



Dave Yost • Auditor of State

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Statement of Net Position	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund.....	19
Statement of Fiduciary Net Position – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Position	21
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Receipts and Expenditures.....	47
Notes to the Schedule of Federal Awards Receipts and Expenditures	48
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	51
Schedule of Findings.....	53
Schedule of Prior Audit Findings.....	54

THIS PAGE INTENTIONALLY LEFT BLANK.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School 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 School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Federal Award Receipts and Expenditures (the 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 also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relate 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 March 13, 2015, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2015

THIS PAGE INTENTIONALLY LEFT BLANK.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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, 2014. 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 repairs and improvements to Reilly Stadium's track and wall as well as recoating the gym floor and replacing the roof of Reilly Elementary School.
- Outstanding long-term obligations decreased during fiscal year 2014 due to annual debt payments.
- Healthcare increased 4.50 percent in fiscal year 2014. Certified base salaries increased 1.50 percent for fiscal year 2014 with an additional 1.00 percent increase in fiscal year 2015. Classified base salaries increased 2.00 percent in fiscal year 2014 with additional increases of 2.00 percent in fiscal year 2015 and 1.00 percent in fiscal year 2016.
- 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, 2014
Unaudited

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 2014 compared to 2013.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 1
 Net Position
 Governmental Activities

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets			
Current and Other Assets	\$13,753,123	\$13,618,774	\$134,349
Capital Assets, Net	7,484,460	7,683,653	(199,193)
<i>Total Assets</i>	<u>21,237,583</u>	<u>21,302,427</u>	<u>(64,844)</u>
Liabilities			
Current Liabilities	2,130,253	2,143,931	13,678
Long-Term Liabilities			
Due Within One Year	321,010	296,305	(24,705)
Due In More Than One Year	3,024,797	3,240,256	215,459
<i>Total Liabilities</i>	<u>5,476,060</u>	<u>5,680,492</u>	<u>204,432</u>
Deferred Inflows of Resources	<u>8,849,965</u>	<u>8,686,239</u>	<u>(163,726)</u>
Net Position			
Net Investment in Capital Assets	5,699,163	5,724,590	(25,427)
Restricted for:			
Capital Projects	1,462,575	1,271,533	191,042
Other Purposes	846,179	287,809	558,370
Unrestricted (Deficit)	<u>(1,096,359)</u>	<u>(348,236)</u>	<u>(748,123)</u>
<i>Total Net Position</i>	<u><u>\$6,911,558</u></u>	<u><u>\$6,935,696</u></u>	<u><u>(\$24,138)</u></u>

Cash and cash equivalents decreased due to the School District having more expenses than revenues during the year. The increase in intergovernmental receivables is due to the School District having a larger grant carryover when compared to the prior fiscal year. The decrease in capital assets was due to an additional year of depreciation exceeding current year additions.

Total liabilities decreased during fiscal year 2014 which can be attributed to annual payments on the School District's debt and decreases in accounts payables. The School District had fewer outstanding obligations to be carried forward to the following fiscal year than in the past.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for fiscal year 2014 compared to 2013.

Table 2
Change in Net Position
Governmental Activities

	2014	2013	Change
Program Revenues			
Charges for Services	\$1,591,405	\$1,860,882	(\$269,477)
Operating Grants, Contributions and Interest	3,270,081	3,162,500	107,581
Capital Grants	185,505	37,592	147,913
<i>Total Program Revenues</i>	<u>5,046,991</u>	<u>5,060,974</u>	<u>(13,983)</u>
General Revenues			
Property Taxes	8,721,921	9,052,714	(330,793)
Income Taxes	3,896	8,719	(4,823)
Grants and Entitlements	8,775,485	8,152,346	623,139
Investment Earnings	596	864	(268)
Miscellaneous	183,048	426,754	(243,706)
<i>Total General Revenues</i>	<u>17,684,946</u>	<u>17,641,397</u>	<u>43,549</u>
<i>Total Revenues</i>	<u>22,731,937</u>	<u>22,702,371</u>	<u>29,566</u>
Program Expenses			
Instruction:			
Regular	10,121,862	9,917,759	(204,103)
Special	3,320,327	2,915,000	(405,327)
Vocational	229,109	235,721	6,612
Adult/Continuing	264,247	628,453	364,206
Student Intervention Services	36,876	0	(36,876)
Support Services:			
Pupils	1,027,250	1,008,195	(19,055)
Instructional Staff	284,833	562,837	278,004
Board of Education	30,939	29,811	(1,128)
Administration	1,790,484	1,915,058	124,574
Fiscal	468,000	598,442	130,442
Business	14,560	7,409	7,151
Operation and Maintenance of Plant	1,777,904	1,683,968	(93,936)
Pupil Transportation	841,075	862,843	21,768
Central	940,011	150,496	(789,515)
Extracurricular Activities	812,297	794,842	(17,455)
Operation of Non-Instructional Services	105,771	128,757	22,986
Operation of Food Service	598,915	704,899	105,984
Interest and Fiscal Charges	91,615	92,785	1,170
<i>Total Program Expenses</i>	<u>22,756,075</u>	<u>22,237,275</u>	<u>(504,498)</u>
<i>Change in Net Position</i>	(24,138)	465,096	(489,234)
Net Position Beginning of Year	<u>6,935,696</u>	<u>6,470,600</u>	<u>465,096</u>
Net Position End of Year	<u>\$6,911,558</u>	<u>\$6,935,696</u>	<u>(\$24,138)</u>

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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 38.37 percent of revenues for governmental activities for the School District in fiscal year 2014 versus 39.88 percent in fiscal year 2013.

Program expenses increased mainly due to increases in regular and special instruction expenses and central support services. The increase in the regular and special instruction expenses is a result of severance payments and negotiated raises. The increase in the central support services expense is the result of the School District's increase in health insurance premiums over the prior 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 2014 due to increases in severance, retirement incentive and small negotiated raises with classified union. The School District continues to show vigilance in monitoring all facets of spending.

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 2014 compared to 2013.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2014		2013	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$10,121,862	\$9,517,388	\$9,917,759	\$9,265,354
Special	3,320,327	1,881,213	2,915,000	876,353
Vocational	229,109	(690,088)	235,721	155,718
Adult/Continuing	264,247	190,770	628,453	10,557
Student Intervention Services	36,876	36,876	0	0
Support Services:				
Pupils	1,027,250	1,010,113	1,008,195	943,697
Instructional Staff	284,833	11,299	562,837	389,926
Board of Education	30,939	30,939	29,811	29,811
Administration	1,790,484	1,710,351	1,915,058	1,689,421
Fiscal	468,000	375,000	598,442	594,985
Business	14,560	14,560	7,409	7,409
Operation and Maintenance of Plant	1,777,904	1,678,906	1,683,968	1,678,881
Pupil Transportation	841,075	801,729	862,843	753,781
Central	940,011	363,049	150,496	143,296
Extracurricular Activities	812,297	671,268	794,842	454,654
Operation of Non-Instructional Services	105,771	56,063	128,757	25,473
Operation of Food Service	598,915	(41,967)	704,899	64,200
Interest and Fiscal Charges	91,615	91,615	92,785	92,785
Total	\$22,756,075	\$17,709,084	\$22,237,275	\$17,176,301

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 a decrease in fund balance due to expenditures exceeding revenues in the current year as a result of greater instructional expenditures resulting from annual salary increases as well as the School District negotiating raises for the classified staff and increases in retirement incentives. Revenues increased despite declining enrollment due to the new State funding model, but not as much as anticipated. The permanent improvement fund saw an increase in fund balance resulting from revenues continuing to outpace expenditures for the fiscal year.

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.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

During the course of fiscal year 2014, 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 intergovernmental and tuition and fees revenues as a better picture of actual receipts and awards became apparent.

The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to increases in regular and special instruction expenditures due to higher estimated expenditures expected.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2014 values compared to fiscal 2013.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2014	2013
Land	\$707,799	\$707,799
Construction in Progress	0	37,592
Land Improvements	463,772	474,465
Buildings and Improvements	5,421,475	5,483,241
Furniture and Fixtures	551,745	546,383
Vehicles	339,669	434,173
Total Capital Assets	\$7,484,460	\$7,683,653

The decrease in capital assets was due to an additional year of depreciation offset by current year additions of building improvements and equipment at Reilly School and Stadium. 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, 2014
Unaudited

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

	2014	2013
Energy Conservation Improvement Bonds	\$1,395,000	\$1,510,000
Energy Conservation Improvement Notes	299,000	320,000
Capital Lease	91,297	129,063
Special Termination Benefits	55,176	0
Compensated Absences	1,505,334	1,577,498
Total	\$3,345,807	\$3,536,561

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 \$26,827,812 with an unvoted debt margin of \$298,087. 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, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,584,381
Accounts Receivable	35,919
Intergovernmental Receivable	509,285
Inventory Held for Resale	22,631
Prepaid Items	12,687
Property Taxes Receivable	9,584,324
Income Tax Receivable	3,896
Nondepreciable Capital Assets	707,799
Depreciable Capital Assets, Net	<u>6,776,661</u>
<i>Total Assets</i>	<u>21,237,583</u>
Liabilities	
Accounts Payable	52,420
Accrued Wages and Benefits	1,587,071
Intergovernmental Payable	391,196
Matured Compensated Absences Payable	92,641
Accrued Interest Payable	6,925
Long-Term Liabilities:	
Due Within One Year	321,010
Due in More Than One Year	<u>3,024,797</u>
<i>Total Liabilities</i>	<u>5,476,060</u>
Deferred Inflows of Resources	
Property Taxes	<u>8,849,965</u>
Net Position	
Net Investment in Capital Assets	5,699,163
Restricted for:	
Capital Projects	1,462,575
Other Purposes	846,179
Unrestricted (Deficit)	<u>(1,096,359)</u>
<i>Total Net Position</i>	<u><u>\$6,911,558</u></u>

See accompanying notes to the basic financial statements

Salem City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues				Net Revenue/(Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$10,121,862	\$602,349	\$2,125	\$0	(\$9,517,388)
Special	3,320,327	0	1,439,114	0	(1,881,213)
Vocational	229,109	0	919,197	0	690,088
Adult/Continuing	264,247	73,477	0	0	(190,770)
Student Intervention Services	36,876	0	0	0	(36,876)
Support Services:					
Pupils	1,027,250	0	17,137	0	(1,010,113)
Instructional Staff	284,833	0	273,534	0	(11,299)
Board of Education	30,939	0	0	0	(30,939)
Administration	1,790,484	80,133	0	0	(1,710,351)
Fiscal	468,000	0	0	93,000	(375,000)
Business	14,560	0	0	0	(14,560)
Operation and Maintenance					
of Plant	1,777,904	6,493	0	92,505	(1,678,906)
Pupil Transportation	841,075	0	39,346	0	(801,729)
Central	940,011	569,762	7,200	0	(363,049)
Extracurricular Activities	812,297	132,247	8,782	0	(671,268)
Operation of Non-Instructional					
Services	105,771	0	49,708	0	(56,063)
Operation of Food Service	598,915	126,944	513,938	0	41,967
Interest and Fiscal Charges	91,615	0	0	0	(91,615)
Totals	\$22,756,075	\$1,591,405	\$3,270,081	\$185,505	(17,709,084)

General Revenues

Property Taxes Levied for:

General Purposes	8,202,395
Capital Outlay	519,526
Income Taxes Levied for General Purposes	3,896
Grants and Entitlements not Restricted to Specific Programs	8,775,485
Investment Earnings	596
Miscellaneous	183,048

Total General Revenues 17,684,946

Change in Net Position (24,138)

Net Position Beginning of Year 6,935,696

Net Position End of Year \$6,911,558

See accompanying notes to the basic financial statements

Salem City School District

Balance Sheet

Governmental Funds

June 30, 2014

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$1,662,457	\$1,385,738	\$536,186	\$3,584,381
Accounts Receivable	0	35,919	0	35,919
Intergovernmental Receivable	16,166	0	493,119	509,285
Prepaid Items	12,687	0	0	12,687
Inventory Held for Resale	0	0	22,631	22,631
Property Taxes Receivable	9,038,332	545,992	0	9,584,324
Income Taxes Receivable	3,896	0	0	3,896
<i>Total Assets</i>	<u>\$10,733,538</u>	<u>\$1,967,649</u>	<u>\$1,051,936</u>	<u>\$13,753,123</u>
Liabilities				
Accounts Payable	\$49,338	\$2,870	\$212	\$52,420
Accrued Wages and Benefits	1,471,384	0	115,687	1,587,071
Intergovernmental Payable	381,018	0	10,178	391,196
Matured Compensated Absences Payable	92,641	0	0	92,641
<i>Total Liabilities</i>	<u>1,994,381</u>	<u>2,870</u>	<u>126,077</u>	<u>2,123,328</u>
Deferred Inflows of Resources				
Property Taxes	8,347,761	502,204	0	8,849,965
Unavailable Revenue	489,001	31,007	480,755	1,000,763
<i>Total Deferred Inflows of Resources</i>	<u>8,836,762</u>	<u>533,211</u>	<u>480,755</u>	<u>9,850,728</u>
Fund Balances				
Nonspendable	12,687	0	0	12,687
Restricted	0	1,431,568	445,104	1,876,672
Committed	63,057	0	0	63,057
Unassigned (Deficit)	(173,349)	0	0	(173,349)
<i>Total Fund Balances (Deficit)</i>	<u>(97,605)</u>	<u>1,431,568</u>	<u>445,104</u>	<u>1,779,067</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$10,733,538</u>	<u>\$1,967,649</u>	<u>\$1,051,936</u>	<u>\$13,753,123</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, 2014*

Total Governmental Funds Balances	\$1,779,067
 <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.	7,484,460
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:	
Delinquent Property Taxes	520,008
Grants	<u>480,755</u>
Total	1,000,763
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,925)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Energy Conservation Bonds	(1,395,000)
Energy Conservation Notes	(299,000)
Capital Leases Payable	(91,297)
Special Termination Benefits	(55,176)
Compensated Absences	<u>(1,505,334)</u>
Total	<u>(3,345,807)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>\$6,911,558</u></u>

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, 2014

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$8,263,584	\$523,565	\$0	\$8,787,149
Income Taxes	3,896	0	0	3,896
Intergovernmental	9,769,865	185,505	1,845,182	11,800,552
Interest	596	0	2,723	3,319
Charges for Services	0	0	126,944	126,944
Tuition and Fees	1,252,244	0	0	1,252,244
Extracurricular Activities	73,477	0	132,247	205,724
Rentals	6,493	0	0	6,493
Contributions and Donations	17,162	0	5,062	22,224
Miscellaneous	137,833	0	45,215	183,048
<i>Total Revenues</i>	<u>19,525,150</u>	<u>709,070</u>	<u>2,157,373</u>	<u>22,391,593</u>
Expenditures				
Current:				
Instruction:				
Regular	9,864,815	0	8,703	9,873,518
Special	2,409,511	0	949,025	3,358,536
Vocational	223,424	0	0	223,424
Adult/Continuing	264,723	0	0	264,723
Student Intervention Services	37,210	0	0	37,210
Support Services:				
Pupils	1,002,548	0	0	1,002,548
Instructional Staff	144,838	0	146,738	291,576
Board of Education	30,939	0	0	30,939
Administration	1,676,007	0	76,362	1,752,369
Fiscal	451,522	12,967	450	464,939
Business	14,560	0	0	14,560
Operation and Maintenance of Plant	1,720,606	6,876	5,132	1,732,614
Pupil Transportation	662,759	0	64,631	727,390
Central	908,316	0	7,200	915,516
Extracurricular Activities	402,210	0	223,662	625,872
Operation of Non-Instructional Services	34,218	0	69,586	103,804
Operation of Food Service	0	0	568,571	568,571
Capital Outlay	0	494,146	0	494,146
Debt Service:				
Principal Retirement	173,766	0	0	173,766
Interest and Fiscal Charges	91,806	0	0	91,806
<i>Total Expenditures</i>	<u>20,113,778</u>	<u>513,989</u>	<u>2,120,060</u>	<u>22,747,827</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(588,628)</u>	<u>195,081</u>	<u>37,313</u>	<u>(356,234)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	75,000	75,000
Transfers Out	(75,000)	0	0	(75,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(75,000)</u>	<u>0</u>	<u>75,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(663,628)</u>	<u>195,081</u>	<u>112,313</u>	<u>(356,234)</u>
<i>Fund Balances Beginning of Year</i>	<u>566,023</u>	<u>1,236,487</u>	<u>332,791</u>	<u>2,135,301</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$97,605)</u>	<u>\$1,431,568</u>	<u>\$445,104</u>	<u>\$1,779,067</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, 2014*

Net Change in Fund Balances -Total Governmental Funds (\$356,234)

*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	379,346	
Current Year Depreciation	(578,539)	
Total		(199,193)

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

Delinquent Property Taxes	(65,228)	
Grants	405,572	
Total		340,344

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. 173,766

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: 191

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	(55,176)	
Compensated Absences	72,164	
Total		16,988

Change in Net Position of Governmental Activities (\$24,138)

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, 2014

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$8,476,097	\$8,370,366	\$8,370,366	\$0
Income Taxes	4,331	8,719	8,719	0
Intergovernmental	9,384,315	9,717,411	9,717,411	0
Interest	802	658	658	0
Tuition and Fees	542,565	602,349	602,349	0
Rentals	5,088	6,493	6,493	0
Contributions and Donations	5,000	25	25	0
Miscellaneous	66,799	31,024	31,024	0
<i>Total Revenues</i>	<u>18,484,997</u>	<u>18,737,045</u>	<u>18,737,045</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	9,468,907	9,521,799	9,521,799	0
Special	1,912,085	2,338,998	2,338,998	0
Vocational	197,937	215,148	215,148	0
Student Intervention Services	154	25,466	25,466	0
Support Services:				
Pupils	930,038	922,172	922,172	0
Instructional Staff	205,101	152,245	152,245	0
Board of Education	34,577	31,262	31,262	0
Administration	1,621,800	1,574,306	1,574,306	0
Fiscal	733,465	668,584	668,584	0
Business	20,870	15,592	15,592	0
Operation and Maintenance of Plant	1,740,053	1,674,918	1,674,918	0
Pupil Transportation	603,565	642,144	642,144	0
Central	352,048	340,290	340,290	0
Extracurricular Activities	323,704	422,979	422,979	0
Operation of Non-Instructional Services	28,598	34,218	34,218	0
<i>Total Expenditures</i>	<u>18,172,902</u>	<u>18,580,121</u>	<u>18,580,121</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	312,095	156,924	156,924	0
Other Financing Sources (Uses)				
Transfers Out	(100,000)	(325,000)	(325,000)	0
<i>Net Change in Fund Balance</i>	212,095	(168,076)	(168,076)	0
<i>Fund Balance Beginning of Year</i>	956,118	956,118	956,118	0
Prior Year Encumbrances Appropriated	18,718	18,718	18,718	0
<i>Fund Balance End of Year</i>	<u>\$1,186,931</u>	<u>\$806,760</u>	<u>\$806,760</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, 2014

	Private Purpose Trust	
	Memorial	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$115	\$73,710
Liabilities		
Due to Students	0	\$73,710
Net Position		
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, 2014

	Memorial
Additions	\$0
Deductions	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

This page is intentionally left blank.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 158 certified employees and 64 classified employees who provide services to 2,051 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 of Workers' Compensation Group Rating Program and the Stark County Schools Council of Governments Health Benefits Plan. These organizations are presented in Note 13, 14 and 16 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, 2014

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, 2014

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, represents 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.

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 and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the 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.

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.

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 2014, investments were limited to STAR Ohio and common stock. 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 Rule2a7 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, 2014.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 2014 amounted to \$2,258, of which \$2,160 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 expensed/expensed when used. Inventory consists of donated and purchased food held for resale.

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.

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

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education, delegated that authority 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 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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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:

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$12,687	\$0	\$0	\$12,687
<i>Restricted for</i>				
Food Service Operations	0	0	170,430	170,430
Endowments	0	0	105,710	105,710
Athletics	0	0	24,926	24,926
Auxiliary Services	0	0	27,227	27,227
Student Programs	0	0	116,811	116,811
Capital Improvements	0	1,431,568	0	1,431,568
<i>Total Restricted</i>	<u>0</u>	<u>1,431,568</u>	<u>445,104</u>	<u>1,876,672</u>
<i>Committed to</i>				
Books Purchases	2,482	0	0	2,482
Labor Materials and Equipment	3,964	0	0	3,964
Accord Occupational Health	1,800	0	0	1,800
Technology Materials and Supplies	1,163	0	0	1,163
Termination Benefits	53,648	0	0	53,648
<i>Total Committed</i>	<u>63,057</u>	<u>0</u>	<u>0</u>	<u>63,057</u>
<i>Unassigned (Deficit)</i>	<u>(173,349)</u>	<u>0</u>	<u>0</u>	<u>(173,349)</u>
<i>Total Fund Balances (Deficit)</i>	<u>(\$97,605)</u>	<u>\$1,431,568</u>	<u>\$445,104</u>	<u>\$1,779,067</u>

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 4 – Accountability

At June 30, 2014, the general fund had a deficit fund balance in the amount of \$97,605, which was the result from adjustments for accrued liabilities. Management is currently analyzing the general fund’s operations to determine appropriate steps to alleviate the deficit.

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).
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:

Net Change in Fund Balance	
	General
GAAP Basis	(\$663,628)
Net Adjustment for Revenue Accruals	132,484
Perspective Difference:	
Adult Education	47,669
Rotary	(29,692)
Public School Support	(1,559)
Self Insurance	522,944
Termination Benefits	(42,649)
Net Adjustment for Expenditure Accruals	(122,028)
Encumbrances	(11,617)
Budget Basis	(\$168,076)

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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:

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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, \$3,143,074 of the School District's bank balance of \$3,643,074 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.

Investments

As of June 30, 2014, the School District had STAR Ohio and shares of common stock as investments. STAR Ohio is being held with an amount of \$6,624 and a maturity of 51.4 days. The investment is an internal investment pool.

While common stock is not an allowable investment according to Ohio statute, the School District has been endowed with a gift of stock to its education foundation fund (a nonmajor governmental fund). No public funds were used to acquire the stock. At June 30, 2014, the common stock value was \$35,661.

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 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Public utility property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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, 2014, are available to finance fiscal year 2015 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, 2014 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.

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 amount available as an advance at June 30, 2013, was \$308,352 in the general fund and \$19,914 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$292,984,120	96.40%	\$285,523,600	95.79%
Public Utility Personal	10,929,450	3.60	12,563,200	4.21
Total	\$303,913,570	100.00%	\$298,086,800	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$51.00		\$51.00	

Note 8 - Receivables

Receivables at June 30, 2014, 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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title I	\$188,047
Title VI-B	173,854
Title I School Improvements	114,616
Reducing Class Size	16,602
Medicaid	16,166
Total	\$509,285

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Nondepreciable Capital Assets				
Land	\$707,799	\$0	\$0	\$707,799
Construction in Progress	37,592	149,527	(187,119)	0
<i>Total Nondepreciable Capital Assets</i>	745,391	149,527	(187,119)	707,799
Depreciable Capital Assets				
Land Improvements	1,509,663	25,545	0	1,535,208
Buildings and Improvements	17,430,484	283,692	0	17,714,176
Furniture and Fixtures	1,978,945	107,701	0	2,086,646
Vehicles	1,452,875	0	0	1,452,875
<i>Total at Historical Cost</i>	22,371,967	416,938	0	22,788,905
Less: Accumulated Depreciation				
Land Improvements	(1,035,198)	(36,238)	0	(1,071,436)
Buildings and Improvements	(11,947,243)	(345,458)	0	(12,292,701)
Furniture and Fixtures	(1,432,562)	(102,339)	0	(1,534,901)
Vehicles	(1,018,702)	(94,504)	0	(1,113,206)
<i>Total Accumulated Depreciation</i>	(15,433,705)	(578,539) *	0	(16,012,244)
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	6,938,262	(161,601)	0	6,776,661
<i>Governmental Activities Capital Assets, Net</i>	\$7,683,653	(\$12,074)	(\$187,119)	\$7,484,460

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$243,775
Special	16,252
Vocational	12,863
Support Services	
Pupils	10,651
Instructional Staff	5,413
Administration	53,737
Fiscal	268
Operation and Maintenance of Plant	44,191
Pupil Transportation	106,732
Central	564
Operation of Food Service	30,850
Extracurricular Activities	53,243
Total Depreciation Expense	\$578,539

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 2014 were as follows:

	Principal Outstanding June 30, 2013	Additions	Deductions	Principal Outstanding June 30, 2014	Amount Due in One Year
General Obligation Debt					
Energy Conservation Bonds	\$1,510,000	\$0	(\$115,000)	\$1,395,000	\$115,000
Energy Conservation Notes	320,000	0	(21,000)	299,000	22,000
<i>Total General Obligation Debt</i>	1,830,000	0	(136,000)	1,694,000	137,000
Other Long-term Obligations					
Capital Leases	129,063	0	(37,766)	91,297	39,463
Special Termination Benefits	0	55,176	0	55,176	34,163
Compensated Absences	1,577,498	345,672	(417,836)	1,505,334	110,384
<i>Total Other Long-term Obligations</i>	1,706,561	400,848	(455,602)	1,651,807	184,010
<i>Total Long-Term Liabilities</i>	\$3,536,561	\$400,848	(\$591,602)	\$3,345,807	\$321,010

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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, 2014, was \$26,827,812 with an unvoted debt margin of \$298,087. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
2015	\$115,000	\$68,213	\$183,213
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 - 2024	575,000	131,963	706,963
2025 - 2026	230,000	11,730	241,730
Total	<u>\$1,395,000</u>	<u>\$424,958</u>	<u>\$1,819,958</u>

Fiscal Year Ending June 30	Energy Conservation Improvement Notes - Series 2011		
	Principal	Interest	Total
2015	\$22,000	\$11,960	\$33,960
2016	23,000	11,080	34,080
2017	24,000	10,160	34,160
2018	25,000	9,200	34,200
2019	26,000	8,200	34,200
2020 - 2024	146,000	24,600	170,600
2025	33,000	1,320	34,320
Total	<u>\$299,000</u>	<u>\$76,520</u>	<u>\$375,520</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, 2014 follows:

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

	Amounts
Furniture and Equipment	\$191,286
Less: Accumulated depreciation	(76,514)
Current Book Value	\$114,772

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, 2014.

Fiscal Year Ending June 30,	Governmental Activities
2015	\$42,695
2016	42,695
2017	10,674
Total Minimum Lease Payments	96,064
Less: Amount Representing Interest	(4,767)
Present Value of Net Minimum Lease Payments	\$91,297

Note 12 - Interfund Transfers

The general fund made a transfer of \$75,000 to the athletics special revenue fund to help provide funding for fiscal year 2014.

Note 13 - 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 2014. Salem City School District paid \$75,112 to the COG during fiscal year 2014. 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 2014, the School

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 14 – 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 2014. Financial information can be obtained from the Salem Public Library, Mr. Bradley Stephens, Fiscal Officer, at 821 State Street, Salem, Ohio 44460.

Note 15 - 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 2014, the School District contracted with Leonard Insurance Services for the following insurance coverage:

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 2014, the School District participated in the Stark County Schools Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). 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 16 – 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.

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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 17 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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 fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$231,084, \$259,495 and \$250,662, respectively. For fiscal year 2014, 92.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,117,788 and \$14,839 for the fiscal year ended June 30, 2014, \$1,135,860 and \$0 for the fiscal year ended June 30, 2013, and \$1,167,225 and \$0 for the fiscal year ended June 30, 2012. For fiscal year 2014, 83.70 percent has been contributed for the DB plan and 83.70 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$22,605 made by the School District and \$17,761 made by the plan members. In addition, member contributions of \$11,659 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014, five members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid

Note 18 – Postemployment Benefits

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$34,176 in surcharge.

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.

The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$36,646, \$32,748 and \$50,600, respectively. For fiscal year 2014, 92.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012, were \$13,406, \$14,658 and \$14,803, respectively. For fiscal year 2014, 92.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

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 Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting 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 Ohio. 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$85,984, \$87,374 and \$89,787, respectively. For fiscal year 2014, 83.70 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Note 19 - 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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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. None of the School District's employees eligible in fiscal year 2013 took advantage of the retirement bonus. Three employees eligible in fiscal year 2014 took advantage of the retirement bonus.

Note 20 - 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, 2014, if applicable, cannot be determined at this time.

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 21 - 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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

	Capital Improvements
Set Aside Balance as of June 30, 2013	\$0
Current Year Set-aside Requirement	347,553
Current Year Offsets	(680,284)
Total	(\$332,731)
Set-aside Balance Carried	
Forward to Future Fiscal Years	\$0
Set Aside Balance as of June 30, 2014	\$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.

Note 22 - 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:

Governmental Funds	
General	\$11,617
Permanent Improvement	116,208
Other Governmental Funds	103,336
<i>Total Governmental Funds</i>	\$231,161

Note 23 – Subsequent Event

On November 4, 2014, the voters approved a 6.7 mill renewal of the existing emergency levy.

THIS PAGE INTENTIONALLY LEFT BLANK.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution)	006	10.555	\$69,650	\$69,650
National School Lunch Program				
Cash Assistance:				
School Breakfast Program	006	10.553	94,365	94,365
National School Lunch Program	006	10.555	<u>387,237</u>	<u>387,237</u>
Total U.S. Department of Agriculture / Child Nutrition Cluster			<u>551,252</u>	<u>551,252</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies				
Title I Grants to Local Educational Agencies	572-9013	84.010	(17,259)	59,734
Title I Grants to Local Educational Agencies	572-9014	84.010	736,843	649,026
Title I Grants to Local Educational Agencies-Sub A	536-9013	84.010	2,217	16,131
Title I Grants to Local Educational Agencies-Sub A	536-9014	84.010	<u>64,854</u>	<u>40,763</u>
Total Title I Grants to Local Educational Agencies			786,655	765,654
Special Education - Grants to States (IDEA, Part B)				
Special Education - Grants to States (IDEA, Part B)	516-9013	84.027	10,168	40,198
Special Education - Grants to States (IDEA, Part B)	516-9014	84.027	<u>326,742</u>	<u>307,311</u>
Total Special Education - Grants to States (IDEA, Part B)			336,910	347,509
ARRA - Race to the Top	506-9014	84.395	2,100	2,100
Improving Teacher Quality State Grants				
Improving Teacher Quality State Grants	590-9013	84.367	(3,889)	43,671
Improving Teacher Quality State Grants	590-9014	84.367	<u>126,980</u>	<u>101,817</u>
Total Improving Teacher Quality State Grants			123,091	145,488
Rural and Low Income Title VI - B	599-9014	84.358	37,897	37,897
Direct				
Student Financial Aid Cluster				
Federal Pell Grant Program	012-9000	84.063	257,741	248,686
Federal Direct Student Loan Program	012-9000	84.268	<u>450,907</u>	<u>432,774</u>
Total Student Financial Aid Cluster			708,648	681,460
Total U.S. Department of Education			<u>1,995,301</u>	<u>1,980,108</u>
Total			<u>\$2,546,553</u>	<u>\$2,531,360</u>

The accompanying notes are an integral part of this schedule.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - 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 2013 to 2014 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2013 to 2014</u>
Title I Grants to Local Educational Agencies	84.010	\$ 17,259
Improving Teacher Quality State Grant	84.367	3,889



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 13, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School 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 School 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 School 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 School 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*.

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

www.ohioauditor.gov

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 School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2015



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Salem City School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Salem City School District's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal programs.

Management's Responsibility

The School 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 School District's compliance for each of the School 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 School 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 School District's major programs. However, our audit does not provide a legal determination of the School 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, 2014.

Report on Internal Control Over Compliance

The School 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 School 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 School District's internal control over compliance.

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

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



Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2015

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Student Financial Assistance Cluster – CFDA# 84.063 & 84.268 Child Nutrition Cluster – CFDA# 10.553 & 10.555 Special Education Grants – CFDA# 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	34 CFR 685.102 – School District did not perform required monthly reconciliations for the Direct Student Loan Program (CFDA 84.268)	No	Partially corrected – reported in management letter.
2013-002	Refunds were not excluded from the Schedule of Federal Awards Receipts and Expenditures for the Student Financial Aid Cluster	Yes	N/A



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 24, 2015**