



**Auditor of State
Betty Montgomery**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio (the Government), as of and for the year ended June 30, 2003, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the Government implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*.

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2004, on our consideration of the Government'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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Government's basic financial statements. The federal awards expenditure schedule is 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 basis financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 13, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the Salem City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities decreased \$2,043,518 which represents a 25.00% decrease from 2002.
- General revenues accounted for \$17,475,291 in revenue or 86.90% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$2,635,141 or 13.10% of total revenues of \$20,110,432.
- The District had \$22,153,950 in expenses related to governmental activities; only \$2,635,141 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,475,291 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$16,493,993 in revenues and other financing sources and \$18,870,695 in expenditures and other financing uses. During fiscal year 2003, the general fund's fund balance decreased \$2,376,702 from \$2,600,824 to \$224,122. The debt service fund had \$568,292 in revenues and \$382,055 in expenditures. During fiscal 2003, the debt service fund's fund balance increased \$186,237 from \$1,242,666 to \$1,428,903.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, operation of non-instructional services, extracurricular activities, food service operations, and interest and fiscal charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$ 13,965,077
Capital assets	4,907,668
Total assets	18,872,745
<u>Liabilities</u>	
Current liabilities	10,375,020
Long-term liabilities	1,794,329
Total liabilities	12,169,349
<u>Net Assets</u>	
Invested in capital assets, net of related debt	4,907,668
Restricted	2,333,882
Unrestricted	(538,154)
Total net assets	\$ 6,703,396

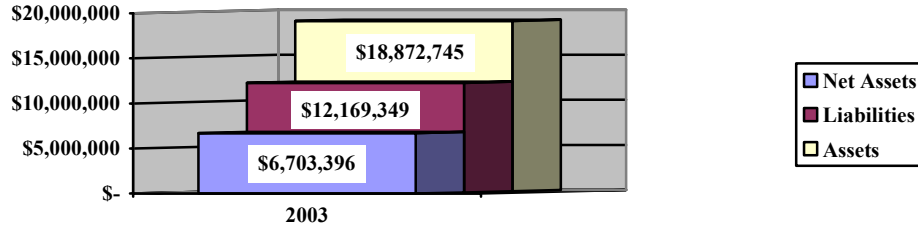
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$6,703,396. A portion of the District's net assets, \$2,333,882, represents resources that are subject to external restriction on how they may be used.

At year-end, capital assets represented 26.00% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$4,907,668. The District had no debt outstanding related to the acquisition of capital assets. These capital assets are used to provide services to the students and are not available for future spending.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 926,967
Operating grants and contributions	1,708,174
General revenues:	
Property taxes	9,132,772
Grants and entitlements	7,962,675
Investment earnings	111,180
Other	268,664
Total revenues	20,110,432

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	9,504,328
Special	2,342,245
Vocational	454,154
Other	568,943
Support services:	
Pupil	1,035,373
Instructional staff	1,034,289
Board of education	28,778
Administration	2,029,989
Fiscal	721,106
Business	39,613
Operations and maintenance	2,375,931
Pupil transportation	477,704
Central	84,725
Operations of non-instructional services	76,094
Extracurricular activities	698,798
Food service operations	673,265
Interest and fiscal charges	<u>8,615</u>
Total expenses	<u>22,153,950</u>
Decrease in net assets	<u>\$ (2,043,518)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$2,043,518. Total governmental expenses of \$22,153,950 were more than program revenues of \$2,635,141 and general revenues of \$17,475,291. Program revenues supported 11.89% of the total governmental expenses.

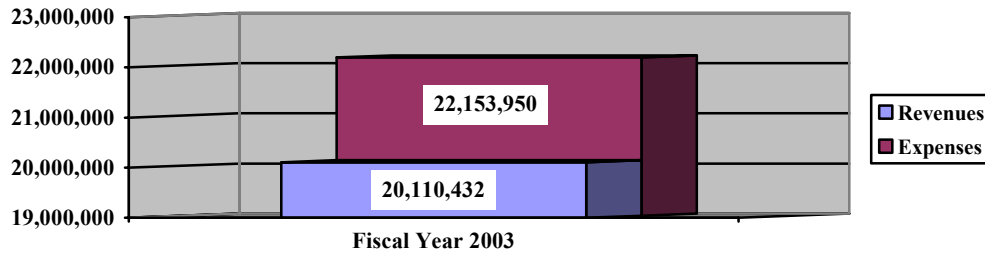
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 85.01% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

	Governmental Activities	
	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 9,504,328	\$ 9,203,326
Special	2,342,245	1,553,151
Vocational	454,154	454,154
Other	568,943	332,524
Support services:		
Pupil	1,035,373	873,186
Instructional staff	1,034,289	976,061
Board of education	28,778	28,778
Administration	2,029,989	1,848,340
Fiscal	721,106	721,106
Business	39,613	39,613
Operations and maintenance	2,375,931	2,375,931
Pupil transportation	477,704	477,704
Central	84,725	75,408
Operations of non-instructional services	76,094	(15,911)
Extracurricular activities	698,798	473,004
Food service operations	673,265	93,819
Interest and fiscal charges	8,615	8,615
Total expenses	\$ 22,153,950	\$ 19,518,809

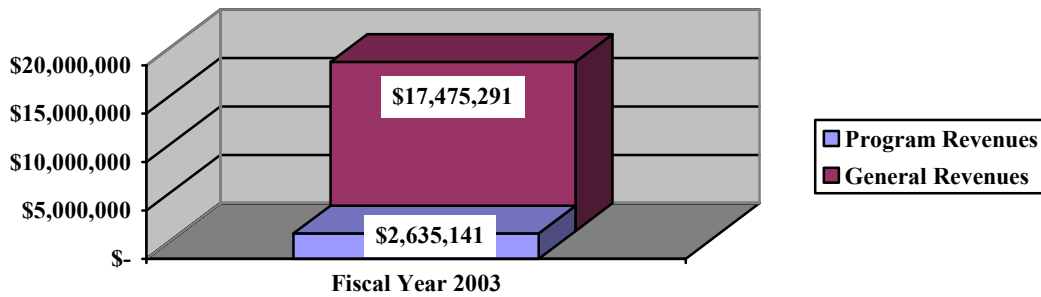
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The dependence upon tax and other general revenues for governmental activities is apparent, 89.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.11%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,764,162, which is lower than last year's restated total of \$4,750,858. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Restated Fund Balance <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ 224,122	\$ 2,600,824	\$ (2,376,702)
Debt Service	1,428,903	1,242,666	186,237
Other Governmental	<u>1,111,137</u>	<u>907,368</u>	<u>203,769</u>
Total	<u>\$ 2,764,162</u>	<u>\$ 4,750,858</u>	<u>\$ (1,986,696)</u>

General Fund

The District's general fund balance decreased by \$2,376,702 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The decrease in fund balance can be attributed to property tax and investment earnings decreases and a slight increase in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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	2003 <u>Amount</u>	Restated 2002 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,077,298	\$ 9,195,038	(12.16)%
Tuition	17,177	496	3363.10%
Earnings on investments	107,045	241,793	(55.73)%
Intergovernmental	7,990,251	7,801,949	2.41%
Other revenues	<u>297,511</u>	<u>16,871</u>	1663.45%
Total	<u>\$ 16,489,282</u>	<u>\$ 17,256,147</u>	(4.44)%
<u>Expenditures</u>			
Instruction	\$ 11,247,389	\$ 10,851,536	3.65%
Support services	7,064,885	7,061,690	0.05%
Extracurricular activities	431,421	387,852	11.23%
Facilities acquisition and construction	<u>-</u>	<u>975</u>	(100.00)%
Total	<u>\$ 18,743,695</u>	<u>\$ 18,302,053</u>	2.41%

Debt Service Fund

The District's debt service fund balance increased by \$186,237. The increase in expenditures can be attributed to the repayment of a tax anticipation note. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund.

	2003 <u>Amount</u>	Restated 2002 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 522,024	\$ 744,254	(29.86)%
Intergovernmental	<u>46,268</u>	<u>82,390</u>	(43.84)%
Total	<u>\$ 568,292</u>	<u>\$ 826,644</u>	(31.25)%
<u>Expenditures</u>			
Support services	\$ 9,736	\$ 25,824	(62.30)%
Debt service	<u>372,319</u>	<u>74,876</u>	397.25%
Total	<u>\$ 382,055</u>	<u>\$ 100,700</u>	279.40%

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$17,760,484, which is lower than the original budgeted revenues estimate of \$21,631,777. Actual revenues and other financing sources for fiscal 2003 was \$16,853,657. This represents a \$906,827 decrease from final budgeted revenues, which is due in part to the elimination of a transfer which occurred within the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

General fund original appropriations (appropriated expenditures plus other financing uses) of \$21,172,437 were decreased to \$20,521,805 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$18,905,062, which was \$1,616,743 less than the final budget appropriations, due in part to the elimination of a transfer which occurred within the general fund which was budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$4,907,668 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to the restated amounts in 2002:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>Restated 2002</u>
Land	\$ 574,357	\$ 574,357
Land improvements	306,884	335,811
Building and improvements	3,668,807	3,702,066
Furniture and equipment	168,199	114,514
Vehicles	<u>189,421</u>	<u>125,930</u>
Total	<u>\$ 4,907,668</u>	<u>\$ 4,852,678</u>

Total additions to capital assets for 2003 were \$423,500. The most significant additions were improvements to the Buckeye Elementary building in the amount of \$201,224. The District recorded \$368,510 in depreciation expense for fiscal 2003.

Debt Administration

At June 30, 2003, the District had \$85,546 in general obligation bonds and asbestos removal loans outstanding. Of this total, \$63,704 is due within one year and \$21,842 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

	Outstanding Debt, at Year End	
	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
General obligation bonds:		
Library improvement bonds	\$ 55,000	\$ 110,000
Asbestos removal loan	<u>30,546</u>	<u>39,250</u>
Total	<u>\$ 85,546</u>	<u>\$ 149,250</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The asbestos removal loan was received in prior years. This loan is scheduled to mature in fiscal year 2007 and is interest free as long as the District remains current on repayment. Payment of principal on the asbestos removal loan is being made from the debt service fund.

In 1986, the District issued bonds, providing for facility improvements to the District's public library. The general obligation bonds are scheduled to mature in fiscal year 2004 and bear an interest rate of 8.125%. Payment of principal and interest on the library improvement bonds is being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$27,653,977 with an unvoted debt margin of \$292,001. The District maintains an A-1 bond rating.

Current Financial Related Activities

As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Costs of doing business continue to rise as State funding continues to decrease. The District's general fund cash balance significantly decreased for fiscal year ended June 30, 2003. This District, as well as other districts within the state, is in need of additional operating funds and facing future financial challenges.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". On December 11, 2002, the Ohio Supreme Court issued its latest opinion reaffirming earlier decisions that Ohio's current school funding plan is unconstitutional.

At this time the District is unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board has been working with the Ohio School Facilities Commission (OSFC) since 2001 to design a master plan that will serve building needs for the next 50 years. Currently, the Board is considering options to improve and maintain its facilities.

The District has committed itself to continue working toward educational excellence and implementation of a strong internal control system to ensure proper checks and balances and full accountability of taxpayers dollars.

Teachers and administrators are currently working to align our respective courses of study with the Ohio Department of Education's Content Standards. Based on these aligned courses-of-study, the curriculum director will oversee the adoption of textbooks in the various curricular areas starting with social studies in 2004, language arts in 2005, mathematics in 2006, and foreign language in 2007. In addition, our high school principal is leading an effort to add academically-rigorous, accelerated courses for our burgeoning gifted population.

All of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the District's Board and management team continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,263,708
Receivables:	
Taxes	8,515,970
Accounts	552
Intergovernmental	109,789
Accrued interest	-
Internal loans.	-
Prepayments	51,817
Materials and supplies inventory.	23,241
Capital assets:	
Land	574,357
Depreciable capital assets, net	4,333,311
Total capital assets	<u>4,907,668</u>
 Total assets.	 <u>18,872,745</u>
 Liabilities:	
Accounts payable.	112,179
Accrued wages and benefits	1,778,711
Pension obligation payable.	442,264
Intergovernmental payable	120,738
Deferred revenue	7,548,429
Claims payable	372,699
Long-term liabilities:	
Due within one year.	440,110
Due in more than one year	1,354,219
 Total liabilities	 <u>12,169,349</u>
 Net Assets:	
Invested in capital assets, net of related debt.	4,907,668
Restricted for:	
Capital projects	643,188
Debt service.	1,452,978
Other purposes	237,716
Unrestricted (deficit).	<u>(538,154)</u>
 Total net assets	 <u>\$ 6,703,396</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,504,328	\$ 119,659	\$ 181,343	\$ (9,203,326)
Special	2,342,245	899	788,195	(1,553,151)
Vocational	454,154	-	-	(454,154)
Other	568,943	177,071	59,348	(332,524)
Support services:				
Pupil	1,035,373	97,693	64,494	(873,186)
Instructional staff	1,034,289	835	57,393	(976,061)
Board of education	28,778	-	-	(28,778)
Administration	2,029,989	113,765	67,884	(1,848,340)
Fiscal	721,106	-	-	(721,106)
Business	39,613	-	-	(39,613)
Operations and maintenance	2,375,931	-	-	(2,375,931)
Pupil transportation	477,704	-	-	(477,704)
Central	84,725	-	9,317	(75,408)
Operation of non-instructional services	76,094	-	92,005	15,911
Extracurricular activities	698,798	139,719	86,075	(473,004)
Food service operations	673,265	277,326	302,120	(93,819)
Interest and fiscal charges	8,615	-	-	(8,615)
Totals	\$ 22,153,950	\$ 926,967	\$ 1,708,174	(19,518,809)

General Revenues:

Property taxes levied for:	
General purposes	8,122,474
Debt service	498,726
Capital outlay	511,572
Grants and entitlements not restricted to specific programs	7,962,675
Investment earnings	111,180
Miscellaneous	268,664
Total general revenues	17,475,291
Change in net assets	(2,043,518)
Net assets at beginning of year	8,746,914
Net assets at end of year	\$ 6,703,396

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,153,432	\$ 1,422,404	\$ 1,253,126	\$ 4,828,962
Receivables:				
Taxes	7,766,000	214,692	535,278	8,515,970
Accounts	399	-	153	552
Intergovernmental	-	-	109,789	109,789
Interfund loans	78,776	-	-	78,776
Prepayments	51,197	-	620	51,817
Materials and supplies inventory	-	-	23,241	23,241
Restricted assets:				
Equity in pooled cash and cash equivalents	164,450	-	-	164,450
Total assets	<u>\$ 10,214,254</u>	<u>\$ 1,637,096</u>	<u>\$ 1,922,207</u>	<u>\$ 13,773,557</u>
Liabilities:				
Accounts payable	\$ 77,769	\$ -	\$ 32,984	\$ 110,753
Accrued wages and benefits	1,645,385	-	133,326	1,778,711
Compensated absences payable	250,050	-	-	250,050
Pension obligation payable	279,412	-	23,308	302,720
Intergovernmental payable	109,132	-	11,606	120,738
Interfund loan payable	-	-	78,776	78,776
Deferred revenue	7,628,384	208,193	531,070	8,367,647
Total liabilities	<u>9,990,132</u>	<u>208,193</u>	<u>811,070</u>	<u>11,009,395</u>
Fund Balances:				
Reserved for encumbrances	38,913	-	94,508	133,421
Reserved for budget stabilization	164,450	-	-	164,450
Reserved for underground storage	11,000	-	-	11,000
Reserved for materials and supplies inventory	-	-	23,241	23,241
Reserved for property tax unavailable for appropriation	137,616	6,499	10,538	154,653
Reserved for prepayments	51,197	-	620	51,817
Reserved for debt service	-	1,422,404	-	1,422,404
Unreserved, undesignated, reported in:				
General fund	(179,054)	-	-	(179,054)
Special revenue funds	-	-	461,000	461,000
Capital projects funds	-	-	521,230	521,230
Total fund balances	<u>224,122</u>	<u>1,428,903</u>	<u>1,111,137</u>	<u>2,764,162</u>
Total liabilities and fund balances	<u>\$ 10,214,254</u>	<u>\$ 1,637,096</u>	<u>\$ 1,922,207</u>	<u>\$ 13,773,557</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$	2,764,162
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,907,668
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	812,888	
Intergovernmental revenue		6,330	
Total			819,218
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(103,829)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Library bonds		55,000	
Compensated absences		1,458,733	
Pension obligation payable		139,544	
Asbestos abatement loan		30,546	
Total			(1,683,823)
Net assets of governmental activities		\$	6,703,396

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 8,077,298	\$ 522,024	\$ 495,474	\$ 9,094,796
Tuition	17,177	-	254,891	272,068
Charges for services	-	-	277,326	277,326
Earnings on investments	107,045	-	4,135	111,180
Extracurricular	-	-	231,597	231,597
Other local revenues	297,511	-	237,873	535,384
Intergovernmental - State	7,890,524	46,268	249,141	8,185,933
Intergovernmental - Federal	99,727	-	1,172,698	1,272,425
Total revenue	<u>16,489,282</u>	<u>568,292</u>	<u>2,923,135</u>	<u>19,980,709</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,890,223	-	358,899	9,249,122
Special	1,599,663	-	722,928	2,322,591
Vocational	438,828	-	-	438,828
Other	318,675	-	246,724	565,399
Support Services:				
Pupil	803,054	-	212,997	1,016,051
Instructional staff	945,994	-	43,377	989,371
Board of education	23,945	-	4,833	28,778
Administration	1,774,377	-	279,390	2,053,767
Fiscal	705,152	9,736	9,632	724,520
Business	39,986	-	-	39,986
Operations and maintenance	2,172,927	-	16,096	2,189,023
Pupil transportation	514,725	-	12,760	527,485
Central	84,725	-	-	84,725
Food service operations	-	-	572,916	572,916
Operation of non-instructional services	-	-	75,985	75,985
Extracurricular activities	431,421	-	222,763	654,184
Facilities acquisition and construction	-	-	361,548	361,548
Debt service:				
Principal retirement	-	363,704	-	363,704
Interest and fiscal charges	-	8,615	-	8,615
Total expenditures	<u>18,743,695</u>	<u>382,055</u>	<u>3,140,848</u>	<u>22,266,598</u>
Excess of revenues under expenditures	<u>(2,254,413)</u>	<u>186,237</u>	<u>(217,713)</u>	<u>(2,285,889)</u>
Other financing sources (uses):				
Transfers in	-	-	127,000	127,000
Transfers (out)	(127,000)	-	-	(127,000)
Proceeds of notes	-	-	300,000	300,000
Proceeds from sale of capital assets	4,711	-	4,179	8,890
Total other financing sources (uses)	<u>(122,289)</u>	<u>-</u>	<u>431,179</u>	<u>308,890</u>
Net change in fund balances	<u>(2,376,702)</u>	<u>186,237</u>	<u>213,466</u>	<u>(1,976,999)</u>
Fund balances at beginning of year (restated)	2,600,824	1,242,666	907,368	4,750,858
Decrease in reserve for inventory	-	-	(9,697)	(9,697)
Fund balances at end of year	<u>\$ 224,122</u>	<u>\$ 1,428,903</u>	<u>\$ 1,111,137</u>	<u>\$ 2,764,162</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	(1,976,999)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		54,990
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		(9,697)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		44,306
Repayment of bond and loan principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.		63,704
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		98,308
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(318,130)
Change in net assets of governmental activities	\$	<u>(2,043,518)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 10,361,183	\$ 8,421,006	\$ 8,421,006	\$ -
Tuition.	21,319	17,327	17,177	(150)
Earnings on investments.	139,601	113,460	120,501	7,041
Other local revenues.	323,287	262,750	298,788	36,038
Intergovernmental - State.	9,708,479	7,890,524	7,890,524	-
Intergovernmental - Federal.	120,111	97,620	99,727	2,107
Total revenues	<u>20,673,980</u>	<u>16,802,687</u>	<u>16,847,723</u>	<u>45,036</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,219,620	8,919,995	8,869,790	50,205
Special.	1,613,735	1,561,291	1,549,608	11,683
Vocational.	435,196	421,053	417,342	3,711
Other	335,512	324,608	318,382	6,226
Support Services:				
Pupil.	852,251	824,554	813,648	10,906
Instructional staff	980,276	948,418	919,700	28,718
Board of education	29,882	28,911	28,036	875
Administration.	2,046,986	1,979,494	1,778,825	200,669
Fiscal	766,502	741,592	726,992	14,600
Business	44,551	44,071	41,133	2,938
Operations and maintenance.	2,626,461	2,541,104	2,227,383	313,721
Pupil transportation	538,922	521,408	508,182	13,226
Central.	89,610	86,698	84,725	1,973
Extracurricular activities.	440,787	426,462	418,573	7,889
Total expenditures	<u>20,020,291</u>	<u>19,369,659</u>	<u>18,702,319</u>	<u>667,340</u>
Excess of revenues over (under) expenditures.	653,689	(2,566,972)	(1,854,596)	712,376
Other financing sources (uses):				
Refund of prior year expenditure	1,223	1,223	1,223	-
Transfers in	951,863	951,863	-	(951,863)
Transfers (out)	(1,078,863)	(1,078,863)	(127,000)	951,863
Advances (out)	(73,283)	(73,283)	(75,743)	(2,460)
Proceeds from sale of capital assets	4,711	4,711	4,711	-
Total other financing sources (uses)	<u>(194,349)</u>	<u>(194,349)</u>	<u>(196,809)</u>	<u>(2,460)</u>
Net change in fund balance	459,340	(2,761,321)	(2,051,405)	709,916
Fund balance at beginning of year (restated).	4,251,306	4,251,306	4,251,306	-
Prior year encumbrances appropriated	78,414	78,414	78,414	-
Fund balance at end of year.	<u>\$ 4,789,060</u>	<u>\$ 1,568,399</u>	<u>\$ 2,278,315</u>	<u>\$ 709,916</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 270,296
Total assets	<u>270,296</u>
Liabilities:	
Accounts payable	1,426
Claims payable	<u>372,699</u>
Total liabilities	<u>374,125</u>
Net assets:	
Unrestricted	<u>(103,829)</u>
Total net assets (deficit).	<u><u>\$ (103,829)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services	\$ 2,858,583
Total operating revenues	<u>2,858,583</u>
Operating expenses:	
Purchased services.	8,027
Claims expense.	3,168,686
Total operating expenses.	<u>3,176,713</u>
Change in net assets	(318,130)
Net assets at beginning of year	<u>214,301</u>
Net assets (deficit) at end of year.	<u><u>\$ (103,829)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 2,858,583
Cash payments for contractual services	(6,601)
Cash payments for claims expenses	(3,320,282)
	(468,300)
Net cash used in operating activities	(468,300)
Net decrease in cash and cash equivalents	(468,300)
Cash and cash equivalents at beginning of year	738,596
Cash and cash equivalents at end of year	\$ 270,296
	270,296
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (318,130)
Changes in assets and liabilities:	
Increase in accounts payable	1,426
Decrease in claims payable	(151,596)
	(150,170)
Net cash used in operating activities	\$ (468,300)
	(468,300)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2003

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 31,843
Total assets	<u>31,843</u>
Liabilities:	
Accounts payable	175
Due to students	<u>31,668</u>
Total liabilities	<u>\$ 31,843</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 212th largest by total enrollment among the 740 public and community school districts in the state. It is staffed by 179 certified employees and 96 non-certified employees who provided services to 2,472 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 basic financial statements 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 on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic 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 of the District.

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 organizations' government 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 to organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATIONS

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 100 De Bartolo Place, Youngstown, Ohio 44512.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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 East Palestine City School District. Financial information can be obtained by writing to the East Palestine City School District, 166 East North Ave., East Palestine, Ohio 44413.

RELATED ORGANIZATION

Salem Public Library

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for accumulation of resources for and repayment of debt.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities (b) food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

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. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Columbiana County Budget Commission for rate determination.

Estimated Resources:

By 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. 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 statements reflect the amounts in the final amended Certificate issued during the fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education. The District has elected to present budgetary statement comparisons at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. 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" on the basic financial statements.

During fiscal year 2003, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and investments in the State Asset Treasury Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. 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, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$107,045, which includes \$48,520 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

For presentation on the basic financial statements, 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.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. During fiscal 2003, the District increased its capitalization threshold from \$1,500 to \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent 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.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, debt service, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, budget stabilization, and underground storage. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the medical self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization. See Note 17 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as agency funds and enterprise funds have been reclassified and are now part of the general fund and other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2002	\$ 2,448,275	\$1,242,666	\$ 733,373	\$ 4,424,314
Fund reclassifications	294,063	-	173,613	467,676
Implementation of GASB				
Interpretation No. 6	<u>(141,514)</u>	<u>-</u>	<u>382</u>	<u>(141,132)</u>
Adjusted fund balance,				
June 30, 2002	<u>\$ 2,600,824</u>	<u>\$1,242,666</u>	<u>\$ 907,368</u>	<u>\$ 4,750,858</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 4,750,858
GASB 34 adjustments:	
Long-term (deferred) assets	774,912
Capital assets	4,852,678
Long-term liabilities	(1,845,835)
Internal service fund	<u>214,301</u>
Governmental activities	
net assets, June 30, 2002	<u>\$ 8,746,914</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Other Local Grants	\$ 16,522
Miscellaneous State Grants	2,489
Title VI-B	17,031
Title I	48,449
 <u>Proprietary Fund</u>	
Internal Service	103,829

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". 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.

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 finance 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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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 thirty days;
4. Bonds and other obligations of the State of Ohio;
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 the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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 basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end, the carrying amount of the District's deposits was \$905,740 and the bank balance was \$1,210,273. Of the bank balance:

1. \$100,000 was covered by federal depository insurance or surety company bonds deposited with the District; and

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

2. \$1,110,273 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: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal 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 not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$ 612,614	\$ 612,614	\$ 612,614
Total	\$ 612,614		
Investment in STAR Ohio		3,770,697	3,770,697
Total investments		\$ 4,383,311	\$ 4,383,311

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 5,295,551	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(3,770,697)	3,770,697
Federal agency securities	(612,614)	612,614
Cash on hand	(6,500)	-
GASB Statement No. 3	\$ 905,740	\$ 4,383,311

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 78,776

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$127,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. 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. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$137,616 in the general fund, \$6,499 in the debt service fund and \$10,538 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2002 was \$481,324 in the general fund, \$48,461 in the debt service fund, and \$23,500 in the Permanent Improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 206,721,970	72.21	\$ 210,856,409	72.21
Public utility personal	14,675,180	5.13	14,968,684	5.13
Tangible personal property	<u>64,878,170</u>	<u>22.66</u>	<u>66,175,733</u>	<u>22.66</u>
Total	<u>\$ 286,275,320</u>	<u>100.00</u>	<u>\$ 292,000,826</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 48.90		\$ 48.50	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, internal loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Property taxes	\$ 8,515,970
Accounts	552
Intergovernmental	<u>109,789</u>
Total	<u>\$ 8,626,311</u>

All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy and due to errors and omissions previously reported as capital assets: (see Note 2.H. for detail)

	Balance <u>06/30/02</u>	<u>Adjustments</u>	Restated Balance <u>06/30/02</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 574,357	\$ 574,357
Total capital assets, not being depreciated	<u>-</u>	<u>574,357</u>	<u>574,357</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	1,022,530	(4,904)	1,017,626
Building/improvements	12,647,502	(15,739)	12,631,763
Furniture/equipment	1,043,975	(189,391)	854,584
Vehicles	647,100	34,960	682,060
Textbooks	<u>806,299</u>	<u>(806,299)</u>	<u>-</u>
Total capital assets, being depreciated	<u>16,167,406</u>	<u>(981,373)</u>	<u>15,186,033</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(10,907,712)</u>	<u>(10,907,712)</u>
Governmental activities capital assets, net	<u>\$ 16,167,406</u>	<u>\$ (11,314,728)</u>	<u>\$ 4,852,678</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 574,357	\$ -	\$ -	\$ 574,357
<i>Capital assets, being depreciated:</i>				
Land improvements	1,017,626	-	-	1,017,626
Building and improvements	12,631,763	214,244	-	12,846,007
Furniture and equipment	854,584	120,558	-	975,142
Vehicles	682,060	88,698	-	770,758
Total capital assets, being depreciated	<u>15,186,033</u>	<u>423,500</u>	<u>-</u>	<u>15,609,533</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(681,815)	(28,927)	-	(710,742)
Building and improvements	(8,929,697)	(247,503)	-	(9,177,200)
Furniture and equipment	(740,070)	(66,873)	-	(806,943)
Vehicles	(556,130)	(25,207)	-	(581,337)
Total accumulated depreciation	<u>(10,907,712)</u>	<u>(368,510)</u>	<u>-</u>	<u>(11,276,222)</u>
Governmental activities capital assets, net	<u>\$ 4,852,678</u>	<u>\$ 54,990</u>	<u>\$ -</u>	<u>\$ 4,907,668</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 152,451
Special	12,755
Vocational	22,338
<u>Support Services:</u>	
Pupil	8,860
Instructional Staff	25,688
Administration	26,796
Business	896
Operations and Maintenance	42,405
Pupil Transportation	25,207
Extracurricular Activities	37,594
Food Service Operation	<u>13,520</u>
Total depreciation expense	<u>\$ 368,510</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - NOTES PAYABLE

The tax anticipation notes described below have been issued in anticipation of tax revenue and were retired through the debt service fund. These notes are backed by the full faith and credit of the District.

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Notes Outstanding 06/30/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Notes Outstanding 06/30/03</u>
Tax anticipation notes	3.10%	12/5/2002	\$ -	\$ 300,000	\$ (300,000)	\$ -

NOTE 10 - LONG-TERM OBLIGATIONS

A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$131,464 from \$1,650,046 to \$1,781,510 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$97,725 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was an increase of \$33,739 from \$1,897,021 to \$1,930,760. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Restated Balance Outstanding 06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/03</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Library renewal bonds	8.125%	\$ 110,000	\$ -	\$ (55,000)	\$ 55,000	\$ 55,000
Total general obligation bonds payable		<u>\$ 110,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ 55,000</u>	<u>\$ 55,000</u>
<u>Loans Payable:</u>						
Asbestos removal loans	N/A	39,250	-	(8,704)	30,546	8,704
Total loans payable		<u>\$ 39,250</u>	<u>\$ -</u>	<u>\$ (8,704)</u>	<u>\$ 30,546</u>	<u>\$ 8,704</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		1,781,510	175,621	(248,348)	1,708,783	376,406
Total other long-term obligations		<u>\$ 1,781,510</u>	<u>\$ 175,621</u>	<u>\$ (248,348)</u>	<u>\$ 1,708,783</u>	<u>\$ 376,406</u>
Total governmental activities		<u>\$ 1,930,760</u>	<u>\$ 175,621</u>	<u>\$ (312,052)</u>	<u>\$ 1,794,329</u>	<u>\$ 440,110</u>

Library Renewal Bonds: The District issued Library improvement bonds on July 17, 1986, on behalf of the district public library. These bonds will be retired from the debt service fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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. Payments are recorded as expenditures of the debt service fund, from current operating revenue.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2003, are as follows:

Year Ended	Asbestos Removal Loans			Library Renewal Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 8,704	\$ -	\$ 8,704	\$ 55,000	\$ 2,234	\$ 57,234
2005	8,704	-	8,704	-	-	-
2006	8,704	-	8,704	-	-	-
2007	<u>4,434</u>	<u>-</u>	<u>4,434</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 30,546</u>	<u>\$ -</u>	<u>\$ 30,546</u>	<u>\$ 55,000</u>	<u>\$ 2,234</u>	<u>\$ 57,234</u>

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, 2003 are a voted debt margin of \$27,653,977 (including available funds of \$1,428,903) and an unvoted debt margin of \$292,001.

NOTE 11 - OTHER 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
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - 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 2003, 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. 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 \$372,699 reported in the fund at June 30, 2003, 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>Claims Payments</u>	<u>Balance at End of Year</u>
2003	\$ 524,295	\$ 3,168,686	\$ (3,320,282)	\$ 372,699
2002	259,877	2,578,809	(2,314,391)	524,295

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers Compensation Rating Program

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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.

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. 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 State Statute 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, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$140,358, \$98,501, and \$76,461, respectively; 48% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$72,986 represents the unpaid contribution for fiscal year 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,279,811, \$895,577, and \$746,396, respectively; 83% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$214,568 represents the unpaid contribution for fiscal year 2003. Contributions to the DC and Combined Plans for fiscal 2003 were \$2,605 made by the District and \$12,549 made by plan members.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$98,447 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 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 \$147,894 during the 2003 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and 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);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (2,051,405)
Net adjustment for revenue accruals	(358,441)
Net adjustment for expenditure accruals	(80,459)
Net adjustment for other sources/uses	74,520
Adjustment for encumbrances	<u>39,083</u>
GAAP basis	<u>\$ (2,376,702)</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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.

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, 2003, 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, 2002	\$ (384,671)	\$ (27,648)	\$ 164,450
Current year set-aside requirement	353,516	353,516	-
Qualifying disbursements	<u>(306,437)</u>	<u>(574,719)</u>	<u>-</u>
Total	<u>\$ (337,592)</u>	<u>\$ (248,851)</u>	<u>\$ 164,450</u>
Balance carried forward to FY 2004	<u>\$ (337,592)</u>	<u>\$ (248,851)</u>	<u>\$ 164,450</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 17 - STATUTORY RESERVES - (Continued)

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition and textbooks reserves. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amounts are therefore presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$76,527		\$76,527
National School Breakfast Program		10.553	30,422		30,442	
National School Lunch Program		10.555	182,874		182,874	
Total U.S. Department of Agriculture - Nutrition Cluster			213,296	76,527	213,316	76,527
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education.</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BSF-2002	84.027			27,108	
	6BSF-2003	84.027	278,121		274,204	
Total Special Education Cluster			278,121		301,312	
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2003	84.010			32,661	
			437,843		421,355	
			437,843		454,016	
Eisenhower Professional Development	MSS1-2002	84.281			8,727	
Innovative Educational Program Strategies	C2S1-2001	84.298			637	
	C2S1-2002	84.298	9,933		11,759	
	C2S1-2003	84.298	13,973		12,518	
			23,906		24,914	
Drug-Free Schools Grant	DRS1-2003	84.186	10,505		10,879	
Assistive Technology Infusion	AT-S1-2002	84.352			1,595	
Technology, Title II-D	TJS1-2003	84.318	11,978		11,228	
Iprov. Teacher Quality Title IIA	TRS1-2003	84.367	119,365		108,517	
Total Department of Education			881,718		921,188	
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Human Services: passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Cluster:						
Medical Assistance Program		93.778	99,647		99,647	
Totals			<u>\$1,194,661</u>	<u>\$76,527</u>	<u>\$1,234,151</u>	<u>\$76,527</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, 2003**

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 Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

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

To the Board of Trustees:

We have audited the accompanying financial statements of Salem City School District, Columbiana County (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 13, 2004 wherein we noted the District adopted GASB Statement 34. 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 an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings as item 2003-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated February 13, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and the Board of Trustees, 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

February 13, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

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 each of its major federal programs for the year ended June 30, 2003. 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 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 programs for the year ended June 30, 2003. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 13, 2004.

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.

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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 audit committee, 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

February 13, 2004

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2003**

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)?	No
(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?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster (10.550, 10.553, 10.555) Title VI-B (84.027)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2003
(Continued)**

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

Finding Number	2003-001
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Noncompliance

ORC Section 5705.36 states that "On or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year."

In addition, **ORC Section 5705.39** states that "The total appropriation from each fund should not exceed the total estimated revenue."

The District did not certify estimated resources to the county auditor until November 6, 2002. As a result, appropriations exceeded estimate resources for the period July 1, 2002 to November 6, 2002.

We recommend that the District institute policies and procedures to ensure that estimated resources are certified on or around the first day of the fiscal year and that appropriations do not exceed estimated resources. The new Treasurer has addressed this citation and has implemented controls to ensure the timely filing of budgetary reports in the future.

3. FINDING FOR FEDERAL AWARDS

None

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2003**

**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 Longer Valid; <i>Explain:</i>
2002-11215-001	Purchases that did not meet the proper public purpose requirement	No	Partially corrected; what has not been corrected is pending litigation with the County Prosecutor.
2002-11215-002	ORC 5705.10, existence of negative fund balances	No	Not corrected; see management letter comment
2002-11215-003	ORC 5705.41(B), expenditures exceeded appropriations	Yes	
2002-11215-004	ORC 5705.41(A), appropriations exceed estimated resources and available funds	Yes	
2002-11215-005	ORC 5705.41(D), failure to encumber funds	Yes	
2002-11215-006	ORC 3313.51, checking account maintained by official other than Treasurer and yearbook sales advisor did not issue receipts	Yes	
2002-11215-007	Untimely invoices for bus maintenance	Yes	
2002-11215-008	Did not timely file final expenditure report for Title I	No	Not corrected; see management letter comment



**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
APRIL 15, 2004**