



**Auditor of State
Betty Montgomery**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying general purpose financial statements of the Salem City School District, Columbiana County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Salem City School District, Columbiana County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 15, 2003

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SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents	\$ 3,885,148	\$ 593,275	\$ 1,194,205	\$ 294,556
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	7,760,398	-	751,103	492,149
Accounts	2,899	-	-	-
Interfund loan receivable	3,033	-	-	-
Due from other governments	-	9,933	-	-
Materials and supplies inventory	-	-	-	-
Prepayments	18,200	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	164,450	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-
OTHER DEBITS:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 11,834,128</u>	<u>\$ 603,208</u>	<u>\$ 1,945,308</u>	<u>\$ 786,705</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 38,369	\$ 39,493	\$ -	\$ 9,647
Accrued wages and benefits	1,507,301	100,867	-	-
Compensated absences payable	106,834	382	-	-
Pension obligation payable	393,818	29,420	-	-
Interfund loan payable	-	2,810	-	-
Deferred revenue	7,279,074	-	702,642	468,649
Due to other governments	60,457	5,272	-	-
Due to students	-	-	-	-
Claims payable	-	-	-	-
General obligation bonds payable	-	-	-	-
Asbestos removal loan payable	-	-	-	-
Undistributed monies	-	-	-	-
Total liabilities	<u>9,385,853</u>	<u>178,244</u>	<u>702,642</u>	<u>478,296</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Retained earnings (accumulated deficit): unreserved	-	-	-	-
Fund balances (deficit):				
Reserved for encumbrances	34,037	21,882	-	172,622
Reserved for prepayments	18,200	-	-	-
Reserved for debt service	-	-	149,250	-
Reserved for tax revenue unavailable for appropriation	481,324	-	48,461	23,500
Reserved for budget stabilization	164,450	-	-	-
Unreserved:				
Designated for underground storage tanks	11,000	-	-	-
Undesignated	1,739,264	403,082	1,044,955	112,287
Total equity and other credits	<u>2,448,275</u>	<u>424,964</u>	<u>1,242,666</u>	<u>308,409</u>
Total liabilities, equity and other credits	<u>\$ 11,834,128</u>	<u>\$ 603,208</u>	<u>\$ 1,945,308</u>	<u>\$ 786,705</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$ 157,584	\$ 738,596	\$ 318,693	\$ -	\$ -	\$ 7,182,057
-	-	-	-	-	9,003,650
550	-	-	-	-	3,449
-	-	-	-	-	3,033
33,576	-	-	-	-	43,509
32,938	-	-	-	-	32,938
-	-	-	-	-	18,200
-	-	-	-	-	164,450
23,128	-	-	16,167,406	-	16,190,534
-	-	-	-	1,242,666	1,242,666
-	-	-	-	654,355	654,355
<u>\$ 247,776</u>	<u>\$ 738,596</u>	<u>\$ 318,693</u>	<u>\$ 16,167,406</u>	<u>\$ 1,897,021</u>	<u>\$ 34,538,841</u>
\$ 9,200	\$ -	\$ -	\$ -	\$ -	\$ 96,709
25,453	-	-	-	-	1,633,621
29,375	-	-	-	1,650,046	1,786,637
21,562	-	-	-	97,725	542,525
223	-	-	-	-	3,033
11,360	-	-	-	-	8,461,725
826	-	-	-	-	66,555
-	-	24,630	-	-	24,630
-	524,295	-	-	-	524,295
-	-	-	-	110,000	110,000
-	-	-	-	39,250	39,250
-	-	294,063	-	-	294,063
<u>97,999</u>	<u>524,295</u>	<u>318,693</u>	<u>-</u>	<u>1,897,021</u>	<u>13,583,043</u>
-	-	-	16,167,406	-	16,167,406
149,777	214,301	-	-	-	364,078
-	-	-	-	-	228,541
-	-	-	-	-	18,200
-	-	-	-	-	149,250
-	-	-	-	-	553,285
-	-	-	-	-	164,450
-	-	-	-	-	11,000
-	-	-	-	-	3,299,588
<u>149,777</u>	<u>214,301</u>	<u>-</u>	<u>16,167,406</u>	<u>-</u>	<u>20,955,798</u>
<u>\$ 247,776</u>	<u>\$ 738,596</u>	<u>\$ 318,693</u>	<u>\$ 16,167,406</u>	<u>\$ 1,897,021</u>	<u>\$ 34,538,841</u>

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**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
From local sources:					
Taxes	\$ 9,195,038	\$ -	\$ 744,254	\$ 430,330	\$ 10,369,622
Tuition	496	243,143	-	-	243,639
Earnings on investments	241,793	1,163	-	-	242,956
Extracurricular	-	227,301	-	-	227,301
Other local revenues	16,871	309,930	-	-	326,801
Intergovernmental - State	7,801,949	176,138	82,390	87,631	8,148,108
Intergovernmental - Federal	-	902,871	-	-	902,871
Total revenue	17,256,147	1,860,546	826,644	517,961	20,461,298
Expenditures:					
Current:					
Instruction:					
Regular	8,620,706	333,775	-	86,229	9,040,710
Special	1,450,865	675,852	-	-	2,126,717
Vocational	461,884	-	-	-	461,884
Other	318,081	245,749	-	-	563,830
Support services:					
Pupil	830,936	151,995	-	48,225	1,031,156
Instructional staff	891,296	4,799	-	3,202	899,297
Board of Education	18,100	-	-	-	18,100
Administration	1,801,247	174,487	-	61,210	2,036,944
Fiscal	648,170	-	25,824	17,886	691,880
Business	59,041	-	-	-	59,041
Operations and maintenance	2,115,279	-	-	58,881	2,174,160
Pupil transportation	695,804	-	-	34,370	730,174
Central	1,817	10,680	-	-	12,497
Community services	-	165,795	-	-	165,795
Extracurricular activities	387,852	241,043	-	-	628,895
Facilities acquisition and construction	975	23,435	-	280,659	305,069
Debt service:					
Principal retirement	-	-	63,704	-	63,704
Interest and fiscal charges	-	-	11,172	-	11,172
Total expenditures	18,302,053	2,027,610	100,700	590,662	21,021,025
Excess (deficiency) of revenues over (under) expenditures	(1,045,906)	(167,064)	725,944	(72,701)	(559,727)
Other financing sources (uses):					
Operating transfers in	-	16,900	-	-	16,900
Operating transfers out	(111,270)	-	-	-	(111,270)
Proceeds from sale of fixed assets	-	-	-	350	350
Total other financing sources (uses)	(111,270)	16,900	-	350	(94,020)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(1,157,176)	(150,164)	725,944	(72,351)	(653,747)
Fund balances, July 1	3,605,451	575,128	516,722	380,760	5,078,061
Fund balances, June 30	<u>\$ 2,448,275</u>	<u>\$ 424,964</u>	<u>\$ 1,242,666</u>	<u>\$ 308,409</u>	<u>\$ 4,424,314</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 9,475,318	\$ 8,937,497	\$ (537,821)	\$ -	\$ -	\$ -
Tuition	582	496	(86)	249,670	243,143	(6,527)
Earnings on investments	235,912	201,141	(34,771)	120,048	1,163	(118,885)
Extracurricular	-	-	-	206,296	211,444	5,148
Other local revenues	30,814	16,893	(13,921)	184,591	309,930	125,339
Intergovernmental - State	8,957,590	7,801,949	(1,155,641)	216,185	242,894	26,709
Intergovernmental - Federal	-	-	-	747,993	858,871	110,878
Total revenues	<u>18,700,216</u>	<u>16,957,976</u>	<u>(1,742,240)</u>	<u>1,724,783</u>	<u>1,867,445</u>	<u>142,662</u>
Expenditures:						
Current:						
Instruction:						
Regular	7,845,676	8,317,435	(471,759)	16,298	320,035	(303,737)
Special	1,772,568	1,437,606	334,962	591,706	698,591	(106,885)
Vocational	448,987	445,817	3,170	-	-	-
Other	210,394	318,081	(107,687)	257,983	223,608	34,375
Support services:						
Pupil	805,052	793,391	11,661	191,128	161,828	29,300
Instructional staff	840,947	886,689	(45,742)	20,000	14,174	5,826
Board of Education	24,361	20,385	3,976	-	-	-
Administration	1,373,334	1,795,946	(422,612)	197,802	183,750	14,052
Fiscal	485,689	655,812	(170,123)	-	-	-
Business	59,893	58,203	1,690	-	-	-
Operations and maintenance	1,995,543	2,197,094	(201,551)	-	-	-
Pupil transportation	492,560	706,816	(214,256)	-	-	-
Central	22,775	1,817	20,958	17,160	-	17,160
Community services	-	-	-	57,891	173,782	(115,891)
Extracurricular activities	315,425	388,951	(73,526)	220,744	246,193	(25,449)
Facilities acquisition and construction	-	975	(975)	44,184	23,435	20,749
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>16,693,204</u>	<u>18,025,018</u>	<u>(1,331,814)</u>	<u>1,614,896</u>	<u>2,045,396</u>	<u>(430,500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,007,012</u>	<u>(1,067,042)</u>	<u>(3,074,054)</u>	<u>109,887</u>	<u>(177,951)</u>	<u>(287,838)</u>
Other financing sources (uses):						
Operating transfers in	2,527,876	2,155,293	(372,583)	10,965	16,900	5,935
Operating transfers out	(1,434,359)	(2,266,563)	(832,204)	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-
Refund of prior year receipts	-	-	-	(8,966)	(32,688)	(23,722)
Refund of prior year expenditure	1,994	1,699	(295)	-	-	-
Total other financing sources (uses)	<u>1,095,511</u>	<u>(109,571)</u>	<u>(1,205,082)</u>	<u>1,999</u>	<u>(15,788)</u>	<u>(17,787)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>3,102,523</u>	<u>(1,176,613)</u>	<u>(4,279,136)</u>	<u>111,886</u>	<u>(193,739)</u>	<u>(305,625)</u>
Fund balances, July 1	4,968,585	4,968,585	-	677,663	677,663	-
Prior year encumbrances appropriated	<u>165,271</u>	<u>165,271</u>	<u>-</u>	<u>47,976</u>	<u>47,976</u>	<u>-</u>
Fund balances, June 30	<u>\$ 8,236,379</u>	<u>\$ 3,957,243</u>	<u>\$ (4,279,136)</u>	<u>\$ 837,525</u>	<u>\$ 531,900</u>	<u>\$ (305,625)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 1,790,288	\$ 712,599	\$ (1,077,689)	\$ 2,132,112	\$ 418,178	\$ (1,713,934)	\$ 13,397,718	\$ 10,068,274	\$ (3,329,444)
-	-	-	-	-	-	250,252	243,639	(6,613)
-	-	-	-	-	-	355,960	202,304	(153,656)
-	-	-	-	-	-	206,296	211,444	5,148
-	-	-	-	-	-	215,405	326,823	111,418
195,718	82,390	(113,328)	241,607	87,631	(153,976)	9,611,100	8,214,864	(1,396,236)
-	-	-	-	-	-	747,993	858,871	110,878
<u>1,986,006</u>	<u>794,989</u>	<u>(1,191,017)</u>	<u>2,373,719</u>	<u>505,809</u>	<u>(1,867,910)</u>	<u>24,784,724</u>	<u>20,126,219</u>	<u>(4,658,505)</u>
-	-	-	80,085	105,788	(25,703)	7,942,059	8,743,258	(801,199)
-	-	-	-	-	-	2,364,274	2,136,197	228,077
-	-	-	-	-	-	448,987	445,817	3,170
-	-	-	-	-	-	468,377	541,689	(73,312)
-	-	-	7,331	41,176	(33,845)	1,003,511	996,395	7,116
-	-	-	13,643	-	13,643	874,590	900,863	(26,273)
-	-	-	-	-	-	24,361	20,385	3,976
-	-	-	-	51,295	(51,295)	1,571,136	2,030,991	(459,855)
15,142	25,824	(10,682)	9,990	8,280	1,710	510,821	689,916	(179,095)
-	-	-	-	-	-	59,893	58,203	1,690
-	-	-	30,167	46,129	(15,962)	2,025,710	2,243,223	(217,513)
-	-	-	35,745	-	35,745	528,305	706,816	(178,511)
-	-	-	-	-	-	39,935	1,817	38,118
-	-	-	-	-	-	57,891	173,782	(115,891)
-	-	-	-	-	-	536,169	635,144	(98,975)
-	-	-	681,942	519,185	162,757	726,126	543,595	182,531
63,704	63,704	-	-	-	-	63,704	63,704	-
1,157,774	11,172	1,146,602	-	-	-	1,157,774	11,172	1,146,602
<u>1,236,620</u>	<u>100,700</u>	<u>1,135,920</u>	<u>858,903</u>	<u>771,853</u>	<u>87,050</u>	<u>20,403,623</u>	<u>20,942,967</u>	<u>(539,344)</u>
<u>749,386</u>	<u>694,289</u>	<u>(55,097)</u>	<u>1,514,816</u>	<u>(266,044)</u>	<u>(1,780,860)</u>	<u>4,381,101</u>	<u>(816,748)</u>	<u>(5,197,849)</u>
-	-	-	-	-	-	2,538,841	2,172,193	(366,648)
-	-	-	-	-	-	(1,434,359)	(2,266,563)	(832,204)
-	-	-	1,643	350	(1,293)	1,643	350	(1,293)
-	-	-	-	-	-	(8,966)	(32,688)	(23,722)
-	-	-	-	-	-	1,994	1,699	(295)
-	-	-	1,643	350	(1,293)	1,099,153	(125,009)	(1,224,162)
749,386	694,289	(55,097)	1,516,459	(265,694)	(1,782,153)	5,480,254	(941,757)	(6,422,011)
499,917	499,917	-	371,906	371,906	-	6,518,071	6,518,071	-
-	-	-	6,075	6,075	-	219,322	219,322	-
<u>\$ 1,249,303</u>	<u>\$ 1,194,206</u>	<u>\$ (55,097)</u>	<u>\$ 1,894,440</u>	<u>\$ 112,287</u>	<u>\$ (1,782,153)</u>	<u>\$ 12,217,647</u>	<u>\$ 5,795,636</u>	<u>\$ (6,422,011)</u>

SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Operating revenues:			
Tuition and fees	\$ 55,098	\$ -	\$ 55,098
Sales/charges for services	250,927	2,572,920	2,823,847
Other operating revenues	427	-	427
	<u>306,452</u>	<u>2,572,920</u>	<u>2,879,372</u>
Total operating revenues			
Operating expenses:			
Personal services	370,079	-	370,079
Contract services	957	6,511	7,468
Materials and supplies	326,362	-	326,362
Depreciation	3,443	-	3,443
Claims expense.	-	2,578,809	2,578,809
	<u>700,841</u>	<u>2,585,320</u>	<u>3,286,161</u>
Total operating expenses			
Operating loss.	<u>(394,389)</u>	<u>(12,400)</u>	<u>(406,789)</u>
Nonoperating revenues:			
Operating grants	213,592	-	213,592
Federal commodities	44,542	-	44,542
Miscellaneous	26,357	-	26,357
	<u>284,491</u>	<u>-</u>	<u>284,491</u>
Total nonoperating revenues			
Net loss before operating transfers	(109,898)	(12,400)	(122,298)
Operating transfers in.	94,370	-	94,370
Net loss	(15,528)	(12,400)	(27,928)
Retained earnings, July 1 (restated)	165,305	226,701	392,006
Retained earnings, June 30.	<u>\$ 149,777</u>	<u>\$ 214,301</u>	<u>\$ 364,078</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Cash flows from operating activities:			
Cash received from tuition and fees	\$ 55,527	\$ -	\$ 55,527
Cash received from sales/service charges	250,927	2,572,920	2,823,847
Cash payments for personal services	(352,127)	-	(352,127)
Cash payments for contract services	(957)	(6,511)	(7,468)
Cash payments for materials and supplies	(273,319)	-	(273,319)
Cash payments for claims expenses	<u>-</u>	<u>(2,314,391)</u>	<u>(2,314,391)</u>
Net cash provided by (used in) operating activities	<u>(319,949)</u>	<u>252,018</u>	<u>(67,931)</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	223,305	-	223,305
Cash received from other noncapital financing activities	26,357	-	26,357
Cash received from operating transfers	<u>94,370</u>	<u>-</u>	<u>94,370</u>
Net cash provided by noncapital financing activities	<u>344,032</u>	<u>-</u>	<u>344,032</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(3,485)</u>	<u>-</u>	<u>(3,485)</u>
Net cash used in capital and related financing activities	<u>(3,485)</u>	<u>-</u>	<u>(3,485)</u>
Net increase in cash and cash equivalents	20,598	252,018	272,616
Cash and cash equivalents at beginning of year	<u>136,986</u>	<u>486,578</u>	<u>623,564</u>
Cash and cash equivalents at end of year	<u>\$ 157,584</u>	<u>\$ 738,596</u>	<u>\$ 896,180</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (394,389)	\$ (12,400)	\$ (406,789)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	3,443	-	3,443
Federal donated commodities	44,542	-	44,542
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(2,772)	-	(2,772)
Decrease in accounts receivable	2	-	2
Increase in accounts payable	5,384	-	5,384
Increase in accrued wages and benefits	2,225	-	2,225
Increase in compensated absences payable	12,597	-	12,597
Decrease in due to other governments	(17,821)	-	(17,821)
Increase in pension obligation payable	21,562	-	21,562
Increase in deferred revenue	5,278	-	5,278
Increase in claims payable	<u>-</u>	<u>264,418</u>	<u>264,418</u>
Net cash provided by (used in) operating activities	<u>\$ (319,949)</u>	<u>\$ 252,018</u>	<u>\$ (67,931)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Salem City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 210th largest by total enrollment among the 705 public and community school districts in the state. It is staffed by 179 certified employees and 96 non-certified employees who provided services to 2,482 students and other community members.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the general purpose financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

JOINTLY GOVERNED ORGANIZATION

Area Cooperative Computerized Education Service System (ACCESS)

Area Cooperative Education Service System (ACCESS) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge. ACCESS is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting and designating management. All of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 2801 Market Street, Youngstown, Ohio 44507

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

RELATED ORGANIZATION

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

PUBLIC ENTITY RISK POOLS

Columbiana County School Employees Insurance Consortium (Consortium)

Columbiana County Employees Insurance Consortium is a shared risk pool. The consortium provides services to the six member schools including, health, dental, prescription drug and life insurance. The Board of Directors is comprised of the Superintendent from each District. All claims are processed through a third-party administrator, and the fiscal agent and budgeting authority is United Local School District. Financial information can be obtained by writing to the United Local School District, 8143 State Route 9, Hanoverton, Ohio 44423.

Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP)

The District participates in the GRP, an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the Ohio School Boards Association, or his/her designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual (see Note 3.C.).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Property taxes measurable as of June 30, 2002, and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2003 operations, have been recorded as deferred revenues, except for that portion, which is available from the County Auditors as advances at June 30. This amount is recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year in the operating statement as an expense and a like amount is reported as donated commodities revenue.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types and Note 12 provides disclosure of the encumbrances outstanding for the enterprise funds at fiscal year-end.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the combined balance sheet.

During fiscal year 2002, investments were limited to federal agency securities, repurchase agreements and, investments in the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exception: nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$241,793, which includes \$104,745 assigned from other school district funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

F. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture and equipment	5 - 20

G. 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 District's past experience of making termination payments.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

H. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

I. Fund Reserves/Designations

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, debt service, tax revenue unavailable for appropriation and budget stabilization. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. A designation of fund balance has been established for the potential liability in case of leaks in underground storage tanks.

J. Interfund Transactions

Transactions between funds during the course of normal operations may occur. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable and payable". The District had short-term interfund loans receivable and payable at June 30, 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2002.

An analysis of interfund transactions is presented in Note 5.

K. Estimates

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

L. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

M. Prepayments

Prepayments for governmental funds represent cash disbursements, which have occurred and are, therefore, not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established (see Note 17).

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

During fiscal year 2002, an appraisal of the District's fixed assets was performed. The District did not report fixed assets in the previous year. A prior period adjustment is required to restate the retained earnings in the Food Service enterprise fund. The prior period adjustment had the following effect on retained earnings as previously reported as of June 30, 2001:

	<u>Enterprise</u>
Retained earnings as previously reported	\$145,424
Restatement for fixed assets	<u>19,881</u>
Restated retained earnings at July 1, 2001	<u>\$165,305</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Retained Earnings

Fund balances/retained earnings at June 30, 2002 included the following fund deficits:

	<u>Deficit Balances</u>
<u>Special Revenue Funds</u>	
Auxiliary Services	\$ 1,696
Teacher Development	233
Miscellaneous State Grants	225
Title I	38,012
Drug-Free Grant	729
Classroom Reduction	16,137
 <u>Enterprise Fund</u>	
Food Service	7,921

These funds complied with Ohio state law, which does not allow a cash deficit at year-end.

The deficit fund balances in the special revenue funds are a result of accruing wage obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

The deficit retained earnings in the Food Service enterprise fund is a result of accruing wages, benefit and pension obligations in accordance with GAAP. This deficit will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

C. Agency Funds

The following are accruals for the agency funds, which in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Accounts receivable	\$27,215
 <u>LIABILITIES</u>	
Accounts payable	130

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Compliance

The following funds had expenditures in excess of appropriations in noncompliance with Ohio Revised Code Section 5705.41(B):

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
General	General	\$ 8,725
General	Emergency Levy	2,155,293
Special Revenue	Endowment Fund	17,046
Special Revenue	Education Foundation	246
Special Revenue	School Improvement Models	282
Special Revenue	District Managed Student Activities	25,449
Special Revenue	Auxiliary Services	97,135
Special Revenue	Management Information Systems	1,324
Special Revenue	Disadvantaged Pupil Impact Aid	58,408
Special Revenue	SchoolNet Professional Development	5,075
Special Revenue	Ohio Reads	4,797
Special Revenue	Title VI-B	149,917
Special Revenue	Telecommunications Act Grant	5,065
Special Revenue	Goals 2000	159,833
Special Revenue	Miscellaneous Federal Grants	69,571

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories:

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;

**SALEM CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on hand: At fiscal year-end, the District had \$6,500 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$684,484, and the bank balance was \$889,846. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

2. \$789,846 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Federal agency securities	\$1,124,652	\$1,124,652	\$1,124,652
Repurchase agreements	<u>561,355</u>	561,355	561,355
Total	<u>\$1,686,007</u>		
Investment in STAR Ohio		<u>4,969,516</u>	<u>4,969,516</u>
Total investments		<u>\$6,655,523</u>	<u>\$6,655,523</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,346,507	\$ -
Investment of the cash management pool:		
Repurchase agreement	(561,355)	561,355
Investment in STAR Ohio	(4,969,516)	4,969,516
Federal agency securities	(1,124,652)	1,124,652
Cash on hand	<u>(6,500)</u>	<u>-</u>
 GASB Statement No. 3	 <u>\$ 684,484</u>	 <u>\$6,655,523</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District’s operating transfers for fiscal year 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$111,270
<u>Special Revenue Funds</u>		
Public School Support	10,000	-
Trade Extension	6,900	-
<u>Enterprise Fund</u>		
Food Service	<u>94,370</u>	<u>-</u>
 Total	 <u>\$111,270</u>	 <u>\$111,270</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. The following is a summarized breakdown of the District's interfund loans receivable and payable at June 30, 2002:

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General Fund	\$3,033	\$ -
<u>Special Revenue Fund</u>		
Miscellaneous State Grants	-	2,810
<u>Enterprise Fund</u>		
Food Service	-	<u>223</u>
Total	<u>\$3,033</u>	<u>\$3,033</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed varying rates of true value.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value, upon which the 2001 taxes were collected, was \$286,275,320. Agricultural/residential and public utilities/minerals real estate represented \$154,420,240 or 53.94% of this total, commercial & industrial real estate represented \$52,301,730 or 18.27% of this total, public utility tangible represented \$14,675,180 or 5.13% of this total and general tangible property represented \$64,878,170 or 22.66% of this total. The voted general tax rate at the fiscal year ended June 30, 2002, was \$44.60 per \$1,000.00 of assessed valuation for operations, \$2.05 per \$1,000.00 of assessed valuation for debt retirement and \$2.25 per \$1,000.00 of assessed valuation for permanent improvement.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Columbiana Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The Columbiana County Auditor periodically remits to the District the portion of the taxes collected with final settlement in March and September. Such collections are available to pay current period liabilities.

The Columbiana County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The Columbiana County Auditor periodically remits to the District the portion of the taxes collected with final settlement in February and August. Such collections are available to pay current period liabilities.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance and recorded as revenue at June 30, 2002, was \$481,324 in the general fund, and \$48,461 in the debt service fund and \$23,500 in the Permanent Improvement capital projects fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 - PROPERTY TAXES - (Continued)

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for tax advance unavailable for appropriation. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, and intergovernmental grants (to the extent such grants relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Receivables have been recorded to the extent eligibility requirements have been met by year-end and the amounts are measurable. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$7,760,398
Accounts	2,899
Interfund loan	3,033
 <u>Special Revenue Funds</u>	
Due from other governments	9,933
 <u>Debt Service Fund</u>	
Taxes - current and delinquent	751,103
 <u>Capital Projects Funds</u>	
Taxes - current and delinquent	492,149
 <u>Enterprise Funds</u>	
Accounts	550
Due from other governments	33,576

**SALEM CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Land/improvements	\$ 1,019,003	\$ 11,560	\$ (8,033)	\$ 1,022,530
Buildings/improvements	12,524,019	125,849	(2,366)	12,647,502
Furniture/equipment	1,041,610	8,564	(6,199)	1,043,975
Vehicles	623,865	37,512	(14,277)	647,100
Textbooks	<u>806,299</u>	<u>-</u>	<u>-</u>	<u>806,299</u>
Total	<u>\$16,014,796</u>	<u>\$183,485</u>	<u>\$(30,875)</u>	<u>\$16,167,406</u>

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$110,836
Less: accumulated depreciation	<u>(87,708)</u>
Net fixed assets	<u>\$ 23,128</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to practicality of determining these values. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2002</u>
Compensated absences	\$1,463,185	\$186,861	\$ -	\$1,650,046
Pension obligation payable	100,755	97,725	(100,755)	97,725
Asbestos removal loan	47,954	-	(8,704)	39,250
Salem public library renewal bonds - 8.125%	<u>165,000</u>	<u>-</u>	<u>(55,000)</u>	<u>110,000</u>
Total	<u>\$1,776,894</u>	<u>\$284,586</u>	<u>\$(164,459)</u>	<u>\$1,897,021</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds - The general obligation library renewal bonds are voted issues for library renovation projects. General obligation bonds are direct obligations of the District for which its full faith, credit, and resources are pledged. Accordingly, such unmatured obligations are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund.

Asbestos Removal Loan - In prior years, the District received a loan from the U.S. Environmental Protection Agency for asbestos abatement projects. The loan is interest free as long as the District remains current on repayment. The loan is a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. The outstanding balance of the loan is reported in the general long-term obligations account group. Payments are recorded as expenditures of the debt service fund, from current operating revenue.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2002, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Asbestos Loan</u>	<u>Salem Library Renovation Bonds</u>
2003	\$ 8,704	\$ 72,465
2004	8,704	42,844
2005	8,704	-
2006	8,704	-
2007	<u>4,434</u>	<u>-</u>
Total	39,250	115,309
Less: interest	<u>-</u>	<u>(5,309)</u>
Total	<u>\$39,250</u>	<u>\$110,000</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$26,897,445 (including available funds of \$1,242,666 and an unvoted debt margin of \$286,275).

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Life Insurance

The District provides life insurance in the amount of \$50,000 for all regular employees through SAFECO Insurance Company.

**SALEM CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District contracted with Harcum-Hyre Insurance Agency Inc. for liability insurance. Coverage provided by Harcum-Hyre Insurance Agency, Inc. is as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$50,105,200
Boiler and Machinery (\$1,000 deductible)	22,608,100
Crime Insurance (no deductible)	5,000
Automobile Liability (same as general liability)	
Auto Medical Payments	5,000
Uninsured Motorists (\$100 deductible)	500,000
General Liability	2,000,000

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

B. Workers' Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**SALEM CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insurance program. The District uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Columbiana County Schools Employee Insurance Consortium. The Columbiana County Schools Employee Insurance Consortium has stop loss coverage exceeding \$95,000 up to a maximum of \$2,000,000 of expected claims. The claims liability was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board, Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The claims liability of \$524,295 reported in the fund at June 30, 2002, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$259,877	\$2,578,809	\$(2,314,391)	\$524,295
2001	602,697	608,635	(951,455)	259,877

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$251,354	\$55,098	\$306,452
Operating expenses less depreciation	662,460	34,938	697,398
Depreciation	3,443	-	3,443
Operating grants	213,592	-	213,592
Operating transfers in	94,370	-	94,370
Net income/(loss)	(35,688)	20,160	(15,528)
Net working capital	(1,675)	157,698	156,023
Total assets	90,078	157,698	247,776
Total liabilities	97,999	-	97,999
Total fund equity	(7,921)	157,698	149,777
Encumbrances at June 30, 2002	9,895	88	9,983

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2002; 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$98,501, \$76,461, and \$95,577, respectively; 46.24 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$52,954, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$895,577, \$746,396, and \$514,560, respectively; 84.51 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$138,738, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$424,221 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

**SALEM CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$182,528 during the 2002 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other
Financing Uses**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$(1,176,613)	\$(193,739)	\$694,289	\$(265,694)
Net adjustment for revenue accruals	298,171	(6,899)	31,655	12,152
Net adjustment for expenditure accruals	(355,449)	(43,589)	-	(1,078)
Net adjustment for other financing sources/(uses)	(1,699)	32,688	-	-
Encumbrances (budget basis)	<u>78,414</u>	<u>61,375</u>	<u>-</u>	<u>182,269</u>
GAAP basis	<u><u>\$(1,157,176)</u></u>	<u><u>\$(150,164)</u></u>	<u><u>\$725,944</u></u>	<u><u>\$ (72,351)</u></u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is not involved in litigation as either plaintiff or defendant.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2001	\$(368,462)	\$ 177,617	\$164,450
Current year set-aside requirement	318,975	318,975	-
Qualifying disbursements	<u>(335,184)</u>	<u>(524,240)</u>	<u>-</u>
Total	<u>\$(384,671)</u>	<u>\$ (27,648)</u>	<u>\$164,450</u>
Cash balance carried forward to FY 2003	<u>\$(384,671)</u>	<u>\$ (27,648)</u>	<u>\$164,450</u>

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for budget stabilization	<u>\$164,450</u>
Total restricted assets	<u>\$164,450</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		46,188		44,542
National School Breakfast Program		10.553	\$ 28,144		\$ 28,144	
National School Lunch Program		10.555	180,088		180,088	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>208,232</u>	<u>46,188</u>	<u>208,232</u>	<u>44,542</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2002	84.010	471,833		439,172	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-2001	84.027	-		74,841	
	6B-SF-2002-P		214,484		187,376	
Total Special Education Cluster			<u>214,484</u>		<u>262,217</u>	
Drug-Free Schools Grant	DR-S1-2001	84.186	0		6,347	
	DR-S1-2002		10,012		10,012	
Total Drug Free Schools Grant			<u>10,012</u>		<u>16,359</u>	
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2001	84.281	-		1,540	
	MS-S1-2002		14,414		7,175	
Total Eisenhower Professional Development			<u>14,414</u>		<u>8,715</u>	
Innovative Educational Program Strategies	C2-S1-2001	84.298	0		10,856	
	C2-S1-2002		4,057		2,231	
Total Innovative Educational Program Strategies			<u>4,057</u>		<u>13,087</u>	
Class Size Reduction Subsidy	CR-SR-2000	84.340	48,700		69,571	
	CR-S1-2001		0		74,257	
	CR-S1-2002		91,723		91,723	
Total Class Size Reduction Subsidy			<u>91,723</u>		<u>235,551</u>	
Assistive Technology Infusion Project	AT-S1-2002	84.352	1,595		-	
Total Department of Education			<u>808,118</u>	<u>0</u>	<u>975,101</u>	<u>0</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Human Services: passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Cluster:						
Medical Assistance Program - Title XIX - Community Alternative Funding System		93.778	<u>70,600</u>		<u>70,600</u>	
Totals			<u><u>\$1,086,950</u></u>	<u><u>\$46,188</u></u>	<u><u>\$1,253,933</u></u>	<u><u>\$44,542</u></u>

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

FISCAL YEAR ENDED JUNE 30, 2002

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the Salem City School District, Columbiana County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 15, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-11215-001 through 2002-11215-006. We noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial. The reportable condition is described in the accompanying schedule of findings as item 2002-11215-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in separate letter dated May 15, 2003.

This report is intended for the information and use of the management, Board of Education, and federal awarding agencies' and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 15, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Salem City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2002-11215-008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses

This report is intended for the information and use of the management, Board of Education, and federal awarding agencies' and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 15, 2003

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 Title 1
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2002-11215-001
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Noncompliance Citation

We noted the following during our audit:

On October 22, 1997, the District purchased an 8x8 wall screen, a 42 inch cart with electrical outlet and an overhead projector for a total purchase price of \$730.65. The purchase was made with the issuance of District check number 037643. On January 10, 2003, \$730.65 was received on District receipt number 3548 from Dennis Niederhiser to reimburse the District for this purchase.

On August 22, 2000, the District purchased a 24 inch heavy duty paper cutter for \$138.36. This purchase was made with the issuance of District check number 046432. On September 15, 2000, \$138.36 was received on District receipt number 1659 from Dennis Niederhiser to reimburse the District for this purchase.

On June 30, 2001, the District purchased a volleyball net for \$95.14. This purchase was made with the issuance of District check number 048806. On August 24, 2001, \$95.14 was received on District receipt number 2412 from Dennis Niederhiser to reimburse the District for this purchase.

On May 21, 2002, the District purchased a picnic table frame for \$236.26. This purchase was made with the issuance of District check number 05405. On or about October 29, 2002, per discussion with District Officials, the picnic table frame was returned to the District by Dennis Niederhiser.

On October 15, 2002, the District purchased 200 coat hooks for \$190.00. This purchase was made with the issuance of District check number 052567. On October 25, 2002, \$190.00 was received on District receipt number 3385 from Dennis Niederhiser to reimburse the District for this purchase.

In each of the aforementioned purchases, the purchase was initiated through a purchase requisition prepared and submitted by Dennis Niederhiser. Purchase orders were then prepared and issued to the respective vendors. Items purchased were then directed by invoice to be delivered to Buckeye Elementary School where Dennis Niederhiser serves as School Principal.

Also, during the performance of our audit, District officials advised us that a chair and two floor mats had been purchased by District check number 50939 dated March 28, 2002. The officials stated that, although the chair and mats had been paid for by the District, these items were delivered to the home of the District's Treasurer, Ted Cougras, as indicated on the corresponding invoice. The total cost of the chair and the two floor mats amounted to \$781.00. District officials further stated that this matter had been discussed with Mr. Cougras who advised them that \$781.00 had been placed in the District's safe for repayment. This matter has been turned over to the Columbiana County Prosecutor's Office which is presently reviewing this matter. The \$781.00 is in the possession of the Columbiana County Prosecutor's Office as part of its review.

The Salem City School District issued check number 050193, dated December 19, 2001, for the purchase of a paint sprayer. Check number 050193 was issued to pay invoice number 0280-3, in the amount of \$450.00, dated November 15, 2001. However, District personnel have represented that the paint sprayer is not listed on the inventory or in their possession. This matter has been referred to the Columbiana County Prosecutor's Office.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2002-11215-001 (Continued)
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State ex. rel. McClure v. Hagerman, 155 Ohio St. 320, provides that expenditures made by the District should serve a public purpose. The purchases listed above were not made for the benefit of the School District.

The District should periodically, perhaps annually, remind administrators and staff that District funds are to be used for official District purposes only. Personal purchases should not be made using District funds (even when reimbursement is contemplated), the District's tax exempt identification number, or otherwise use the District's purchasing cycle.

Finding Number	2002-11215-002
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Noncompliance Citation

Ohio Revised Code §5705.10 provides that money paid into any fund shall be used only for the purpose for which such fund was established. The existence of a deficit fund balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit balance.

As of May 31, 2002, the Food Service Fund (\$112,968), Venture Capital Grant (\$1,964), Professional Development Block Grant (\$6,706), Adult Education (\$24), Title 1 (\$328,224) and the Drug Free Schools Grant (\$7,062) had deficit fund balances. This indicates money from other funds has been used to pay the obligations of these funds.

However, the District eliminated the negative fund balances at fiscal year end June 30, 2002.

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

Finding Number:	2002-11215-003
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Noncompliance Citation

Ohio Revised Code §5705.41(B), states that “No subdivision or taxing unit is to expend money unless it has been appropriated.”

The District had actual disbursements plus outstanding encumbrances that exceeded total appropriations for the following funds:

Fund	Appropriations	Expenditures	Variance
General	\$18,139,864	\$18,148,592	\$ (8,728)
Emergency Levy	0	2,155,293	(2,155,293)
Scholarship	3,619	4,365	(746)
Venture Capital Grant	0	282	(282)
Athletic	219,569	246,193	(26,624)
Non-Public Auxiliary	45,676	166,533	(120,857)
EMIS	9,356	10,679	(1,323)
DPIA	3,923	62,321	(58,398)
Schoolnet Development	0	5,075	(5,075)
Ohio Reads	16,638	21,437	(4,799)
Title VI-B	116,316	266,233	(149,917)
Title VI	2,237	13,843	(11,606)
Telecom (E-Rate)	4,935	10,000	(5,065)
Class Size Reduction	0	165,980	(165,980)
School Renovation	0	69,571	(69,571)
Schoolnet/Plus	85,648	101,995	(16,347)
Uniform School Supplies	14,141	35,026	(20,885)
Health Benefits Trust	945	57,244	(56,299)
Employees Benefits	996,001	2,320,902	(1,324,901)

We recommend that expenditures be limited to appropriations.

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

Finding Number:	2002-11215-004
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Noncompliance Citation

Ohio Revised Code §5705.41(A), states that the total appropriations from each fund should not exceed certified resources and appropriations from each fund should not exceed available funds.

Appropriations were more than certified resources and appropriations were more than available funds in the following funds:

Fund	Estimated Resources	Available Resources	Appropriations
Network Connection	\$ 0	\$ 0	\$ 17,160
Ohio Read	0	11,500	16,638
Title 1	480,000	471,833	492,445
Schoolnet/Plus	10,000	50,495	84,173
Lunchroom	567,209	617,166	635,185
Trade Extension	349,800	383,555	419,420

This condition leads to an increased risk that disbursements within the above named funds will exceed the amounts actually available.

The District's annual appropriation measure should be limited to amounts certified as available by the county budget commission. Prior to increasing appropriations, the District should determine that the proposed increase combined with existing appropriations, will not exceed certified resources. If additional resources are expected, the District should request an amended certificate of estimated resources from the budget commission.

Finding Number:	2002-11215-005
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Noncompliance Citation

Ohio Revised Code §5705.41(D) states in part that "No subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

If no certificate is furnished as required, upon receipt by the taxing authority of the subdivision or taxing unit of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances (so called then and now certificate), such taxing authority may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution or ordinance shall be passed within thirty days after the taxing authority receives such certificate; provided that, if the amount involved is less than one hundred dollars in the case of counties or one thousand dollars in the case of all other subdivisions or taxing units, the fiscal officer may authorized it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid."

Incurring obligations prior to the fiscal officer's certification of the availability of funds to pay such obligations could result in the District spending more than what was appropriated. Eight percent of the invoices tested during our expenditure testing were dated before the certification date. Also, the then and now certificates were not used for these items.

We recommend that the District implement policies and procedures to ensure that the certification is made prior to the expenditure of monies.

Finding Number:	2002-11215-006
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Noncompliance Citation

Ohio Revised Code §3313.51 states in part "In every school district the treasurer of the board of education shall be the treasurer of the school funds. No moneys of a school district shall be paid out except on a check signed by the treasurer. If the treasurer is incapacitated in such manner that he is unable to sign such checks, the board may appoint an officer of the school district to sign such checks in the capacity of the treasurer."

We noted the District had implemented a student activity handbook which outlines the procedures the District is to follow. However, during our testing we found two significant areas in which the District did not comply with either the handbook or the requirements of the Ohio Revised Code Section noted above.

It was found that one of the District's principals maintained a checking account. When money was collected from the student fund raisers, these monies were deposited to the checking account rather than being deposited to the Treasurer's Office, as required by Section 9.38 Revised Code, and accounted for through an activity fund established by the Board of Education. We also noted the expenditures from this account were made without the approval of the board, as required by the Student Activity Handbook and Section 3313.51 (noted above). The student activity handbook states in part "the principal is responsible for the approval of requisitions, for the expenditure of funds, and for reviewing and approving the completed Sales Project Potential forms". The principal did not initiate or maintain any individual purpose statements, budgets or sales project potential forms.

We noted during our review of the yearbook sales the advisor did not issue any receipts for the sales of ads or yearbooks. The advisor maintained a ledger but the ledger was incomplete as to sales of the yearbook, sales of ads, the cost of the ads and any receivables owed to the District. The advisor also did not maintain adequate records to reconcile the ending inventory of the books purchased to the books sold and/or distributed.

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

Finding Number:	2002-11215-006
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Noncompliance Citation

Ohio Revised Code §3313.51 (Continued)

We recommend the District inform their student activity advisors on a yearly basis as to the policies outlined in their Activity Account Handbook. All student activities should have the required information, approved by the Board, which includes a Sales Potential Form, Purpose Statements, Budget and etc. The advisors should be informed as to the proper internal control methods to be utilized by each advisor. All money collected should be reflected on the District's books along with an appropriate purpose statement given to the Board. When money is collected by the advisors they should be given to the Treasurer's office on a daily basis along with the receipts, register tapes or tally sheets which confirm the amount of revenues received. The Treasurer's Office should reconcile these receipts to the deposits made. A payin should be issued to the advisor at the time they submit the revenues to the Treasurer's office. The Board should also require the advisor to perform some type of inventory cost of goods sold to account for each and every item purchased, sold, salvaged or given away. The Treasurer's office should review the documentation on a regular basis to ensure all activity is properly accounted for. All monies expended should go through the Treasurer's Office and approved by the Board.

By following the above guidelines this will help insure proper accountability over the funds received from Student Activities.

Finding Number:	2002-11215-007
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Reportable Condition

Bus Maintenance

The District has the maintenance on their buses performed by a private company. We noted the District does not have any type of contract for the services provided with the company. When the company provides services the invoices are not submitted on a timely basis, but at times submitted several months later after the work is performed. We also noted the company does not provide any type of estimate to repair the buses nor does it request the funds be certified prior to starting the work. The company was unable to provide any type of maintenance log for the individual buses and the invoices submitted to the District do not provide significant details, for example parts and labor costs, to support the total invoice amount. The transportation supervisor also does not approve any of the work performed or maintain any log of the repairs being made.

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

Finding Number:	2002-11215-007
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Reportable Condition

Bus Maintenance (Continued)

We recommend the District consider a formal bidding process for bus repairs. Whether or not a formal competitive bidding process is used, all repair costs should be supported by documentation and a process that includes, at a minimum, the following:

- 1.) An estimate should be submitted for approval for any repairs in advance of the repair.
- 2.) All routine procedures provided by the company should be priced out in the contract/estimate.
- 3.) All repairs should have the monies certified prior to the repairs being made.
- 4.) All invoices should include a detail of all parts and services and should be submitted in a timely manner.
- 5.) Approval of all repairs should be made by the Transportation Supervisor.
- 6.) A maintenance log should be maintained on each individual bus.

By implementing these controls the District will have better accountability over the expenditures of their bus maintenance program.

3. FINDINGS FOR FEDERAL AWARDS

Final Expenditure Report

Finding Number	2002-11215-008
CFDA Title and Number	Title 1 Grant #84.010
Federal Award Number / Year	C1-S1-2001
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

The Ohio Department of Education's Title 1 Grant agreement requires the final expenditure report to be submitted for each project immediately after all financial obligations have been liquidated. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported. The report is due within 60 days of the end of the project period.

Failure to submit the report in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed.

The FY 01 Title 1 project period for this grant ended on September 30, 2001 and the final expenditure reports were due by November 30, 2001. The Title 1 FY 01 final expenditure report was submitted on June 21, 2002.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2002**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u>; <i>Explain:</i>
2001-11215-001	No documentation to support valuation of fixed assets	Yes	Finding No Longer Valid
2001-11215-002	Set aside calculation	Yes	Finding No Longer Valid
2001-11215-004	Ohio Revised Code 5705.41(B) expend money unless it has been appropriated	No	Not Corrected

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-11215-008	The Title I Grant final expenditure report had not been filed timely. A new Treasurer has been hired and is creating a due date schedule of federal report filings. This will help ensure that final expenditure reports are filed before the required due dates. The Title I final expenditure reports will be filed prior to the November 30 th due date.	11/30/03	Alice Gunning, CPA, Treasurer of the Salem City School District



**Auditor of State
Betty Montgomery**

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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
JUNE 17, 2003**