

SALEM CITY SCHOOL DISTRICT

COLUMBIANA COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2017





Dave Yost • Auditor of State

Board of Education
Salem City School District
1226 East State Street
Salem, Ohio 44460

We have reviewed the *Independent Auditor's Report* of the Salem City School District, Columbiana County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

March 6, 2018

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**Salem City School District
Columbiana County**

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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 the Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, as of June 30, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

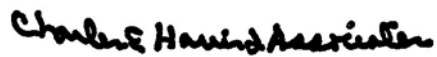
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
November 27, 2017

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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, 2017. 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 computer switches, a synthetic turf groomer and magnet, and a binding machine, amongst other items.
- The School District continued construction for replacing the stadium turf in fiscal year 2017.
- Outstanding long-term obligations increased during fiscal year 2017 due to an increase in the net pension liability, which was slightly offset by the annual debt payments.
- 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.

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.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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 2017 compared to 2016.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1
 Net Position
 Governmental Activities

	2017	2016	Change
Assets			
Current and Other Assets	\$15,699,645	\$15,037,465	\$662,180
Capital Assets, Net	6,843,823	6,841,597	2,226
<i>Total Assets</i>	<u>22,543,468</u>	<u>21,879,062</u>	<u>664,406</u>
Deferred Outflows of Resources			
	<u>5,758,023</u>	<u>2,545,849</u>	<u>3,212,174</u>
Liabilities			
Current Liabilities	2,503,798	2,548,986	45,188
Long-Term Liabilities			
Due Within One Year	303,338	334,240	30,902
Due In More Than One Year			
Net Pension Liability	31,184,522	26,192,070	(4,992,452)
Other Amounts	2,430,835	2,537,950	107,115
<i>Total Liabilities</i>	<u>36,422,493</u>	<u>31,613,246</u>	<u>(4,809,247)</u>
Deferred Inflows of Resources			
Property Taxes	8,873,593	8,584,295	(289,298)
Pension	1,149,257	2,289,181	1,139,924
<i>Total Deferred Inflows of Resources</i>	<u>10,022,850</u>	<u>10,873,476</u>	<u>850,626</u>
Net Position			
Net Investment in Capital Assets	5,568,823	5,412,001	156,822
Restricted for:			
Capital Projects	1,322,375	1,463,128	(140,753)
Unclaimed Monies	7,324	7,324	0
Other Purposes	1,056,675	757,954	298,721
Unrestricted (Deficit)	<u>(26,099,049)</u>	<u>(25,702,218)</u>	<u>(396,831)</u>
<i>Total Net Position</i>	<u>(\$18,143,852)</u>	<u>(\$18,061,811)</u>	<u>(\$82,041)</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Salem City School District
Management's Discussion and Analysis
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GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

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

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

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

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

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 continuing to seek out additional sources of revenues. Property taxes receivable increased from the prior fiscal year due to an increase in the assessed values. The slight increase in capital assets was due to current year additions exceeding current year depreciation.

Total liabilities increased during fiscal year 2017 which can be attributed to the increase of the net pension liability, which was slightly offset by annual payments on the School District's debt.

Table 2 shows the changes in net position for fiscal year 2017 compared to 2016.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2
Change in Net Position
Governmental Activities

	2017	2016	Change
Program Revenues			
Charges for Services	\$1,495,877	\$1,540,543	(\$44,666)
Operating Grants, Contributions and Interest	3,061,846	3,216,489	(154,643)
Capital Grants	94,502	114,259	(19,757)
<i>Total Program Revenues</i>	<u>4,652,225</u>	<u>4,871,291</u>	<u>(219,066)</u>
General Revenues			
Property Taxes	9,356,460	9,184,524	171,936
Income Taxes	839	2,895	(2,056)
Grants and Entitlements	10,411,113	9,930,684	480,429
Investment Earnings	1,223	1,681	(458)
Unrestricted Contributions	6,436	4,690	1,746
Gain on Sale of Capital Assets	0	408	(408)
Miscellaneous	305,219	172,208	133,011
<i>Total General Revenues</i>	<u>20,081,290</u>	<u>19,297,090</u>	<u>784,200</u>
<i>Total Revenues</i>	<u>24,733,515</u>	<u>24,168,381</u>	<u>565,134</u>
Program Expenses			
Instruction:			
Regular	11,290,094	10,259,584	(1,030,510)
Special	3,652,800	3,457,477	(195,323)
Vocational	243,540	287,174	43,634
Adult/Continuing	477,491	361,002	(116,489)
Student Intervention Services	26,381	796	(25,585)
Support Services:			
Pupils	1,250,387	1,128,020	(122,367)
Instructional Staff	319,935	305,641	(14,294)
Board of Education	41,617	30,303	(11,314)
Administration	1,931,722	1,774,189	(157,533)
Fiscal	611,604	540,585	(71,019)
Business	8,629	11,026	2,397
Operation and Maintenance of Plant	1,828,592	1,946,572	117,980
Pupil Transportation	798,402	873,621	75,219
Central	786,713	390,729	(395,984)
Extracurricular Activities	659,802	774,061	114,259
Operation of Non-Instructional Services	118,128	293,424	175,296
Operation of Food Service	703,716	687,917	(15,799)
Interest and Fiscal Charges	66,003	74,320	8,317
<i>Total Program Expenses</i>	<u>24,815,556</u>	<u>23,196,441</u>	<u>(1,619,115)</u>
<i>Change in Net Position</i>	(82,041)	971,940	(1,053,981)
Net Position Beginning of Year	<u>(18,061,811)</u>	<u>(19,033,751)</u>	971,940
Net Position End of Year	<u><u>(\$18,143,852)</u></u>	<u><u>(\$18,061,811)</u></u>	<u><u>(\$82,041)</u></u>

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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 37.83 percent of revenues for governmental activities for the School District in fiscal year 2017 versus 38.00 percent in fiscal year 2016.

Program expenses increased due to an increase in most expense categories. The increase in the central expenses is a result of a reclassification of expenses previously made in other functions by the School District. Instruction expenses comprise the largest portion of all program expenses for the School District. These expenses pay for teachers' salaries and benefits. Instruction expenses increased in fiscal year 2017 primarily due to increases in the pension expense related to the net pension liability. 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 2017 compared to 2016.

Salem City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2017		2016	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$11,290,094	\$10,734,800	\$10,259,584	\$9,498,733
Special	3,652,800	1,476,170	3,457,477	1,458,239
Vocational	243,540	150,368	287,174	213,118
Adult/Continuing	477,491	133,701	361,002	323,614
Student Intervention Services	26,381	26,381	796	796
Support Services:				
Pupils	1,250,387	1,217,456	1,128,020	1,128,020
Instructional Staff	319,935	265,243	305,641	237,510
Board of Education	41,617	41,617	30,303	30,303
Administration	1,931,722	1,812,893	1,774,189	1,390,055
Fiscal	611,604	611,604	540,585	540,585
Business	8,629	8,629	11,026	11,026
Operation and Maintenance of Plant	1,828,592	1,725,425	1,946,572	1,858,179
Pupil Transportation	798,402	743,425	873,621	819,913
Central	786,713	736,808	390,729	278,635
Extracurricular Activities	659,802	428,170	774,061	257,555
Operation of Non-Instructional Services	118,128	15,822	293,424	224,876
Operation of Food Service	703,716	(31,184)	687,917	(20,327)
Interest and Fiscal Charges	66,003	66,003	74,320	74,320
Total	\$24,815,556	\$20,163,331	\$23,196,441	\$18,325,150

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

Financial Analysis of the Government's Funds

Governmental Funds Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had an increase in fund balance due to revenues exceeding expenditures in the current fiscal year. Regular instruction expenditures increased as a result of higher staffing levels. This increase was coupled with an increase in central expenditures due to an adjustment made by the Treasurer on expense coding within the School District. Overall revenues increased resulting from additional intergovernmental monies that can be attributed to an increase in student count as well as additional State aid. The permanent improvement fund saw a decrease in fund balance resulting from ongoing capital projects within the School District.

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
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Unaudited

During the course of fiscal year 2017, 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 slightly higher than the original budget estimate. The change was mainly attributed to an increase in property tax and intergovernmental estimates as a better picture of actual receipts and awards became apparent.

The final budget appropriations were lower than the original budget appropriations for the general fund. The change was attributed to decreases in pupil and administration support services and special instruction expenditures due to lower estimated expenditures expected.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2017 values compared to fiscal 2016.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2017	2016
Land	\$707,799	\$707,799
Construction in Progress	633,447	158,650
Land Improvements	367,755	401,977
Buildings and Improvements	4,588,465	4,898,812
Furniture and Fixtures	349,510	406,895
Vehicles	196,847	267,464
Total Capital Assets	\$6,843,823	\$6,841,597

The slight increase in capital assets was due to current year additions of continued construction in progress on the stadium turf and various pieces of equipment offset by an additional year of depreciation. 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, 2017
Unaudited

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

	2017	2016
Energy Conservation Improvement Bonds	\$1,045,000	\$1,165,000
Energy Conservation Improvement Notes	230,000	254,000
Net Pension Liability	31,184,522	26,192,070
Capital Leases	0	10,596
Special Termination Benefits	94,314	108,958
Compensated Absences	1,364,859	1,333,636
Total	\$33,918,695	\$29,064,260

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.

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 \$28,074,621 with an unvoted debt margin of \$311,940. 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 Michael Douglas, Treasurer, at 1226 East State Street, Salem, Ohio 44460-2299.

Salem City School District

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,410,191
Accounts Receivable	236
Intergovernmental Receivable	898,635
Inventory Held for Resale	11,569
Prepaid Items	35,517
Property Taxes Receivable	9,342,658
Income Taxes Receivable	839
Nondepreciable Capital Assets	1,341,246
Depreciable Capital Assets, Net	5,502,577
<i>Total Assets</i>	<u>22,543,468</u>
Deferred Outflows of Resources	
Pension	5,758,023
Liabilities	
Accounts Payable	152,890
Accrued Wages and Benefits	1,837,177
Intergovernmental Payable	418,389
Matured Compensated Absences Payable	90,134
Accrued Interest Payable	5,208
Long-Term Liabilities:	
Due Within One Year	303,338
Due in More Than One Year	
Net Pension Liability (See Note 17)	31,184,522
Other Amounts	2,430,835
<i>Total Liabilities</i>	<u>36,422,493</u>
Deferred Inflows of Resources	
Property Taxes	8,873,593
Pension	1,149,257
<i>Total Deferred Inflows of Resources</i>	<u>10,022,850</u>
Net Position	
Net Investment in Capital Assets	5,568,823
Restricted for:	
Capital Projects	1,322,375
Unclaimed Monies	7,324
Other Purposes	1,056,675
Unrestricted (Deficit)	(26,099,049)
<i>Total Net Position</i>	<u>(\$18,143,852)</u>

See accompanying notes to the basic financial statements

Salem City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	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	\$11,290,094	\$542,780	\$12,514	\$0	(\$10,734,800)
Special	3,652,800	138,750	2,037,880	0	(1,476,170)
Vocational	243,540	9,594	83,578	0	(150,368)
Adult/Continuing	477,491	343,790	0	0	(133,701)
Student Intervention Services	26,381	0	0	0	(26,381)
Support Services:					
Pupils	1,250,387	31,324	1,607	0	(1,217,456)
Instructional Staff	319,935	0	54,692	0	(265,243)
Board of Education	41,617	0	0	0	(41,617)
Administration	1,931,722	114,287	4,542	0	(1,812,893)
Fiscal	611,604	0	0	0	(611,604)
Business	8,629	0	0	0	(8,629)
Operation and Maintenance of Plant	1,828,592	8,665	0	94,502	(1,725,425)
Pupil Transportation	798,402	0	54,977	0	(743,425)
Central	786,713	40,905	9,000	0	(736,808)
Extracurricular Activities	659,802	100,726	130,906	0	(428,170)
Operation of Non-Instructional Services	118,128	0	102,306	0	(15,822)
Operation of Food Service	703,716	165,056	569,844	0	31,184
Interest and Fiscal Charges	66,003	0	0	0	(66,003)
<i>Totals</i>	<u>\$24,815,556</u>	<u>\$1,495,877</u>	<u>\$3,061,846</u>	<u>\$94,502</u>	<u>(20,163,331)</u>

General Revenues

Property Taxes Levied for:

General Purposes 8,798,468

Capital Outlay 557,992

Income Taxes Levied for General Purposes 839

Grants and Entitlements not Restricted
to Specific Programs 10,411,113

Investment Earnings 1,223

Unrestricted Contributions 6,436

Miscellaneous 305,219

Total General Revenues 20,081,290

Change in Net Position (82,041)

Net Position Beginning of Year (18,061,811)

Net Position End of Year (\$18,143,852)

See accompanying notes to the basic financial statements

Salem City School District

Balance Sheet

Governmental Funds

June 30, 2017

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,465,532	\$1,320,278	\$617,057	\$5,402,867
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	7,324	0	0	7,324
Accounts Receivable	236	0	0	236
Intergovernmental Receivable	167,770	0	730,865	898,635
Prepaid Items	35,517	0	0	35,517
Inventory Held for Resale	0	0	11,569	11,569
Property Taxes Receivable	8,776,743	565,915	0	9,342,658
Income Taxes Receivable	839	0	0	839
<i>Total Assets</i>	<u>\$12,453,961</u>	<u>\$1,886,193</u>	<u>\$1,359,491</u>	<u>\$15,699,645</u>
Liabilities				
Accounts Payable	\$49,759	\$25,592	\$77,539	\$152,890
Accrued Wages and Benefits	1,643,748	0	193,429	1,837,177
Intergovernmental Payable	394,185	0	24,204	418,389
Matured Compensated Absences Payable	90,134	0	0	90,134
<i>Total Liabilities</i>	<u>2,177,826</u>	<u>25,592</u>	<u>295,172</u>	<u>2,498,590</u>
Deferred Inflows of Resources				
Property Taxes	8,335,367	538,226	0	8,873,593
Unavailable Revenue	239,043	14,996	613,235	867,274
<i>Total Deferred Inflows of Resources</i>	<u>8,574,410</u>	<u>553,222</u>	<u>613,235</u>	<u>9,740,867</u>
Fund Balances				
Nonspendable	42,841	0	0	42,841
Restricted	0	1,307,379	517,377	1,824,756
Assigned	1,658,884	0	0	1,658,884
Unassigned (Deficit)	0	0	(66,293)	(66,293)
<i>Total Fund Balances</i>	<u>1,701,725</u>	<u>1,307,379</u>	<u>451,084</u>	<u>3,460,188</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$12,453,961</u>	<u>\$1,886,193</u>	<u>\$1,359,491</u>	<u>\$15,699,645</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, 2017*

Total Governmental Funds Balances	\$3,460,188
 <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.	6,843,823
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:	
Delinquent Property Taxes	254,039
Grants	<u>613,235</u>
Total	867,274
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,208)
The net pension liability is not due and payable in the current period; therefore, the liability and related inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	5,758,023
Deferred Inflows - Pension	(1,149,257)
Net Pension Liability	<u>(31,184,522)</u>
Total	(26,575,756)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Energy Conservation Bonds	(1,045,000)
Energy Conservation Notes	(230,000)
Special Termination Benefits	(94,314)
Compensated Absences	<u>(1,364,859)</u>
Total	<u>(2,734,173)</u>
<i>Net Position of Governmental Activities</i>	<u><u>(\$18,143,852)</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, 2017

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$8,829,540	\$559,922	\$0	\$9,389,462
Income Taxes	839	0	0	839
Intergovernmental	11,417,280	94,502	1,653,686	13,165,468
Interest	1,223	0	12	1,235
Charges for Services	0	0	165,056	165,056
Tuition and Fees	1,174,196	0	0	1,174,196
Extracurricular Activities	47,234	0	100,726	147,960
Rentals	8,665	0	0	8,665
Contributions and Donations	6,436	0	138,406	144,842
Miscellaneous	236,372	9,999	58,848	305,219
<i>Total Revenues</i>	<u>21,721,785</u>	<u>664,423</u>	<u>2,116,734</u>	<u>24,502,942</u>
Expenditures				
Current:				
Instruction:				
Regular	10,445,148	0	14,709	10,459,857
Special	2,613,139	0	916,465	3,529,604
Vocational	181,897	0	3,000	184,897
Adult/Continuing	468,138	0	0	468,138
Student Intervention Services	25,396	0	0	25,396
Support Services:				
Pupils	1,210,022	0	0	1,210,022
Instructional Staff	239,260	0	60,523	299,783
Board of Education	41,162	0	0	41,162
Administration	1,802,769	0	5,405	1,808,174
Fiscal	571,740	12,866	0	584,606
Business	8,199	0	0	8,199
Operation and Maintenance of Plant	1,690,841	16,301	0	1,707,142
Pupil Transportation	677,108	0	11,763	688,871
Central	737,129	16,506	9,000	762,635
Extracurricular Activities	454,744	0	133,735	588,479
Operation of Non-Instructional Services	7,835	0	110,187	118,022
Operation of Food Service	0	0	635,465	635,465
Capital Outlay	0	782,573	191,821	974,394
Debt Service:				
Principal Retirement	154,596	0	0	154,596
Interest and Fiscal Charges	66,593	0	0	66,593
<i>Total Expenditures</i>	<u>21,395,716</u>	<u>828,246</u>	<u>2,092,073</u>	<u>24,316,035</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>326,069</u>	<u>(163,823)</u>	<u>24,661</u>	<u>186,907</u>
Other Financing Sources (Uses)				
Transfers In	0	25,000	12,000	37,000
Transfers Out	(37,000)	0	0	(37,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(37,000)</u>	<u>25,000</u>	<u>12,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	289,069	(138,823)	36,661	186,907
<i>Fund Balances Beginning of Year</i>	<u>1,412,656</u>	<u>1,446,202</u>	<u>414,423</u>	<u>3,273,281</u>
<i>Fund Balances End of Year</i>	<u>\$1,701,725</u>	<u>\$1,307,379</u>	<u>\$451,084</u>	<u>\$3,460,188</u>

See accompanying notes to the basic financial statements

Salem City 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, 2017*

Net Change in Fund Balances -Total Governmental Funds	\$186,907
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:	
Capital Asset Additions	501,646
Current Year Depreciation	<u>(499,420)</u>
Total	2,226
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	(33,002)
Grants	<u>263,575</u>
Total	230,573
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.	154,596
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.	590
Contractual required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	1,556,587
Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the statement of activities.	(2,196,941)
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	14,644
Compensated Absences	<u>(31,223)</u>
Total	<u>(16,579)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>(\$82,041)</u></u>

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, 2017

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$8,290,537	\$8,824,039	\$8,824,039	\$0
Income Taxes	3,345	3,560	3,560	0
Intergovernmental	10,620,198	11,303,616	11,303,616	0
Interest	1,149	1,223	1,223	0
Tuition and Fees	581,356	618,767	618,767	0
Rentals	8,141	8,665	8,665	0
Miscellaneous	102,213	135,569	135,569	0
<i>Total Revenues</i>	<u>19,606,939</u>	<u>20,895,439</u>	<u>20,895,439</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	10,650,811	10,685,494	10,153,636	531,858
Special	2,835,957	2,701,622	2,701,608	14
Vocational	188,313	181,183	179,368	1,815
Student Intervention Services	27,109	30,783	25,821	4,962
Support Services:				
Pupils	1,223,384	1,166,367	1,165,281	1,086
Instructional Staff	258,527	254,042	250,984	3,058
Board of Education	42,043	43,511	40,396	3,115
Administration	1,700,976	1,670,405	1,622,842	47,563
Fiscal	595,151	571,752	566,911	4,841
Business	8,608	10,879	8,199	2,680
Operation and Maintenance of Plant	1,751,626	1,793,187	1,699,907	93,280
Pupil Transportation	690,368	728,298	657,825	70,473
Central	683,953	699,846	654,264	45,582
Extracurricular Activities	475,202	477,400	452,630	24,770
Operation of Non-Instructional Services	19,051	31,687	18,146	13,541
Debt Service:				
Principal	154,596	154,596	154,596	0
Interest	66,593	66,593	66,593	0
<i>Total Expenditures</i>	<u>21,372,268</u>	<u>21,267,645</u>	<u>20,419,007</u>	<u>848,638</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,765,329)</u>	<u>(372,206)</u>	<u>476,432</u>	<u>848,638</u>
Other Financing Sources (Uses)				
Transfers In	2,000	2,000	2,000	0
Transfers Out	(85,000)	(160,000)	(160,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(83,000)</u>	<u>(158,000)</u>	<u>(158,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,848,329)	(530,206)	318,432	848,638
<i>Fund Balance Beginning of Year</i>	2,347,470	2,347,470	2,347,470	0
Prior Year Encumbrances Appropriated	277,779	277,779	277,779	0
<i>Fund Balance End of Year</i>	<u>\$776,920</u>	<u>\$2,095,043</u>	<u>\$2,943,681</u>	<u>\$848,638</u>

See accompanying notes to the basic financial statements

Salem City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	
	Memorial	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$935	\$104,504
Liabilities		
Due to Students	0	\$104,504
Net Position		
Held in Trust for Scholarships	\$935	

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, 2017

	Memorial
Additions	\$0
Deductions	0
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	935
<i>Net Position End of Year</i>	\$935

See accompanying notes to the basic financial statements

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 135 certified employees and 75 classified employees who provide services to 2,106 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 rating pool and one risk sharing pool. These organizations are the Area Cooperative Computerized Education Service System, the Columbiana County Career and Technical Center, the Salem Public Library, the Stark County Schools Council Workers' Compensation Group Rating Program and the Stark County Schools Council of Governments Health Benefit Plan. These organizations are presented in Note 11, 12 and 14 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, 2017

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, 2017

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, 2017

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 17.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 17)

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

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

Pensions

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

Salem City School District
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For the Fiscal Year Ended June 30, 2017

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 2017, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 general fund during fiscal year 2017 amounted to \$1,223, of which \$430 was assigned from other School District funds.

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

Inventory

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

Restricted Assets

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

Capital Assets

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 acquisition 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.

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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State statute. The Treasurer has the authority to constrain monies for intended purposes. The Board of Education assigned fund balances for fiscal year 2018 operations.

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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 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:

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$35,517	\$0	\$0	\$35,517
Unclaimed Monies	7,324	0	0	7,324
<i>Total Nonspendable</i>	42,841	0	0	42,841
<i>Restricted for</i>				
Food Service Operations	0	0	375,815	375,815
Endowments	0	0	25	25
Athletics	0	0	90,534	90,534
Auxiliary Services	0	0	46,428	46,428
Student Programs	0	0	4,575	4,575
Capital Improvements	0	1,307,379	0	1,307,379
<i>Total Restricted</i>	0	1,307,379	517,377	1,824,756
<i>Assigned to</i>				
Fiscal Year 2018 Operations	1,632,125	0	0	1,632,125
Purchases on Order				
Instruction	15,122	0	0	15,122
Support Services	11,637	0	0	11,637
<i>Total Assigned</i>	1,658,884	0	0	1,658,884
<i>Unassigned (Deficit)</i>	0	0	(66,293)	(66,293)
<i>Total Fund Balances</i>	\$1,701,725	\$1,307,379	\$451,084	\$3,460,188

Note 4 – Accountability

At June 30, 2017, the title VI-B, limited English proficiency, title I, improving teacher quality and miscellaneous federal grants special revenue funds had deficit fund balances in the amounts of \$3,529, \$507, \$54,578, \$4,846 and \$2,833, respectively. The special revenue funds' deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 uniform school supplies, 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	\$289,069
Net Adjustment for Revenue Accruals	2,732,645
Perspective Difference:	
Uniform Schol Supplies	(739)
Adult Education	50,869
Rotary	14,425
Public School Support	(6,522)
Self-Insurance	6,889
Termination Benefits	23,296
Net Adjustment for Expenditure Accruals	(2,733,459)
Encumbrances	(58,041)
Budget Basis	\$318,432

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.

Salem City School District
Notes to the Basic Financial Statements
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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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$5,022,935 of the School District's bank balance of \$5,522,935 was uninsured and uncollateralized. Although the securities were held by a qualified trustee 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. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred five percent.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Investments

As of June 30, 2017, the School District had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$6,698 which is insured at net asset value per share. The average maturity is 46 days.

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 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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, 2017, are available to finance fiscal year 2018 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, 2017 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.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The amount available as an advance at June 30, 2017, was \$202,187 in the general fund and \$12,839 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2016, was \$196,691 in the general fund and \$12,475 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 First Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$285,352,480	95.37%	\$295,981,000	94.88%
Public Utility Personal	13,861,600	4.63	15,959,230	5.12
Total	\$299,214,080	100.00%	\$311,940,230	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$51.00		\$51.00	

Note 8 - Receivables

Receivables at June 30, 2017, consisted of taxes, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title VI-B	\$602,959
Foundation Adjustments	123,711
Title I	82,456
Workers' Compensation Refund	30,151
Miscellaneous Federal Grants	20,010
Reducing Class Size	17,796
CAFS Reimbursement	13,908
Limited English Proficiency	7,644
Total	\$898,635

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Nondepreciable Capital Assets				
Land	\$707,799	\$0	\$0	\$707,799
Construction in Progress	158,650	474,797	0	633,447
<i>Total Nondepreciable Capital Assets</i>	<u>866,449</u>	<u>474,797</u>	<u>0</u>	<u>1,341,246</u>
Depreciable Capital Assets				
Land Improvements	1,544,813	0	0	1,544,813
Buildings and Improvements	17,883,299	0	0	17,883,299
Furniture and Fixtures	2,147,839	26,849	(2,930)	2,171,758
Vehicles	1,528,217	0	(23,118)	1,505,099
<i>Total at Historical Cost</i>	<u>23,104,168</u>	<u>26,849</u>	<u>(26,048)</u>	<u>23,104,969</u>
Less: Accumulated Depreciation				
Land Improvements	(1,142,836)	(34,222)	0	(1,177,058)
Buildings and Improvements	(12,984,487)	(310,347)	0	(13,294,834)
Furniture and Fixtures	(1,740,944)	(84,234)	2,930	(1,822,248)
Vehicles	(1,260,753)	(70,617)	23,118	(1,308,252)
<i>Total Accumulated Depreciation</i>	<u>(17,129,020)</u>	<u>(499,420) *</u>	<u>26,048</u>	<u>(17,602,392)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>5,975,148</u>	<u>(472,571)</u>	<u>0</u>	<u>5,502,577</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,841,597</u>	<u>\$2,226</u>	<u>\$0</u>	<u>\$6,843,823</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$225,227
Special	14,006
Vocational	12,809
Support Services	
Pupils	8,467
Instructional Staff	4,714
Administration	33,723
Fiscal	134
Business	430
Operation and Maintenance of Plant	40,699
Pupil Transportation	84,341
Central	564
Operation of Food Service	28,689
Extracurricular Activities	45,617
Total Depreciation Expense	<u>\$499,420</u>

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 2017 were as follows:

	Principal Outstanding June 30, 2016	Additions	Deductions	Principal Outstanding June 30, 2017	Amount Due in One Year
General Obligation Debt					
Energy Conservation Bonds	\$1,165,000	\$0	(\$120,000)	\$1,045,000	\$120,000
Energy Conservation Notes	254,000	0	(24,000)	230,000	25,000
<i>Total General Obligation Debt</i>	<u>1,419,000</u>	<u>0</u>	<u>(144,000)</u>	<u>1,275,000</u>	<u>145,000</u>
Other Long-term Obligations					
Net Pension Liability:					
STRS	22,483,454	3,675,696	0	26,159,150	0
SERS	3,708,616	1,316,756	0	5,025,372	0
<i>Total Net Pension Liability</i>	<u>26,192,070</u>	<u>4,992,452</u>	<u>0</u>	<u>31,184,522</u>	<u>0</u>
Capital Leases	10,596	0	(10,596)	0	0
Special Termination Benefits	108,958	51,394	(66,038)	94,314	73,135
Compensated Absences	1,333,636	144,829	(113,606)	1,364,859	85,203
<i>Total Other Long-term Obligations</i>	<u>27,645,260</u>	<u>5,188,675</u>	<u>(190,240)</u>	<u>32,643,695</u>	<u>158,338</u>
<i>Total Long-Term Liabilities</i>	<u>\$29,064,260</u>	<u>\$5,188,675</u>	<u>(\$334,240)</u>	<u>\$33,918,695</u>	<u>\$303,338</u>

On October 27, 2010, the School District issued \$1,740,000 in energy conservation improvement bonds. The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the School District’s buildings. These bonds bear an annual interest rate of 5.1 percent and are scheduled to mature in fiscal year 2026. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund.

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

The capital lease was 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, limited English proficiency, title I, reducing class size and miscellaneous federal grants special revenue funds. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: the general fund and the food service, title VI-B, limited English proficiency, title I, reducing class size and miscellaneous federal grants special revenue funds. See Note 17 for additional information related to the net pension liability.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The overall debt margin of the School District as of June 30, 2017, was \$28,074,621 with an unvoted debt margin of \$311,940. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2017, are as follows:

Fiscal Year Ending June 30	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
2018	\$120,000	\$50,235	\$170,235
2019	120,000	44,115	164,115
2020	115,000	38,123	153,123
2021	115,000	32,257	147,257
2022	115,000	26,393	141,393
2023 - 2026	460,000	46,920	506,920
Total	<u>\$1,045,000</u>	<u>\$238,043</u>	<u>\$1,283,043</u>

Fiscal Year Ending June 30	Energy Conservation Improvement Notes - Series 2011		
	Principal	Interest	Total
2018	\$25,000	\$9,200	\$34,200
2019	26,000	8,200	34,200
2020	27,000	7,160	34,160
2021	28,000	6,080	34,080
2022	29,000	4,960	33,960
2023 - 2025	95,000	7,720	102,720
Total	<u>\$230,000</u>	<u>\$43,320</u>	<u>\$273,320</u>

Note 11 - 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 2017. Salem City School District paid \$79,505 to the COG during fiscal year 2017. 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 7320 North Palmyra Road, Suite 127, Canfield, Ohio 44406.

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 2017, the School District did not make any contribution to the Center. To obtain financial information, write to the Columbiana County Career and Technical Center, Office of the Treasurer, at 9364 State Route 45, Lisbon, Ohio 44432.

Salem City School District
Notes to the Basic Financial Statements
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Note 12 – 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 2017. Financial information can be obtained from the Salem Public Library, Mr. Bradley Stephens, Fiscal Officer, at 821 State Street, Salem, Ohio 44460.

Note 13 - 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 2017, 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)	\$71,064,102
Equipment Breakdown (\$5,000 deductible)	71,064,102
Crime Insurance/Employee Dishonesty (\$500 deductible)	10,000/50,000
Commercial Auto	1,000,000
Auto Medical Payments	5,000
Uninsured Motorists (\$500 deductible on Comp and Collision)	1,000,000
General Liability	2,000,000
Commercial Umbrella Liability	4,000,000
Inland Marine (\$250 deductible)	21,850
Miscellaneous Property Floater Coverage (\$500 deductible)	10,000-50,000

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

Employee Health Benefits

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Worker's Compensation

For fiscal year 2017, the School District participated in the Stark County Schools Council Workers' Compensation Group Rating Program (GRP), an insurance rating pool (Note 14). 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 14 – Public Entity Pools

Insurance Rating 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 rating 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.

Note 15 - 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 thirty 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, 2017

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. Four employees eligible in fiscal year 2016 took advantage of the retirement bonus. Two employees eligible in fiscal year 2017 took advantage of the retirement bonus.

Note 16 - 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, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2017, if applicable, cannot be determined at this time.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

Litigation

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 17 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$311,391 for fiscal year 2017. Of this amount \$43,497 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,245,196 for fiscal year 2017. Of this amount \$186,597 is reported as an intergovernmental payable.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.06499390%	0.08135251%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.06866130%</u>	<u>0.07814997%</u>	
Change in Proportionate Share	<u>0.00366740%</u>	<u>-0.00320254%</u>	
Proportionate Share of the Net Pension Liability	\$5,025,372	\$26,159,150	\$31,184,522
Pension Expense	\$547,503	\$1,649,438	\$2,196,941

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$67,781	\$1,056,955	\$1,124,736
Changes of assumptions	335,471	0	335,471
Net difference between projected and actual earnings on pension plan investments	414,520	2,171,912	2,586,432
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	154,797	0	154,797
School District contributions subsequent to the measurement date	<u>311,391</u>	<u>1,245,196</u>	<u>1,556,587</u>
Total Deferred Outflows of Resources	<u>\$1,283,960</u>	<u>\$4,474,063</u>	<u>\$5,758,023</u>
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$68,272</u>	<u>\$1,080,985</u>	<u>\$1,149,257</u>

\$1,556,587 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Salem City School District
Notes to the Basic Financial Statements
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Fiscal Year Ending June 30:	SERS	STRS	Total
2018	\$229,493	\$212,919	\$442,412
2019	229,194	212,919	442,113
2020	326,452	1,046,342	1,372,794
2021	119,158	675,702	794,860
Total	\$904,297	\$2,147,882	\$3,052,179

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

Salem City School District
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The most recent experience study was completed for the five year period ended June 30, 2015.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$6,653,281	\$5,025,372	\$3,662,747

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$34,763,386	\$26,159,150	\$18,900,971

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Note 18 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$35,418.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015 were \$35,418, \$32,886 and \$49,372, respectively. The fiscal year 2017 amount has been reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2016 and 2015.

State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered 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 partial 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 discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Note 19 – Interfund Transfers

The general fund made transfers of \$8,000 and \$4,000 to the title VI-B and reducing class size special revenue funds, respectively, to help provide funding for fiscal year 2017. The general fund made a transfer of \$25,000 to the permanent improvement capital projects fund to help fund capital improvements.

Note 20 - Set Asides

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

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

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

	Capital Improvements
Set Aside Balance as of June 30, 2016	\$0
Current Year Set-aside Requirement	362,756
Current Year Offsets	(654,064)
Qualifying Disbursements	(489,866)
Total	(\$781,174)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set Aside Balance as of June 30, 2017	\$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 21 - Encumbrances

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

Governmental Funds	
General	\$58,041
Permanent Improvement	284,441
Other Governmental Funds	40,932
<i>Total Governmental Funds</i>	\$383,414

Note 22 – Change in Accounting Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, the School District had no abatements that met the GASB 77 definition.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Salem City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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Required Supplementary Information

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

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.06866130%	0.06499390%	0.06725100%	0.06725100%
School District's Proportionate Share of the Net Pension Liability	\$5,025,372	\$3,708,616	\$3,403,536	\$3,999,201
School District's Covered Payroll	\$2,132,364	\$1,956,654	\$1,764,000	\$1,980,878
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	235.67%	189.54%	192.94%	201.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

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

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07814997%	0.08135251%	0.08325729%	0.08325729%
School District's Proportionate Share of the Net Pension Liability	\$26,159,150	\$22,483,454	\$20,251,053	\$24,122,923
School District's Covered Payroll	\$8,304,579	\$8,487,771	\$8,506,592	\$8,737,385
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	315.00%	264.89%	238.06%	276.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$311,391	\$298,531	\$257,887	\$244,490
Contributions in Relation to the Contractually Required Contribution	<u>(311,391)</u>	<u>(298,531)</u>	<u>(257,887)</u>	<u>(244,490)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$2,224,221	\$2,132,364	\$1,956,657	\$1,764,000
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$274,153	\$265,465	\$247,971	\$239,496	\$166,379	\$165,330
<u>(274,153)</u>	<u>(265,465)</u>	<u>(247,971)</u>	<u>(239,496)</u>	<u>(166,379)</u>	<u>(165,330)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,980,878	\$1,973,717	\$1,972,718	\$1,768,803	\$1,690,847	\$1,683,603
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,245,196	\$1,162,641	\$1,188,288	\$1,105,857
Contributions in Relation to the Contractually Required Contribution	<u>(1,245,196)</u>	<u>(1,162,641)</u>	<u>(1,188,288)</u>	<u>(1,105,857)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$8,894,257	\$8,304,579	\$8,487,771	\$8,506,592
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$1,135,860	\$1,167,225	\$1,151,449	\$1,132,606	\$1,086,272	\$1,042,287
<u>(1,135,860)</u>	<u>(1,167,225)</u>	<u>(1,151,449)</u>	<u>(1,132,606)</u>	<u>(1,086,272)</u>	<u>(1,042,287)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$8,737,385	\$8,978,654	\$8,857,300	\$8,712,354	\$8,355,938	\$8,017,592
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Salem City School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**Salem City School District
Columbiana County
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Cash Assistance:			
School Breakfast Program	10.553	\$ -	\$ 98,012
National School Lunch Program	10.555	-	409,237
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	-	61,851
Total U.S. Department of Agriculture		-	569,100
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I			
Title I Grant to Local Educational Agencies - FY16	84.010	-	71,420
Title I Grant to Local Educational Agencies - FY17	84.010	-	508,327
Total Title I		-	579,747
Special Education Cluster:			
Grants to States, IDEA Part B - FY16	84.027	-	21,283
Grants to States, IDEA Part B - FY17	84.027	-	169,336
Total Special Education Cluster		-	190,619
Improving Teacher Quality State Grants			
Improving Teacher Quality State Grants - FY16	84.367	-	28,236
Improving Teacher Quality State Grants - FY17	84.367	-	95,707
Total Improving Teacher Quality State Grants		-	123,943
Rural and Low Income Title VI-B	84.358	-	34,640
English Language Acquisition State Grants:			
LEP Title III - FY16	84.365	-	4,050
LEP Title III - FY17	84.365	-	10,985
Total English Language Acquisition State Grants		-	15,035
Direct Programs:			
Student Financial Aid Cluster:			
Federal Pell Grant Program	84.063	168,145	168,145
Federal Direct Loan Student Loan Program	84.268	362,628	362,628
Total Student Financial Aid Cluster		530,773	530,773
Total U.S. Department of Education		530,773	1,474,757
Total Expenditures of Federal Awards		\$ 530,773	\$ 2,043,857

The accompanying notes are an integral part of this schedule.

Salem City School District
Columbiana County
Notes to the Schedule of Expenditures of Federal Awards
2 CFR 200.510(b)(6)
For the Year Ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Salem City School District (the District) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - SUBRECIPIENTS

The District passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE D – CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

**Salem City School District
Columbiana County
Notes to the Schedule of Expenditures of Federal Awards
2 CFR 200.510(b)(6)
For the Year Ended June 30, 2017
(Continued)**

NOTE F – 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. The District transferred the following amounts from 2016 to 2017 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred</u>
Title I Gants to Local Educational Agencies	84.010	\$ 4,914
Improving Teacher Quality State Grants	84.367	2,235
English Language Acquisition State Grants	84.365	2,729
Rural and Low Income Title VI-B	84.358	7,189
Special Education - Grants to States	84.027	295,896

The District transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred</u>
Title I Gants to Local Educational Agencies	84.010	\$ 9,217
Improving Teacher Quality State Grants	84.367	7,671
English Language Acquisition State Grants	84.365	5,654
Rural and Low Income Title VI-B	84.358	13,561
Special Education - Grants to States	84.027	530,892

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH 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 of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. We consider finding 2017-001 to be a significant deficiency.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
November 27, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Salem City School District, Columbiana County, Ohio's, (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Salem City School District, Columbiana County, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2017.

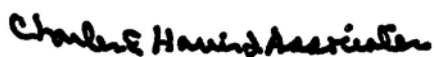
Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirements of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
November 27, 2017

Salem City School District
Columbiana County
Schedule of Findings
2 CFR § 200.515
June 30, 2017

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 weaknesses in internal control 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)?	Yes
<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 weaknesses in internal control 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 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster – CFDA #10.553 & #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

Finding Number: 2017-001 – Significant Deficiency

Preparation and Review of Financial Statements

During the course of our audit, errors were noted in the District's financial statements that did not merit adjustment but were deemed significant. The errors noted were as follows:

- The District received goods prior to year-end which were not paid for until after year-end that were not included in accounts payable.

**Salem City School District
Columbiana County
Schedule of Findings (continued)
2 CFR § 200.515
June 30, 2017**

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

Finding Number: 2017-001 – Significant Deficiency (continued)

- The District expensed instead of capitalized assets that were over the capitalization threshold.
- The District included three pay periods in the reported accrued wages amount instead of four pay periods.

Sound financial reporting is the responsibility of the District and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the District adhere to its policies and procedures to identify and correct errors and omissions in a timely manner. This should include a review of prepared financial statements and the underlying reports provided to outside consultants.

Management’s Response:

See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None.

**Salem City School District
Columbiana County
Schedule of Prior Audit Findings
June 30, 2017**

The prior audit report, for the year ended June 30, 2016, reported no material citations or recommendations.



Salem City Schools

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	1) The District switched its requisition / purchase order software in September 2017. The new software will allow electronic approval of items received in a timely fashion. 2) New inventory controls have been created to provide tracking of all capitalized assets that are over the capitalization threshold. 3) For FY2017, the District was converting from a 26-pay year to a 24-pay year. A conversion year of 25 pays resulted in FY2017. In 2018, the District is on a 24-pay cycle.	9/1/2017 10/1/2017 7/1/2017	Michael Douglas, Treasurer/CFO

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Dave Yost • Auditor of State

SALEM CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 20, 2018