)</u>	<u>(573,006) *</u>	<u>0</u>	<u>(16,585,250)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>6,776,661</u>	<u>(353,532)</u>	<u>0</u>	<u>6,423,129</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$7,484,460</u>	<u>(\$353,532)</u>	<u>\$0</u>	<u>\$7,130,928</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$251,580
Special	16,575
Vocational	13,476
Support Services	
Pupils	10,899
Instructional Staff	5,537
Administration	54,095
Fiscal	268
Operation and Maintenance of Plant	43,297
Pupil Transportation	92,434
Central	564
Operation of Food Service	31,280
Extracurricular Activities	53,001
Total Depreciation Expense	<u>\$573,006</u>

**Salem City School District**  
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**Note 10 – Long-Term Obligations**

Original issue amounts and interest rates of the School District’s debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
Series 2010 Energy Conservation Bonds	5.10%	\$1,740,000	2026
Series 2010 Energy Conservation Notes	4.00	356,000	2025

Changes in long-term obligations of the School District during fiscal year 2015 were as follows:

	Principal Outstanding June 30, 2014	Additions	Deductions	Principal Outstanding June 30, 2015	Amount Due in One Year
<b>General Obligation Debt</b>					
Energy Conservation Bonds	\$1,395,000	\$0	(\$115,000)	\$1,280,000	\$115,000
Energy Conservation Notes	299,000	0	(22,000)	277,000	23,000
<i>Total General Obligation Debt</i>	<u>1,694,000</u>	<u>0</u>	<u>(137,000)</u>	<u>1,557,000</u>	<u>138,000</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
STRS	24,122,923	0	(3,871,870)	20,251,053	0
SERS	3,999,201	0	(595,665)	3,403,536	0
<i>Total Net Pension Liability</i>	<u>28,122,124</u>	<u>0</u>	<u>(4,467,535)</u>	<u>23,654,589</u>	<u>0</u>
Capital Leases	91,297	0	(39,463)	51,834	41,238
Special Termination Benefits	55,176	46,230	(34,163)	67,243	44,128
Compensated Absences	1,505,334	110,384	(306,581)	1,309,137	100,191
<i>Total Other Long-term Obligations</i>	<u>29,773,931</u>	<u>156,614</u>	<u>(4,847,742)</u>	<u>25,082,803</u>	<u>185,557</u>
<i>Total Long-Term Liabilities</i>	<u>\$31,467,931</u>	<u>\$156,614</u>	<u>(\$4,984,742)</u>	<u>\$26,639,803</u>	<u>\$323,557</u>

On October 27, 2010, the School 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 School District’s buildings. These bonds bear an annual interest rate of 5.1 percent 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.

On August 24, 2011, the School District issued \$356,000 in energy conservation improvement notes. The proceeds of these notes were used for building improvements intended to increase the energy efficiency of the School Districts buildings. These notes bear an annual interest rate of 4.0 percent and are scheduled to mature in fiscal year 2025. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund.

The capital lease will be paid out of the general fund. Special termination benefits will be paid out of the general fund. Compensated absences will be paid from the general fund and the food service, title VI-B and title I special revenue funds.

The overall debt margin of the School District as of June 30, 2015, was \$26,713,468 with an unvoted debt margin of \$296,816. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2015, are as follows:

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Fiscal Year Ending June 30	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
2016	\$115,000	\$62,347	\$177,347
2017	120,000	56,355	176,355
2018	120,000	50,235	170,235
2019	120,000	44,115	164,115
2020	115,000	38,123	153,123
2021 - 2025	575,000	102,637	677,637
2026	115,000	2,933	117,933
Total	<u>\$1,280,000</u>	<u>\$356,745</u>	<u>\$1,636,745</u>

Fiscal Year Ending June 30	Energy Conservation Improvement Notes - Series 2011		
	Principal	Interest	Total
2016	\$23,000	\$11,080	\$34,080
2017	24,000	10,160	34,160
2018	25,000	9,200	34,200
2019	26,000	8,200	34,200
2020	27,000	7,160	34,160
2021 - 2025	152,000	18,760	170,760
Total	<u>\$277,000</u>	<u>\$64,560</u>	<u>\$341,560</u>

**Note 11 - Capital Leases**

The School District has an existing lease for copier equipment. The lease obligation meets the criteria of a capital lease. The original amounts capitalized for the capital leases and the book value as of June 30, 2015 follows:

	Amounts
Furniture and Equipment	\$191,286
Less: Accumulated depreciation	(133,900)
Current Book Value	<u>\$57,386</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

Fiscal Year Ending June 30,	Governmental Activities
2016	\$42,695
2017	10,674
Total Minimum Lease Payments	53,369
Less: Amount Representing Interest	(1,535)
Present Value of Net Minimum Lease Payments	<u>\$51,834</u>

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**Note 12 - Jointly Governed Organizations**

***Area Cooperative Computerized Education Service System (ACCESS)*** The Area Cooperative Computerized Educational Service System (ACCESS) is a jointly governed organization among 22 school districts and 2 educational service centers. 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 the member districts. Each of the governments of these schools supports COG based upon a per pupil charge dependent upon the software package utilized for fiscal year 2015. Salem City School District paid \$59,373 to the COG during fiscal year 2015. COG 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 COG including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Board. All of COG 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 services as fiscal agent, at 100 Debartolo Place, Youngstown, Ohio 44512.

***Columbiana County Career and Technical Center*** The Columbiana County Career and Technical Center (the “Center”) is a distinct political subdivision of the State of Ohio. The Center is operated under the direction of a Board, consisting of one representative from each of the eight participating school districts’ elected boards, which possesses its own budgeting and taxing authority. The degree of control exercised by any participating school district is limited to its representation on the Board. For fiscal year 2015, the School District did not make any contribution to the Center. To obtain financial information, write to the Columbiana County Career and Technical Center, Office of the Treasurer, at 9364 State Route 45, Lisbon, Ohio 44432.

**Note 13 – 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 Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School 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. Salem City School District did not make any payments to the Library during fiscal year 2015. Financial information can be obtained from the Salem Public Library, Mr. Bradley Stephens, Fiscal Officer, at 821 State Street, Salem, Ohio 44460.

**Note 14 - Risk Management**

***Property and Liability***

The School 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 2015, the School District contracted with Leonard Insurance Services for the following insurance coverage:

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Type of Coverage	Coverage Amount
Building and Contents - Replacement Cost (\$5,000 deductible)	\$71,420,551
Equipment Breakdown (\$5,000 deductible)	71,420,551
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)	21,850
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 coverage from last year.

***Employee Health Benefits***

The School District has contracted with the Stark County Schools Council of Governments to provide employee medical/surgical, dental, and prescription drug benefits. The Stark County Schools Council of Governments is a shared risk pool comprised of Stark County school districts. Rates are set through an annual calculation process. The Salem City School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. The School District's Board of Education pays a portion of the monthly premium. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. If the School District were to withdraw from the consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments.

***Worker's Compensation***

For fiscal year 2015, the School District participated in the Stark County Schools Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the program. The participating school districts pay experience or rate based premiums to the Bureau of Workers' Compensation (BWC). The total premium for the entire group is the standard premium of the group. Participation in the program is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services for the program.

**Note 15 – Public Entity Pools**

***Insurance Purchasing Pool***

***Stark County Schools Council Workers' Compensation Group Rating Program*** The School District participates in the Stark County Schools Council Group Rating Program, an insurance purchasing pool. The governing body is comprised of the superintendents and representatives who have been appointed by the respective governing body of each member.

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The intent of the pool is to achieve a reduced rate for the School 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 Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on the percentage created by comparing its payroll to the total payroll of the group.

***Shared Risk Pool***

***Stark County Schools Council of Governments (the “Consortium”) Health Benefit Plan*** The School District participates in the Stark County Schools Council of Governments Health Benefit Plan. This is a shared risk pool comprised of Stark County School Districts. 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 as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

**Note 16 - Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service and hours worked. Teachers and most administrators do not earn vacation. Accumulated unused vacation is paid to classified employees and administrators upon termination of employment. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 270 days for employees with 10-24 years of service. Upon retirement, payment is made for twenty-five percent of accrued, but unused sick leave credit.

***Life Insurance Benefits***

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

***Special Termination Benefits***

A one-time retirement bonus of thirty-five percent of annual salary is offered to employees in the year in which the employee becomes eligible for retirement including the applicable pick-up, but excluding any overtime or supplemental contracts. The bonus is available to employees who become first-time eligible for retirement or reach thirty years of service under SERS or STRS guidelines and retire effective at the end of the school year in which they qualify. If individuals choose not to retire when first eligible with less than thirty years of service in accordance with the State retirement systems’ guidelines, he/she would not become eligible again until reaching thirty years of SERS or STRS service. The retirement bonus consists of two payments that are to be made in equal amounts in January of each of the following two calendar years. Three employees eligible in fiscal year 2014 took advantage of the retirement bonus. Two employees eligible in fiscal year 2015 took advantage of the retirement bonus.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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**Note 17 - Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2015, if applicable, cannot be determined at this time.

***School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School District, therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

***Litigation***

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**Note 18 – Defined Benefit Pension Plans**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

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GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the

**Salem City School District**  
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fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$257,887 for fiscal year 2015. Of this amount \$8,015 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,188,288 for fiscal year 2015. Of this amount \$151,863 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,403,536	\$20,251,053	\$23,654,589
Proportion of the Net Pension Liability	0.067251%	0.0832573%	
Pension Expense	\$198,619	\$785,549	\$984,168

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$28,968	\$194,960	\$223,928
School District contributions subsequent to the measurement date	<u>257,887</u>	<u>1,188,288</u>	<u>1,446,175</u>
Total Deferred Outflows of Resources	<u>\$286,855</u>	<u>\$1,383,248</u>	<u>\$1,670,103</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$552,403</u>	<u>\$3,746,522</u>	<u>\$4,298,925</u>

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\$1,446,175 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$130,786)	(\$887,890)	(\$1,018,676)
2017	(130,786)	(887,890)	(1,018,676)
2018	(130,786)	(887,890)	(1,018,676)
2019	(131,077)	(887,892)	(1,018,969)
Total	(\$523,435)	(\$3,551,562)	(\$4,074,997)

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$4,855,833	\$3,403,536	\$2,182,027

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$28,991,592	\$20,251,053	\$12,859,501

**Note 19 – Postemployment Benefits**

***School Employees Retirement System***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$33,359.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$16,013, \$13,406 and \$14,658, respectively. For fiscal year 2015, 97.09 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$85,984, and \$87,374 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**Note 20 - Set Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and 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 capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvements
Set Aside Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	351,408
Current Year Offsets	(695,975)
Total	(\$344,567)
Set-aside Balance Carried	
Forward to Future Fiscal Years	\$0
Set Aside Balance as of June 30, 2015	\$0

Although the School District had current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 21 - Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<b>Governmental Funds</b>	
General	\$19,396
Permanent Improvement	207,354
Other Governmental Funds	<u>30,692</u>
<i>Total Governmental Funds</i>	<u><u>\$257,442</u></u>

**Note 22 – Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported at June 30, 2014:

Net Position June 30, 2014	\$6,911,558
Adjustments:	
Net Pension Liability	(28,122,124)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>1,376,706</u>
Restated Net Position June 30, 2014	<u><u>(\$19,833,860)</u></u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Salem City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the*  
*Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.067251%	0.067251%
School District's Proportionate Share of the Net Pension Liability	\$3,403,536	\$3,999,201
School District's Covered-Employee Payroll	\$1,764,000	\$1,980,878
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	192.94%	201.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

**Salem City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the*  
*Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.08325729%	0.08325729%
School District's Proportionate Share of the Net Pension Liability	\$20,251,053	\$24,122,923
School District's Covered-Employee Payroll	\$8,506,592	\$8,737,385
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	238.06%	276.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

**Salem City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$257,887	\$244,490	\$274,153	\$265,465
Contributions in Relation to the Contractually Required Contribution	<u>(257,887)</u>	<u>(244,490)</u>	<u>(274,153)</u>	<u>(265,465)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$1,956,657	\$1,764,000	\$1,980,878	\$1,973,717
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
\$247,971	\$239,496	\$166,379	\$165,330	\$178,460	\$187,511
(247,971)	(239,496)	(166,379)	(165,330)	(178,460)	(187,511)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,972,718	\$1,768,803	\$1,690,847	\$1,683,603	\$1,670,974	\$1,772,316
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**Salem City School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$1,188,288	\$1,105,857	\$1,135,860	\$1,167,225
Contributions in Relation to the Contractually Required Contribution	<u>(1,188,288)</u>	<u>(1,105,857)</u>	<u>(1,135,860)</u>	<u>(1,167,225)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$8,487,771	\$8,506,592	\$8,737,385	\$8,978,654
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$1,151,449	\$1,132,606	\$1,086,272	\$1,042,287	\$1,106,054	\$1,243,965
<u>(1,151,449)</u>	<u>(1,132,606)</u>	<u>(1,086,272)</u>	<u>(1,042,287)</u>	<u>(1,106,054)</u>	<u>(1,243,965)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$8,857,300	\$8,712,354	\$8,355,938	\$8,017,592	\$8,508,108	\$9,568,962
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Federal Receipts	Federal Disbursements
<b>U.S. Department of Agriculture</b>			
<i>Passed through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Cash Assistance:			
School Breakfast Program	10.553	\$ 75,527	\$ 75,527
National School Lunch Program	10.555	373,949	373,949
Non-Cash Assistance (Food Distribution):			
National School Lunch Program - Note 2	10.555	46,805	46,805
Total U.S. Department of Agriculture		<b>496,281</b>	<b>496,281</b>
<b>U.S. Department of Education</b>			
<i>Pass through Ohio Department of Education:</i>			
Title I			
Title I Grant to Local Educational Agencies - FY14	84.010	(9,825)	77,992
Title I Grant to Local Educational Agencies - FY15	84.010	615,470	597,017
Title I Grant to Local Educational Agencies - Sub A - FY14	84.010	(13,053)	11,038
Title I Grant to Local Educational Agencies - Sub A - FY15	84.010	194,793	187,580
Total Title I		<b>787,385</b>	<b>873,627</b>
Special Education - Grants to States (IDEA, Part B)			
IDEA Part B - FY14	84.027	136,227	155,658
IDEA Part B - FY15	84.027	450,591	413,658
Total Special Education - Grants to State (IDEA, Part B)		<b>586,818</b>	<b>569,316</b>
Improving Teacher Quality State Grants			
Improving Teacher Quality State Grant - FY14	84.367	(111)	25,052
Improving Teacher Quality State Grant - FY15	84.367	122,775	106,594
Total Improving Teacher Quality State Grants		<b>122,664</b>	<b>131,646</b>
Rural and Low Income Title VI - B	84.358	<b>32,241</b>	<b>30,359</b>
English Language Acquisition State Grants			
LEP Title III	84.365	<b>8,842</b>	<b>8,342</b>
Direct Programs			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063	152,835	152,835
Federal Direct Loan Student Loan Program	84.268	304,014	304,014
<b>Total Student Financial Aid Cluster</b>		<b>456,849</b>	<b>456,849</b>
<b>Total U.S. Department of Education</b>		<b>1,994,799</b>	<b>2,070,139</b>
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>		<b>\$ 2,491,080</b>	<b>\$ 2,566,420</b>

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

SALEM CITY SCHOOL DISTRICT  
Columbiana County, Ohio  
Notes to the Schedule of Federal Awards Receipts and Expenditures Schedule  
For the Year Ended June 30, 2015

1. Significant Accounting Policies

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. 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.

3. Food Donation Program

Nonmonetary assistance is reported in the schedule at entitlement value of the commodities received and disbursed. The District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities. At June 30, 2015, the District had food commodities in inventory.

4. Transfers Between Program Years

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2014 to 2015 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred From 2014 to 2015</u>
School Improvement Sub A	84.010	\$ 13,053
Title I Grants to Local Educational Agencies	84.010	9,825
Improving Teacher Quality State Grant	84.367	111

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2015. We noted the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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



***Charles E. Harris & Associates, Inc.***  
December 30, 2015

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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

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

To the Board of Education:

***Report on Compliance for Each Major Federal Program***

We have audited the Salem City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the District's major federal programs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the Salem City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

***Report on Internal Control Over Compliance***

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



***Charles E. Harris & Associates, Inc.***  
December 30, 2015

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

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY  
JUNE 30, 2015**

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

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Title I - CFDA #84.010 Student Financial Assistance Cluster - CFDA #84.063 and #84.268
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**SALEM CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY  
JUNE 30, 2015**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

The prior audit report, for the year ending June 30, 2014, reported no material citations or recommendations.



# Dave Yost • Auditor of State

**SALEM CITY SCHOOL DISTRICT**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2016**