

***SALEM CITY SCHOOL DISTRICT***

***COLUMBIANA COUNTY, OHIO***

Audit Report

For the Year Ended June 30, 2019







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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, 2018 through June 30, 2019. 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.

Keith Faber  
Auditor of State  
Columbus, Ohio

January 30, 2020

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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, 2019, 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.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, as of June 30, 2019, 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, net OPEB (assets) liabilities, and pension and OPEB 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***

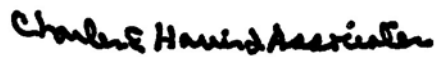
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards (Schedule) is presented for purposes of additional analysis as required by Title 2 U.S. Code of 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 25, 2019, 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 25, 2019

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

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As management of the Salem City School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2019. 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**

- Net position increased significantly in fiscal year 2019 primarily due to changes in the net pension/OPEB asset/liabilities and the deferred inflows and deferred outflows of resources associated with these liabilities.
- Total capital assets decreased slightly as current year depreciation exceeded current year additions. The School District's additions consisted of two parcels of land with buildings, a school bus, a truck and various equipment purchases.
- The School District's enrollment decreased from 2,149 students in fiscal year 2018 to 2,094 students in fiscal year 2019.
- Certified staff received a 2.5 percent increase in base salary from the prior fiscal year, and classified staff received a \$0.37 increase to hourly rates for fiscal year 2019. These salary increases resulted in an increase in the program expenses excluding the amounts related to the net pension/OPEB liabilities.
- Certified staff employee share of healthcare costs were 10.0 percent for the current fiscal year. Classified staff employee share of healthcare costs were 8.75 percent for the current fiscal year.

**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.

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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. 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 2019 compared to 2018.

**Salem City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

**Table 1**  
**Net Position**  
**Governmental Activities**

	2019	2018	Change
<b>Assets</b>			
Current and Other Assets	\$16,988,481	\$15,916,674	\$1,071,807
Net OPEB Asset	1,290,953	0	1,290,953
Capital Assets, Net	6,395,270	6,708,150	(312,880)
<i>Total Assets</i>	<u>24,674,704</u>	<u>22,624,824</u>	<u>2,049,880</u>
<b>Deferred Outflows of Resources</b>			
Pension	5,977,438	7,259,440	(1,282,002)
OPEB	330,983	285,065	45,918
<i>Total Deferred Outflows of Resources</i>	<u>6,308,421</u>	<u>7,544,505</u>	<u>(1,236,084)</u>
<b>Liabilities</b>			
Current Liabilities	2,858,441	2,735,305	(123,136)
Long-Term Liabilities			
Due Within One Year	289,122	327,055	37,933
Due In More Than One Year			
Net Pension Liability	21,643,725	22,940,798	1,297,073
Net OPEB Liability	1,945,380	4,943,636	2,998,256
Other Amounts	2,262,740	2,419,867	157,127
<i>Total Liabilities</i>	<u>28,999,408</u>	<u>33,366,661</u>	<u>4,367,253</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	9,213,722	8,991,234	(222,488)
Pension	1,798,757	1,634,040	(164,717)
OPEB	2,168,525	576,292	(1,592,233)
<i>Total Deferred Inflows of Resources</i>	<u>13,181,004</u>	<u>11,201,566</u>	<u>(1,979,438)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	5,411,270	5,578,150	(166,880)
Restricted for:			
Capital Projects	1,786,358	1,420,722	365,636
Unclaimed Monies	7,325	7,324	1
Other Purposes	1,192,513	1,149,093	43,420
Unrestricted (Deficit)	<u>(19,594,753)</u>	<u>(22,554,187)</u>	<u>2,959,434</u>
<i>Total Net Position</i>	<u>(\$11,197,287)</u>	<u>(\$14,398,898)</u>	<u>\$3,201,611</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2019. GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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

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action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

The School District continues to provide the services that the School District residents expect while maintaining the costs of providing those services. The most dramatic changes were to cash, intergovernmental receivables, current liabilities and the changes from net pension/OPEB changes noted above. The cash increase is the result of revenue collection exceeding expenditures resulting in a surplus for the year. The intergovernmental receivable increase was the result of the School District actively seeking out federal funds and from SERS and workers' compensation refunds. Current liabilities increased due to the School District have additional expenses outstanding resulting in increased payables.

Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. An additional portion of the School District's net position represents resources that are subject to external restrictions on how they may be used.

The remaining balance of net position is investment in capital assets (e.g., land, buildings, equipment, furniture and vehicles); less any related debt used to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The School District saw an increase in cash and cash equivalents as revenues outpaced expenses during the fiscal year. The intergovernmental receivables increase is primarily due to the foundation funding formula from the Ohio Department of Education specific to student enrollment along with the School District seeking out additional sources of intergovernmental funding. The slight decrease in capital assets was due to current year depreciation exceeding current year additions.

Total liabilities decreased during fiscal year 2019 which can be attributed to the decrease of the net pension/OPEB liabilities, coupled with annual payments on the School District's debt.

Table 2 shows the changes in net position for fiscal year 2019 compared to 2018.

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

	2019	2018	Change
<b>Program Revenues</b>			
Charges for Services	\$2,536,057	\$1,835,664	\$700,393
Operating Grants, Contributions and Interest	3,275,823	2,931,262	344,561
Capital Grants	0	74,766	(74,766)
<i>Total Program Revenues</i>	<u>5,811,880</u>	<u>4,841,692</u>	<u>970,188</u>
<b>General Revenues</b>			
Property Taxes	9,750,224	9,644,555	105,669
Income Taxes	912	759	153
Grants and Entitlements	10,426,612	10,233,705	192,907
Investment Earnings	3,436	2,385	1,051
Unrestricted Contributions	8,973	15,976	(7,003)
Miscellaneous	169,007	241,286	(72,279)
<i>Total General Revenues</i>	<u>20,359,164</u>	<u>20,138,666</u>	<u>220,498</u>
<i>Total Revenues</i>	<u>\$26,171,044</u>	<u>\$24,980,358</u>	<u>\$1,190,686</u>
<b>Program Expenses</b>			
Instruction:			
Regular	9,984,340	5,924,041	(4,060,299)
Special	3,649,489	2,307,347	(1,342,142)
Vocational	213,539	91,417	(122,122)
Adult/Continuing	896,891	344,054	(552,837)
Support Services:			
Pupils	1,104,898	678,474	(426,424)
Instructional Staff	268,162	203,009	(65,153)
Board of Education	35,846	40,308	4,462
Administration	1,621,343	738,147	(883,196)
Fiscal	544,790	654,674	109,884
Business	13,743	11,283	(2,460)
Operation and Maintenance of Plant	1,818,218	1,692,290	(125,928)
Pupil Transportation	846,606	763,816	(82,790)
Central	224,591	333,102	108,511
Extracurricular Activities	750,710	484,917	(265,793)
Operation of Non-Instructional Services	180,100	146,238	(33,862)
Operation of Food Service	764,449	696,519	(67,930)
Interest and Fiscal Charges	51,718	12,199	(39,519)
<i>Total Program Expenses</i>	<u>22,969,433</u>	<u>15,121,835</u>	<u>(7,847,598)</u>
<i>Change in Net Position</i>	3,201,611	9,858,523	(6,656,912)
Net Position Beginning of Year	<u>(14,398,898)</u>	<u>(24,257,421)</u>	<u>9,858,523</u>
Net Position End of Year	<u><u>(\$11,197,287)</u></u>	<u><u>(\$14,398,898)</u></u>	<u><u>\$3,201,611</u></u>

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*Management's Discussion and Analysis*  
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*Unaudited*

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**Analysis of overall financial position and results of operations**

Revenue is divided into two major components: program revenues and general revenues. Program revenues are defined as fees, restricted grants and charges for services that are program specific. General revenues include taxes and unrestricted grants such as State Foundation support.

Program revenues increased for governmental activities in fiscal year 2019. Charges for services revenue consists of tuition and fees, charges for services, rentals and extracurricular revenues. Operating grants increased from the identification of program related general fund monies associated with special education, career technology and special education bussing monies. General revenues increased due to additional property taxes from the increase in assessed valuation along with grants not restricted tied specifically with foundation funding at the State level.

Program expenses increased in fiscal year 2019 due to changes in the net pension liability and net OPEB liability. As mentioned previously, changes in the net pension liability, net OPEB liability (asset) and associated deferred outflows/inflows are the result of the School District's adjusting proportionate share of the total State-wide liabilities (assets) for both pension and OPEB across retirement systems.

The largest component of the increase in program expenses results from changes in assumptions and benefit terms related to pensions in the prior year. For the prior year, STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). As a result of these changes, pension expense decreased from \$2,196,941 in fiscal year 2017 to a negative pension expense of \$7,649,561 for fiscal year 2018. For fiscal year 2019, pension expense increased to \$1,838,336 closer to the 2017 pension expense amount.

The School District relies heavily upon property taxes, income taxes and the State School Foundation Program to support its operations. The School District also actively solicits and receives additional grant and entitlement funds to help offset operating costs. The grants and entitlements not restricted can be partially attributed to the School District actively seeking out additional sources of Federal and State funding to ensure the programs important to the community are maintained.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2019 compared to 2018.

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*Management's Discussion and Analysis*  
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**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	2019		2018	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
<b>Instruction:</b>				
Regular	\$9,984,340	\$9,103,264	\$5,924,041	\$5,321,217
Special	3,649,489	1,212,842	2,307,347	199,857
Vocational	213,539	112,402	91,417	(13,777)
Adult/Continuing	896,891	(129,326)	344,054	(242,221)
<b>Support Services:</b>				
Pupils	1,104,898	1,053,526	678,474	628,806
Instructional Staff	268,162	231,072	203,009	109,698
Board of Education	35,846	35,846	40,308	40,308
Administration	1,621,343	1,454,100	738,147	572,978
Fiscal	544,790	538,703	654,674	654,674
Business	13,743	13,743	11,283	11,283
Operation and Maintenance of Plant	1,818,218	1,812,643	1,692,290	1,610,524
Pupil Transportation	846,606	792,798	763,816	732,459
Central	224,591	187,860	333,102	299,697
Extracurricular Activities	750,710	611,034	484,917	356,111
Operation of Non-Instructional Services	180,100	61,020	146,238	45,943
Operation of Food Service	764,449	14,308	696,519	(59,613)
Interest and Fiscal Charges	51,718	51,718	12,199	12,199
<b>Total</b>	<b>\$22,969,433</b>	<b>\$17,157,553</b>	<b>\$15,121,835</b>	<b>\$10,280,143</b>

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

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

**Governmental Funds** Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had an increase in fund balance. Both revenues and expenditures realized increases in fiscal year 2019, however, revenues were able to exceed current year spending ensuring a surplus spending situation. This was achieved through careful budget monitoring by the Administration. The School District continues to pay down the annual debt obligations utilizing general fund resources. The permanent improvement fund saw an increase in fund balance resulting from increased property tax revenues and a decrease in spending as there were fewer capital projects within the School District.



**Salem City School District**  
*Management's Discussion and Analysis*  
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**General Fund Budgeting Highlights**

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

During the course of fiscal year 2019, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

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

The final budget appropriations mirrored the original budget appropriations for the general fund. Actual expenditures were less than the budget amounts as the School District actively works to keep spending down while still maintaining the programs the community has come to expect.

**Capital Assets and Long-term Obligations**

*Capital Assets*

The slight decrease in capital assets was due to current year depreciation exceeding current year additions. Nondepreciable capital assets increased from the prior fiscal year because the School District purchased two parcels of land. Additional capital asset additions consisted of buildings (from the land parcel purchase), a school bus, a truck and various equipment purchases. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

*Long-term Obligations*

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, limited English proficiency, title I, reducing class size and miscellaneous federal grants special revenue funds.

The School District's overall legal debt margin was \$28,643,482 with an unvoted debt margin of \$318,261. For more information about the School District's long-term obligations, see Note 11 to the basic financial statements.

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**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, 2019*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,155,026
Intergovernmental Receivable	1,120,485
Inventory Held for Resale	23,472
Prepaid Items	13,999
Property Taxes Receivable	9,674,587
Income Taxes Receivable	912
Net OPEB Asset (See Note 18)	1,290,953
Nondepreciable Capital Assets	722,839
Depreciable Capital Assets, Net	5,672,431
<i>Total Assets</i>	<i>24,674,704</i>
<b>Deferred Outflows of Resources</b>	
Pension	5,977,438
OPEB	330,983
<i>Total Deferred Outflows of Resources</i>	<i>6,308,421</i>
<b>Liabilities</b>	
Accounts Payable	204,179
Accrued Wages and Benefits	2,087,874
Contracts Payable	50,708
Intergovernmental Payable	511,662
Accrued Interest Payable	4,018
Long-Term Liabilities:	
Due Within One Year	289,122
Due in More Than One Year	
Net Pension Liability (See Note 17)	21,643,725
Net OPEB Liability (See Note 18)	1,945,380
Other Amounts	2,262,740
<i>Total Liabilities</i>	<i>28,999,408</i>
<b>Deferred Inflows of Resources</b>	
Property Taxes	9,213,722
Pension	1,798,757
OPEB	2,168,525
<i>Total Deferred Inflows of Resources</i>	<i>13,181,004</i>
<b>Net Position</b>	
Net Investment in Capital Assets	5,411,270
Restricted for:	
Capital Projects	1,786,358
Unclaimed Monies	7,325
Other Purposes	1,192,513
Unrestricted (Deficit)	(19,594,753)
<i>Total Net Position</i>	<i>(\$11,197,287)</i>

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2019

	Program Revenues			Net Revenue/(Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$9,984,340	\$759,027	\$122,049	(\$9,103,264)
Special	3,649,489	198,726	2,237,921	(1,212,842)
Vocational	213,539	14,707	86,430	(112,402)
Adult/Continuing	896,891	1,026,217	0	129,326
Support Services:				
Pupils	1,104,898	36,273	15,099	(1,053,526)
Instructional Staff	268,162	0	37,090	(231,072)
Board of Education	35,846	0	0	(35,846)
Administration	1,621,343	167,243	0	(1,454,100)
Fiscal	544,790	6,087	0	(538,703)
Business	13,743	0	0	(13,743)
Operation and Maintenance of Plant	1,818,218	5,575	0	(1,812,643)
Pupil Transportation	846,606	0	53,808	(792,798)
Central	224,591	27,466	9,265	(187,860)
Extracurricular Activities	750,710	137,736	1,940	(611,034)
Operation of Non-Instructional Services	180,100	0	119,080	(61,020)
Operation of Food Service	764,449	157,000	593,141	(14,308)
Interest and Fiscal Charges	51,718	0	0	(51,718)
<b>Totals</b>	<u>\$22,969,433</u>	<u>\$2,536,057</u>	<u>\$3,275,823</u>	<u>(17,157,553)</u>
<b>General Revenues</b>				
Property Taxes Levied for:				
				9,169,091
				581,133
				912
				10,426,612
				3,436
				8,973
				169,007
				<u>20,359,164</u>
				3,201,611
				<u>(14,398,898)</u>
				<u>(\$11,197,287)</u>

See accompanying notes to the basic financial statements

**Salem City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2019*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,583,893	\$1,821,376	\$742,432	\$6,147,701
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	7,325	0	0	7,325
Intergovernmental Receivable	207,661	0	912,824	1,120,485
Prepaid Items	13,999	0	0	13,999
Interfund Receivable	104,377	0	0	104,377
Inventory Held for Resale	0	0	23,472	23,472
Property Taxes Receivable	9,097,899	576,688	0	9,674,587
Income Taxes Receivable	912	0	0	912
<i>Total Assets</i>	<u>\$13,016,066</u>	<u>\$2,398,064</u>	<u>\$1,678,728</u>	<u>\$17,092,858</u>
<b>Liabilities</b>				
Accounts Payable	\$139,700	\$14,896	\$49,583	\$204,179
Accrued Wages and Benefits	1,870,926	0	216,948	2,087,874
Contracts Payable	3,188	47,520	0	50,708
Intergovernmental Payable	463,409	0	48,253	511,662
Interfund Payable	0	0	104,377	104,377
<i>Total Liabilities</i>	<u>2,477,223</u>	<u>62,416</u>	<u>419,161</u>	<u>2,958,800</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	8,664,432	549,290	0	9,213,722
Unavailable Revenue	328,267	14,100	912,824	1,255,191
<i>Total Deferred Inflows of Resources</i>	<u>8,992,699</u>	<u>563,390</u>	<u>912,824</u>	<u>10,468,913</u>
<b>Fund Balances</b>				
Nonspendable	21,324	0	0	21,324
Restricted	0	1,772,258	625,374	2,397,632
Committed	10,912	0	0	10,912
Assigned	1,513,908	0	0	1,513,908
Unassigned (Deficit)	0	0	(278,631)	(278,631)
<i>Total Fund Balances</i>	<u>1,546,144</u>	<u>1,772,258</u>	<u>346,743</u>	<u>3,665,145</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$13,016,066</u>	<u>\$2,398,064</u>	<u>\$1,678,728</u>	<u>\$17,092,858</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, 2019*

<b>Total Governmental Funds Balances</b>	\$3,665,145
 <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.	6,395,270
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:	
Delinquent Property Taxes	240,056
Grants	912,824
Tuition and Fees	55,888
Negative Central Expense	<u>46,423</u>
Total	1,255,191
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(4,018)
The net pension liability and net OPEB liability (asset) are not due and payable in the current period; therefore, the liability (asset) and related deferred inflows/outflows are not reported in governmental funds:	
Net OPEB Asset	1,290,953
Deferred Outflows - Pension	5,977,438
Deferred Outflows - OPEB	330,983
Net Pension Liability	(21,643,725)
Net OPEB Liability	(1,945,380)
Deferred Inflows - Pension	(1,798,757)
Deferred Inflows - OPEB	<u>(2,168,525)</u>
Total	(19,957,013)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Energy Conservation Bonds	(805,000)
Energy Conservation Notes	(179,000)
Special Termination Benefits	(10,321)
Compensated Absences	<u>(1,557,541)</u>
Total	<u>(2,551,862)</u>
<i>Net Position of Governmental Activities</i>	<u><u>(\$11,197,287)</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, 2019*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$9,160,250	\$580,644	\$0	\$9,740,894
Income Taxes	912	0	0	912
Intergovernmental	11,445,964	74,326	1,953,733	13,474,023
Interest	3,436	0	20	3,456
Charges for Services	0	0	157,000	157,000
Tuition and Fees	2,155,512	0	0	2,155,512
Extracurricular Activities	24,346	0	137,736	162,082
Rentals	5,575	0	0	5,575
Contributions and Donations	8,973	0	10,940	19,913
Miscellaneous	148,824	0	20,183	169,007
<i>Total Revenues</i>	<u>22,953,792</u>	<u>654,970</u>	<u>2,279,612</u>	<u>25,888,374</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,158,145	0	94,144	11,252,289
Special	2,931,036	0	1,155,908	4,086,944
Vocational	223,800	0	399	224,199
Adult/Continuing	1,007,943	0	0	1,007,943
Support Services:				
Pupils	1,232,521	0	17,609	1,250,130
Instructional Staff	271,203	0	36,910	308,113
Board of Education	37,133	0	0	37,133
Administration	1,893,723	0	0	1,893,723
Fiscal	536,919	0	0	536,919
Business	13,313	0	0	13,313
Operation and Maintenance of Plant	1,681,438	0	0	1,681,438
Pupil Transportation	742,424	0	24,145	766,569
Central	257,799	0	9,260	267,059
Extracurricular Activities	490,773	0	155,039	645,812
Operation of Non-Instructional Services	72,098	0	109,765	181,863
Operation of Food Service	0	0	721,965	721,965
Capital Outlay	71,291	314,823	32,040	418,154
Debt Service:				
Principal Retirement	146,000	0	0	146,000
Interest and Fiscal Charges	52,315	0	0	52,315
<i>Total Expenditures</i>	<u>22,819,874</u>	<u>314,823</u>	<u>2,357,184</u>	<u>25,491,881</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>133,918</u>	<u>340,147</u>	<u>(77,572)</u>	<u>396,493</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	25,000	0	25,000
Transfers Out	(25,000)	0	0	(25,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(25,000)</u>	<u>25,000</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	108,918	365,147	(77,572)	396,493
<i>Fund Balances Beginning of Year</i>	<u>1,437,226</u>	<u>1,407,111</u>	<u>424,315</u>	<u>3,268,652</u>
<i>Fund Balances End of Year</i>	<u>\$1,546,144</u>	<u>\$1,772,258</u>	<u>\$346,743</u>	<u>\$3,665,145</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, 2019*

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**Net Change in Fund Balances -Total Governmental Funds** \$396,493

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

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

Capital Asset Additions	244,781	
Current Year Depreciation	(557,661)	
Total		(312,880)

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

Delinquent Property Taxes	9,330	
Grants	217,452	
Tuition and Fees	55,888	
Negative Central Expense	46,423	
Total		329,093

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. 146,000

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. 597

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

Pension	1,688,690	
OPEB	51,986	
Total		1,740,676

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

Pension	(1,838,336)	
OPEB	2,690,908	
Total		852,572

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:

Compensated Absences	17,560	
Special Termination Benefits	31,500	
Total		49,060

*Change in Net Position of Governmental Activities* \$3,201,611

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, 2019*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$9,051,532	\$9,262,540	\$9,246,663	(\$15,877)
Income Taxes	743	760	759	(1)
Intergovernmental	11,051,165	11,307,829	11,288,517	(19,312)
Interest	3,363	3,442	3,436	(6)
Tuition and Fees	903,040	924,092	922,508	(1,584)
Rentals	5,457	5,585	5,575	(10)
Contributions and Donations	5,395	5,520	5,511	(9)
Miscellaneous	58,356	59,717	61,809	2,092
<i>Total Revenues</i>	21,079,051	21,569,485	21,534,778	(34,707)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	12,725,057	12,031,966	11,063,442	968,524
Special	3,024,906	3,107,554	2,938,393	169,161
Vocational	190,913	207,001	204,664	2,337
Support Services:				
Pupils	1,132,070	1,247,439	1,217,920	29,519
Instructional Staff	252,518	275,977	269,163	6,814
Board of Education	39,724	44,767	37,191	7,576
Administration	1,683,204	1,769,037	1,725,132	43,905
Fiscal	705,664	691,098	535,103	155,995
Business	10,918	16,614	15,916	698
Operation and Maintenance of Plant	1,879,598	1,956,836	1,706,170	250,666
Pupil Transportation	731,639	838,463	762,970	75,493
Central	372,134	379,421	232,857	146,564
Extracurricular Activities	471,548	532,631	491,594	41,037
Operation of Non-Instructional Services	11,924	108,426	68,789	39,637
Capital Outlay	75,000	75,000	71,291	3,709
Debt Service:				
Principal	145,000	146,000	146,000	0
Interest	53,928	77,516	52,315	25,201
<i>Total Expenditures</i>	23,505,745	23,505,746	21,538,910	1,966,836
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,426,694)	(1,936,261)	(4,132)	1,932,129
<b>Other Financing Sources (Uses)</b>				
Advances In	19,580	19,580	19,580	0
Advances Out	(103,473)	(103,473)	(103,473)	0
Transfers Out	(145,000)	(145,000)	(86,520)	58,480
<i>Total Other Financing Sources (Uses)</i>	(228,893)	(228,893)	(170,413)	58,480
<i>Net Change in Fund Balance</i>	(2,655,587)	(2,165,154)	(174,545)	1,990,609
<i>Fund Balance Beginning of Year</i>	2,591,384	2,591,384	2,591,384	0
Prior Year Encumbrances Appropriated	64,204	64,204	64,204	0
<i>Fund Balance End of Year</i>	\$1	\$490,434	\$2,481,043	\$1,990,609

See accompanying notes to the basic financial statements

**Salem City School District**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2019*

	Private Purpose Trust	
	Memorial	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$935	\$92,921
<b>Liabilities</b>		
Due to Students	0	\$92,921
<b>Net Position</b>		
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, 2019*

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

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, 2019*

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

Salem City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four instructional/support facilities staffed by 149 certified employees and 81 classified employees who provide services to 2,094 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.

Non-public Schools – With the School District boundaries, there are various non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity 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 Notes 12, 13 and 15 of the basic financial statements.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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***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.

***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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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***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.

***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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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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 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 and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 17 and 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, OPEB plans and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 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, intergovernmental grants, tuition and fees and negative expenses. 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 Balances to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18.)

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

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

***Pensions/Other Postemployment Benefits (OPEB)***

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

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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***Cash and Cash Equivalents***

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

During fiscal year 2019, 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 fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 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 2019 amounted to \$3,436, of which \$1,450 was assigned from other School District funds.

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

***Inventory***

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

***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, 2019*

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, 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.

***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. Net pension/OPEB liability (asset) should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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***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.

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” Interfund balances are eliminated in the statement of net position.

***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 may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget in the general fund.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for auxiliary services and extracurricular activities.

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

***Estimates***

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

***Budgetary Data***

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

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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2019

**Note 3 – Fund Balances**

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

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Prepaid Items	\$13,999	\$0	\$0	\$13,999
Unclaimed Monies	7,325	0	0	7,325
<b><i>Total Nonspendable</i></b>	<b>21,324</b>	<b>0</b>	<b>0</b>	<b>21,324</b>
<b><i>Restricted for</i></b>				
Food Service Operations	0	0	497,829	497,829
Endowments	0	0	25	25
Athletics	0	0	67,595	67,595
Auxiliary Services	0	0	30,985	30,985
Student Programs	0	0	28,940	28,940
Capital Improvements	0	1,772,258	0	1,772,258
<b><i>Total Restricted</i></b>	<b>0</b>	<b>1,772,258</b>	<b>625,374</b>	<b>2,397,632</b>
<b><i>Committed to</i></b>				
Insurance	10,912	0	0	10,912
<b><i>Assigned to</i></b>				
Fiscal Year 2020 Operations	1,511,299	0	0	1,511,299
Purchases on Order				
Support Services	2,609	0	0	2,609
<b><i>Total Assigned</i></b>	<b>1,513,908</b>	<b>0</b>	<b>0</b>	<b>1,513,908</b>
<b><i>Unassigned (Deficit)</i></b>	<b>0</b>	<b>0</b>	<b>(278,631)</b>	<b>(278,631)</b>
<b><i>Total Fund Balances</i></b>	<b>\$1,546,144</b>	<b>\$1,772,258</b>	<b>\$346,743</b>	<b>\$3,665,145</b>

**Note 4 – Accountability**

At June 30, 2019, the title VI-B, title I, improving teacher quality and miscellaneous federal grants special revenue funds had deficit fund balances in the amounts of \$112,866, \$123,781, \$33,392 and \$8,592, 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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Advances in-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. 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:

	General
GAAP Basis	\$108,918
Net Adjustment for Revenue Accruals	156,100
Advances In	19,580
Perspective Difference:	
Uniform Schol Supplies	3,990
Adult Education	(223,200)
Rotary	(45,621)
Public School Support	9,116
Self-Insurance	46,786
Termination Benefits	5,414
Net Adjustment for Expenditure Accruals	(54,838)
Advances Out	(103,473)
Encumbrances	(97,317)
Budget Basis	(\$174,545)

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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**Note 6 - Deposits and Investments**

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

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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 the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time 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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

***Deposits***

***Custodial credit risk*** for deposits is the risk that in the event of a 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 June 30, 2019, \$1,069,297 of the School District's total bank balance of \$6,454,598 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The School District's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 82 percent resulting in the uninsured and uncollateralized balance.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least one hundred five percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be one hundred two percent of the deposits being secured or a rate set by the Treasurer of State.

***Investments***

As of June 30, 2019, the School District had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$6,958 which is insured at net asset value per share. The average maturity is 53.3 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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

**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 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, 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 2019 represent the collection of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, 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, 2019, are available to finance fiscal year 2020 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, 2019 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2019, was \$225,956 in the general fund and \$14,100 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2018, was \$298,273 in the general fund and \$19,015 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	<u>2018 Second Half Collections</u>		<u>2019 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Estate	\$297,170,440	93.78%	\$296,704,730	93.23%
Public Utility Personal	19,711,910	6.22	21,556,180	6.77
Total	<u>\$316,882,350</u>	<u>100.00%</u>	<u>\$318,260,910</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed valuation	\$51.00		\$51.00	



**Salem City School District**  
*Notes to the Basic Financial Statements*  
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**Note 8 - Receivables**

Receivables at June 30, 2019, consisted of taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title VI-B	\$603,132
Title I	191,372
CAFS Reimbursement	86,090
Miscellaneous Federal Grants	78,010
Foundation Adjustments	75,148
Workers' Compensation Refund	46,423
Reducing Class Size	25,038
Limited English Proficiency	15,272
Total	<u>\$1,120,485</u>

**Note 9 - 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 are 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, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

***School Foundation***

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional 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, 2019*

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$707,799	\$15,040	\$0	\$722,839
<b>Depreciable Capital Assets</b>				
Land Improvements	2,458,923	0	0	2,458,923
Buildings and Improvements	17,883,299	56,251	0	17,939,550
Furniture and Fixtures	2,300,270	61,153	0	2,361,423
Vehicles	1,505,099	112,337	0	1,617,436
<i>Total at Historical Cost</i>	<u>24,147,591</u>	<u>229,741</u>	<u>0</u>	<u>24,377,332</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	(1,295,999)	(126,048)	0	(1,422,047)
Buildings and Improvements	(13,591,202)	(294,101)	0	(13,885,303)
Furniture and Fixtures	(1,897,927)	(78,302)	0	(1,976,229)
Vehicles	(1,362,112)	(59,210)	0	(1,421,322)
<i>Total Accumulated Depreciation</i>	<u>(18,147,240)</u>	<u>(557,661) *</u>	<u>0</u>	<u>(18,704,901)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>6,000,351</u>	<u>(327,920)</u>	<u>0</u>	<u>5,672,431</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,708,150</u>	<u>(\$312,880)</u>	<u>\$0</u>	<u>\$6,395,270</u>

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

Instruction	
Regular	\$225,996
Special	13,058
Vocational	12,141
Support Services	
Pupils	7,943
Instructional Staff	4,253
Administration	14,206
Business	430
Operation and Maintenance of Plant	38,572
Pupil Transportation	72,186
Operation of Food Service	29,943
Extracurricular Activities	138,933
Total Depreciation Expense	<u>\$557,661</u>

**Salem City School District**  
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**Note 11 – 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 2018 were as follows:

	Principal Outstanding June 30, 2018	Additions	Deductions	Principal Outstanding June 30, 2019	Amount Due in One Year
	<b>General Obligation Debt</b>				
Energy Conservation Bonds	\$925,000	\$0	(\$120,000)	\$805,000	\$115,000
Energy Conservation Notes	205,000	0	(26,000)	179,000	27,000
<i>Total General Obligation Debt</i>	<u>1,130,000</u>	<u>0</u>	<u>(146,000)</u>	<u>984,000</u>	<u>142,000</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
STRS	18,867,511	0	(1,202,960)	17,664,551	0
SERS	4,073,287	0	(94,113)	3,979,174	0
<i>Total Net Pension Liability</i>	<u>22,940,798</u>	<u>0</u>	<u>(1,297,073)</u>	<u>21,643,725</u>	<u>0</u>
Net OPEB Liability:					
STRS	3,098,859	0	(3,098,859)	0	0
SERS	1,844,777	100,603	0	1,945,380	0
<i>Total Net OPEB Liability</i>	<u>4,943,636</u>	<u>100,603</u>	<u>(3,098,859)</u>	<u>1,945,380</u>	<u>0</u>
Special Termination Benefits	41,821	0	(31,500)	10,321	10,321
Compensated Absences	1,575,101	131,995	(149,555)	1,557,541	136,801
<i>Total Other Long-term Obligations</i>	<u>29,501,356</u>	<u>232,598</u>	<u>(4,576,987)</u>	<u>25,156,967</u>	<u>147,122</u>
<i>Total Long-Term Liabilities</i>	<u>\$30,631,356</u>	<u>\$232,598</u>	<u>(\$4,722,987)</u>	<u>\$26,140,967</u>	<u>\$289,122</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.

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 are no repayment schedules for the net pension/OPEB liabilities. However, employer pension/OPEB contributions are made from the following

**Salem City School District**  
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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 Notes 17 and 18 for additional information related to the net pension/OPEB liabilities.

The overall debt margin of the School District as of June 30, 2019, was \$28,643,482 with an unvoted debt margin of \$318,261. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2019, are as follows:

Fiscal Year Ending June 30	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
2020	\$115,000	\$38,123	\$153,123
2021	115,000	32,257	147,257
2022	115,000	26,393	141,393
2023	115,000	20,527	135,527
2024	115,000	14,663	129,663
2025 - 2026	230,000	11,730	241,730
Total	<u>\$805,000</u>	<u>\$143,693</u>	<u>\$948,693</u>

Fiscal Year Ending June 30	Energy Conservation Improvement Notes - Series 2011		
	Principal	Interest	Total
2020	\$27,000	\$7,160	\$34,160
2021	28,000	6,080	34,080
2022	29,000	4,960	33,960
2023	30,000	3,800	33,800
2024	32,000	2,600	34,600
2025	33,000	1,320	34,320
Total	<u>\$179,000</u>	<u>\$25,920</u>	<u>\$204,920</u>

**Note 12 - Jointly Governed Organizations**

***Area Cooperative Computerized Education Service System (ACCESS)*** The Area Cooperative Computerized Educational Service System (ACCESS) is a jointly governed organization among 22 school districts and 2 educational service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among the member districts. Each of the governments of these schools supports COG based upon a per pupil charge dependent upon the software package utilized for fiscal year 2019. Salem City School District paid \$86,159 to the COG during fiscal year 2019. 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.

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***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 2019, the School District did not make any contribution to the Center. To obtain financial information, write to the Columbiana County Career and Technical Center, Office of the Treasurer, at 9364 State Route 45, Lisbon, Ohio 44432.

**Note 13 – Related Organization**

***Salem Public Library*** The Salem Public Library (the “Library”) is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Salem City School District did not make any payments to the Library during fiscal year 2019. Financial information can be obtained from the Salem Public Library, Mr. Bradley Stephens, Fiscal Officer, at 821 State Street, Salem, Ohio 44460.

**Note 14 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2019, 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)	\$77,048,102
Equipment Breakdown (\$5,000 deductible)	77,048,102
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	10,000,000
Inland Marine (\$500 deductible)	Varies by Property Type
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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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***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 existing district subsequent to the settlement of all expenses and claims. If the School District were to withdraw from the consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments.

***Worker's Compensation***

For fiscal year 2019, the School District participated in the Stark County Schools Council Workers' Compensation Group Rating Program (GRP), an insurance rating pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the program. The participating school districts pay experience or rate based premiums to the Bureau of Workers' Compensation (BWC). The total premium for the entire group is the standard premium of the group. Participation in the program is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services for the program.

**Note 15 – Public Entity Pools**

***Insurance 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.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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**Note 16 - Other Employee Benefits**

***Compensated Absences***

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

***Life Insurance Benefits***

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

***Special Termination Benefits***

A one-time retirement bonus of thirty-five percent of annual salary is offered to employees in the year in which the employee becomes eligible for retirement including the applicable pick-up, but excluding any overtime or supplemental contracts. The bonus is available to employees who become first-time eligible for retirement or reach thirty years of service under SERS or STRS guidelines and retire effective at the end of the school year in which they qualify. If individuals choose not to retire when first eligible with less than thirty years of service in accordance with the State retirement systems' guidelines, he/she would not become eligible again until reaching thirty years of SERS or STRS service. The retirement bonus consists of two payments that are to be made in equal amounts in January of each of the following two calendar years. Two employees eligible in fiscal year 2017 took advantage of the retirement bonus. Four employees eligible in fiscal year 2018 took advantage of the retirement bonus. No employees eligible in fiscal year 2019 took advantage of the retirement bonus.

**Note 17 – Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability/Net OPEB Liability (Asset)***

The net pension liability and the net OPEB liability (asset) reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB 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.

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The net pension/OPEB liability (asset) represent the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) 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 these estimates annually.

The 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/OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net OPEB asset* or long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 18 for the required OPEB disclosures.

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

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

Age and service requirements for retirement are as follows:



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	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.

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$301,661 for fiscal year 2019. Of this amount \$15,771 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](http://www.strsoh.org).

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

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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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. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 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 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 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 goes 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, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The School District's contractually required contribution to STRS was \$1,387,029 for fiscal year 2019. Of this amount \$277,856 is reported as an intergovernmental payable.

**Salem City School District**  
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***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, 2018, 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	0.06817470%	0.07942471%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.06947870%</u>	<u>0.08033813%</u>	
Change in Proportionate Share	<u>0.00130400%</u>	<u>0.00091342%</u>	
Proportionate Share of the Net			
Pension Liability	\$3,979,174	\$17,664,551	\$21,643,725
Pension Expense	\$359,183	\$1,479,153	\$1,838,336

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$218,232	\$407,752	\$625,984
Changes of assumptions	89,859	3,130,492	3,220,351
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	83,585	358,828	442,413
School District contributions subsequent to the measurement date	<u>301,661</u>	<u>1,387,029</u>	<u>1,688,690</u>
Total Deferred Outflows of Resources	<u>\$693,337</u>	<u>\$5,284,101</u>	<u>\$5,977,438</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$115,361	\$115,361
Net difference between projected and actual earnings on pension plan investments	110,251	1,071,159	1,181,410
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>17,617</u>	<u>484,369</u>	<u>501,986</u>
Total Deferred Inflows of Resources	<u>\$127,868</u>	<u>\$1,670,889</u>	<u>\$1,798,757</u>

\$1,688,690 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2020	\$348,968	\$1,297,287	\$1,646,255
2021	79,238	913,127	992,365
2022	(130,586)	213,296	82,710
2023	<u>(33,812)</u>	<u>(197,527)</u>	<u>(231,339)</u>
Total	<u>\$263,808</u>	<u>\$2,226,183</u>	<u>\$2,489,991</u>

**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, 2018, are presented below:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2019

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 average 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. 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 (6.5%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$5,604,966	\$3,979,174	\$2,616,056

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, are presented below:

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that 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. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

**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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$25,796,751	\$17,664,551	\$10,781,747

**Note 18 – Defined Benefit OPEB Plans**

See Note 17 for a description of the net OPEB liability (asset).

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

**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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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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 2019, .5 percent 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 earned. For fiscal year 2019, this amount was \$21,600. 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 2019, the School District's surcharge obligation was \$40,813.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$51,986 for fiscal year 2019. Of this amount \$41,397 is reported as an intergovernmental payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. 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, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:



**Salem City School District**  
*Notes to the Basic Financial Statements*  
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.06873910%	0.07942471%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.07012220%</u>	<u>0.08033813%</u>	
Change in Proportionate Share	<u>0.00138310%</u>	<u>0.00091342%</u>	
Proportionate Share of the:			
Net OPEB Liability	\$1,945,380	\$0	\$1,945,380
Net OPEB (Asset)	\$0	(\$1,290,953)	(\$1,290,953)
OPEB Expense	\$93,971	(\$2,784,879)	(\$2,690,908)

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$31,755	\$150,785	\$182,540
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	15,212	81,245	96,457
School District contributions subsequent to the measurement date	<u>51,986</u>	<u>0</u>	<u>51,986</u>
Total Deferred Outflows of Resources	<u>\$98,953</u>	<u>\$232,030</u>	<u>\$330,983</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$75,215	\$75,215
Changes of assumptions	174,777	1,759,024	1,933,801
Net difference between projected and actual earnings on OPEB plan investments	2,919	147,481	150,400
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>9,109</u>	<u>0</u>	<u>9,109</u>
Total Deferred Inflows of Resources	<u>\$186,805</u>	<u>\$1,981,720</u>	<u>\$2,168,525</u>

\$51,986 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	(\$73,494)	(\$312,643)	(\$386,137)
2021	(56,724)	(312,643)	(369,367)
2022	(3,615)	(312,644)	(316,259)
2023	(2,373)	(279,150)	(281,523)
2024	(2,575)	(267,399)	(269,974)
Thereafter	(1,057)	(265,211)	(266,268)
Total	(\$139,838)	(\$1,749,690)	(\$1,889,528)

**Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

**Salem City School District**  
*Notes to the Basic Financial Statements*  
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Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School District's proportionate share of the net OPEB liability	\$2,360,565	\$1,945,380	\$1,616,630

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
School District's proportionate share of the net OPEB liability	\$1,569,564	\$1,945,380	\$2,443,026

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return - Current Year	7.45 percent
Blended Discount Rate of Return - Prior Year	4.13 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2019

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB asset	(\$1,106,467)	(\$1,290,953)	(\$1,446,003)
	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB asset	(\$1,437,250)	(\$1,290,953)	(\$1,142,374)

**Note 19 – Interfund Transfers and Balances**

***Interfund Transfers***

During fiscal year 2019, the general fund made a transfer of \$25,000 to the permanent improvement capital projects fund to help fund capital improvements.

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

**Interfund Balances**

Interfund balances at June 30, 2019 consist of the following individual fund receivables and payables:

	Interfund Receivable
Interfund Payable	General
<b>Other Governmental Funds</b>	
Miscellaneous State Grants	\$904
Title VI-B	54,965
Title I	27,531
Class Size Reduction	19,648
Miscellaneous Federal Grants	1,329
<b>Grand Total</b>	<b>\$104,377</b>

The interfund receivables and payables are advances due to the timing of the receipt of grant monies received by various funds. The general fund provides money to operate the programs until grants are received and the advances can be repaid. These advances are expected to be repaid within the next fiscal year.

**Note 20 - Set Asides**

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

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

	Capital Improvements
Set Aside Balance as of June 30, 2018	\$0
Current Year Set-aside Requirement	377,826
Current Year Offsets	(660,687)
Qualifying Disbursements	(190,229)
Total	(\$473,090)
Set-aside Balance Carried	
Forward to Future Fiscal Years	\$0
Set Aside Balance as of June 30, 2019	\$0

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

**Salem City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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**Note 21 - Encumbrances**

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

<b>Governmental Funds</b>	
General	\$97,317
Permanent Improvement	169,315
Other Governmental Funds	<u>68,569</u>
<i>Total Governmental Funds</i>	<u><u>\$335,201</u></u>

**Note 22 – Change in Accounting Principles**

For fiscal year 2019, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

GASB 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the School District’s 2019 financial statements; however, there was no effect on beginning net position.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the School District’s 2019 financial statements; however, there was no effect on beginning net position.

For fiscal year 2019, the School District also implemented the Governmental Accounting Standards Board’s (GASB) *Implementation Guide No. 2017-2*. These changes were incorporated in the School District’s 2019 financial statements; however, there was no effect on beginning net position/fund balance.

**Note 23 – Tax Abatements**

The School District’s property taxes were reduced by \$47,655 for fiscal year 2019 under the community redevelopment agreements entered into by the City of Salem.

**Note 24 – Subsequent Event**

On November 5, 2019, citizens residing within the School District renewed the 6.87 mill emergency levy generating approximately \$2.1 million annually, for 10 years with collections commencing in 2020.

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## Required Supplementary Information

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

	2019	2018	2017
School District's Proportion of the Net Pension Liability	0.06947870%	0.06817470%	0.06866130%
School District's Proportionate Share of the Net Pension Liability	\$3,979,174	\$4,073,287	\$5,025,372
School District's Covered Payroll	\$2,295,793	\$2,224,221	\$2,132,364
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	173.32%	183.13%	235.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%

(1) Although this schedule is intended to reflect information for ten years, information prior fiscal year 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.

See accompanying notes to the required supplementary information

2016	2015	2014
0.06499390%	0.06725100%	0.06725100%
\$3,708,616	\$3,403,536	\$3,999,201
\$1,956,654	\$1,764,000	\$1,980,878
189.54%	192.94%	201.89%
69.16%	71.70%	65.52%

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

	2019	2018	2017
School District's Proportion of the Net OPEB Liability	0.07012220%	0.06873910%	0.06909650%
School District's Proportionate Share of the Net OPEB Liability	\$1,945,380	\$1,844,777	\$1,969,506
School District's Covered Payroll	\$2,295,793	\$2,224,221	\$2,132,364
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	84.74%	82.94%	92.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior fiscal year 2017 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.

See accompanying notes to the required supplementary information

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

	2019	2018	2017
School District's Proportion of the Net Pension Liability	0.08033813%	0.07942471%	0.07814997%
School District's Proportionate Share of the Net Pension Liability	\$17,664,551	\$18,867,511	\$26,159,150
School District's Covered Payroll	\$9,291,893	\$8,894,257	\$8,304,579
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	190.11%	212.13%	315.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.30%	75.30%	66.80%

(1) Although this schedule is intended to reflect information for ten years, information prior fiscal year 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.

See accompanying notes to the required supplementary information

2016	2015	2014
0.08135251%	0.08325729%	0.08325729%
\$22,483,454	\$20,251,053	\$24,122,923
\$8,487,771	\$8,506,592	\$8,737,385
264.89%	238.06%	276.09%
72.10%	74.70%	69.30%

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

	2019	2018	2017
School District's Proportion of the Net OPEB (Asset) Liability	0.08033813%	0.07942471%	0.07814997%
School District's Proportionate Share of the Net OPEB (Asset) Liability	(\$1,290,953)	\$3,098,859	\$4,179,481
School District's Covered Payroll	\$9,291,893	\$8,894,257	\$8,304,579
School District's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of its Covered Payroll	-13.89%	34.84%	50.33%
Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset) Liability	176.00%	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior fiscal year 2017 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.

See accompanying notes to the required supplementary information



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

	2019	2018	2017	2016
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$301,661	\$309,932	\$311,391	\$298,531
Contributions in Relation to the Contractually Required Contribution	(301,661)	(309,932)	(311,391)	(298,531)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$2,234,526	\$2,295,793	\$2,224,221	\$2,132,364
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	51,986	47,746	35,418	32,886
Contributions in Relation to the Contractually Required Contribution	(51,986)	(47,746)	(35,418)	(32,886)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>2.33%</u>	<u>2.08%</u>	<u>1.59%</u>	<u>1.54%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.83%</u>	<u>15.58%</u>	<u>15.59%</u>	<u>15.54%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2015	2014	2013	2012	2011	2010
\$257,887	\$244,490	\$274,153	\$265,465	\$247,971	\$239,496
(257,887)	(244,490)	(274,153)	(265,465)	(247,971)	(239,496)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,956,657	\$1,764,000	\$1,980,878	\$1,973,717	\$1,972,718	\$1,768,803
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
49,404	36,646	32,748	50,600	64,790	42,344
(49,404)	(36,646)	(32,748)	(50,600)	(64,790)	(42,344)
\$0	\$0	\$0	\$0	\$0	\$0
2.52%	2.08%	1.65%	2.56%	3.28%	2.39%
15.70%	15.94%	15.49%	16.01%	15.85%	15.93%

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

	2019	2018	2017	2016
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$1,387,029	\$1,300,865	\$1,245,196	\$1,162,641
Contributions in Relation to the Contractually Required Contribution	<u>(1,387,029)</u>	<u>(1,300,865)</u>	<u>(1,245,196)</u>	<u>(1,162,641)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$9,907,350	\$9,291,893	\$8,894,257	\$8,304,579
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

2015	2014	2013	2012	2011	2010
\$1,188,288	\$1,105,857	\$1,135,860	\$1,167,225	\$1,151,449	\$1,132,606
(1,188,288)	(1,105,857)	(1,135,860)	(1,167,225)	(1,151,449)	(1,132,606)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$8,487,771	\$8,506,592	\$8,737,385	\$8,978,654	\$8,857,300	\$8,712,354
<u>14.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$0	\$85,066	\$87,374	\$89,787	\$88,573	\$87,124
0	(85,066)	(87,374)	(89,787)	(88,573)	(87,124)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

**Salem City School District, Ohio**  
*Notes to Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

**Net Pension Liability**

**Changes in Assumptions – SERS**

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

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

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016 and Prior</u>
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

Beginning with fiscal year 2017, mortality assumptions use 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.

**Changes in Assumptions - STRS**

Beginning with fiscal year 2018, amounts reported incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017 and Prior</u>
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	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.

Beginning with fiscal year 2018, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for

**Salem City School District, Ohio**  
*Notes to Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, 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.

**Net OPEB Liability (Asset)**

**Changes in Assumptions – SERS**

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

**Changes in Assumptions – STRS**

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45.

**Changes in Benefit Terms – STRS OPEB**

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

**Salem City School District, Ohio**  
*Notes to Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.



**Salem City School District**  
**Columbiana County**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> <b>Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Cash Assistance:			
School Breakfast Program	10.553	\$ -	\$ 110,136
National School Lunch Program	10.555	-	449,877
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	-	40,806
Total U.S. Department of Agriculture		-	600,819
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grant to Local Educational Agencies	84.010	-	599,673
Special Education Cluster:			
Special Education - Grants to States	84.027	-	482,551
Special Education - Preschool Grants	84.173	7,325	7,325
Total Special Education Cluster		7,325	489,876
Improving Teacher Quality State Grants	84.367	-	107,705
Rural Education	84.358	-	52,042
Student Support and Academic Enrichment Program	84.424	-	21,245
Special Education - Personnel Development	84.323	-	57,657
English Language Acquisition State Grants:			
English Language Acquisition State Grants	84.365	-	25,808
English Language Acquisition State Grants - Immigrant	84.365	-	264
Total English Language Acquisition State Grants		-	26,072
<b>Direct Programs:</b>			
Student Financial Aid Cluster:			
Federal Pell Grant Program	84.063	-	583,570
Federal Direct Student Loans	84.268	-	858,322
Total Student Financial Aid Cluster		-	1,441,892
Total U.S. Department of Education		7,325	2,796,162
<b>Total Expenditures of Federal Awards</b>		<b>\$ 7,325</b>	<b>\$ 3,396,981</b>

*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, 2019

**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, 2019. 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 Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE D - 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, 2019  
(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 2019 to 2020 programs:

<b>Program Title</b>	<b>CFDA Number</b>	<b>Amount Transferred</b>
Title I Gants to Local Educational Agencies	84.010	\$ 1,542
Improving Teacher Quality State Grants	84.367	4,498
English Language Acquisition State Grants	84.365	12,515
Student Support and Academic Enrichment Program	84.424	10,671
Special Education - Grants to States	84.027	493,580
Special Education - Personnel Development	84.323	42,512

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**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, 2019, 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 25, 2019.

***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.

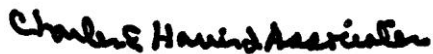
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

***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*.

***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 25, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH 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 Each 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 each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are 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 each of the District's major federal programs 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 each of the major programs. However, our audit does not provide a legal determination of the District's compliance.

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

In our opinion, the Salem City School District, 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 each of the major federal programs for the year ended June 30, 2019.

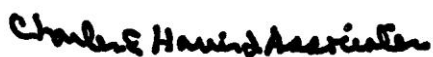
***Report on Internal Control Over Compliance***

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 each of the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 25, 2019



Salem City School District  
Columbiana County  
Schedule of Findings  
2 CFR § 200.515  
June 30, 2019

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster – CFDA #84.027 & #84.173; Title I – CFDA #84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

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# OHIO AUDITOR OF STATE KEITH FABER



**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  
FEBRUARY 11, 2020**