



**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general-purpose financial statements referred to above do not include the General Fixed Asset Account Group. Additionally, the District has not recorded property, buildings and equipment or related depreciation for its Proprietary Fund Types. Generally accepted accounting principles require that property, buildings, and equipment be reported at cost or estimated cost, and that such proprietary fund type assets be reduced by depreciation. The amounts that should have been reported in the General Fixed Asset Account Group and Proprietary Fund Types in order to comply with generally accepted accounting principles are not known.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Salem City School District, Columbiana County, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 3 to the accompanying general purpose financial statements, certain changes in accounting policies and financial reporting practices were made which were required in order to comply with generally accepted accounting principles. Such changes were adopted effective July 1, 1999, and to implement those changes, adjustments were made to restate fund balances and retained earnings as of that date.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

December 14, 2001

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Salem City School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,781,215	\$728,449	\$499,917	\$377,982
Receivables:				
Taxes	8,469,735	0	708,271	433,201
Accounts	2,922	1,699	0	0
Intergovernmental	0	0	0	0
Interfund Receivable	3,033	0	0	0
Materials and Supplies Inventory	0	0	0	0
Inventory Held for Resale	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	342,067	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$13,598,972	\$730,148	\$1,208,188	\$811,183

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>		<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	<u>General Long-Term Obligations</u>		
\$136,986	\$486,578	\$212,315	\$0		\$7,223,442
0	0	0	0		9,611,207
552	0	0	0		5,173
43,289	0	0	0		43,289
0	0	0	0		3,033
20,334	0	0	0		20,334
9,832	0	0	0		9,832
0	0	0	0		342,067
0	0	0	516,722		516,722
0	0	0	1,260,172		1,260,172
<u>\$210,993</u>	<u>\$486,578</u>	<u>\$212,315</u>	<u>\$1,776,894</u>		<u>\$19,035,271</u>

(continued)

Salem City School District
Combined Balance Sheet
All Fund Types and Account Groups (continued)
June 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Liabilities, Fund Equity and Other Credits</i>				
Liabilities				
Accounts Payable	\$34,948	\$10,701	\$0	\$0
Contracts Payable	0	0	0	8,570
Accrued Wages	1,410,848	113,660	0	0
Compensated Absences Payable	16,642	1,336	0	0
Interfund Payable	0	2,810	0	0
Intergovernmental Payable	285,132	26,513	0	0
Deferred Revenue	8,245,951	0	691,466	421,853
Undistributed Monies	0	0	0	0
Due to Students	0	0	0	0
Claims Payable	0	0	0	0
Asbestos Removal Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<i>Total Liabilities</i>	9,993,521	155,020	691,466	430,423
Fund Equity and Other Credits				
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	150,321	47,976	0	6,076
Reserved for Property Taxes	223,784	0	16,805	11,348
Reserved for Capital Improvements	177,617	0	0	0
Reserved for Budget Stabilization	164,450	0	0	0
Unreserved:				
Designated for Underground Storage Tanks	11,000	0	0	0
Undesignated	2,878,279	527,152	499,917	363,336
<i>Total Fund Equity and Other Credits</i>	3,605,451	575,128	516,722	380,760
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$13,598,972	\$730,148	\$1,208,188	\$811,183

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Type	Account Group	
Enterprise	Internal Service	Agency	General Long-Term Obligations	Totals (Memorandum Only)
\$610	\$0	\$0	\$0	\$46,259
0	0	0	0	8,570
23,229	0	0	0	1,547,737
16,778	0	0	1,463,185	1,497,941
223	0	0	0	3,033
18,647	0	0	100,755	431,047
6,082	0	0	0	9,365,352
0	0	192,394	0	192,394
0	0	19,921	0	19,921
0	259,877	0	0	259,877
0	0	0	47,954	47,954
0	0	0	165,000	165,000
<u>65,569</u>	<u>259,877</u>	<u>212,315</u>	<u>1,776,894</u>	<u>13,585,085</u>
145,424	226,701	0	0	372,125
0	0	0	0	204,373
0	0	0	0	251,937
0	0	0	0	177,617
0	0	0	0	164,450
0	0	0	0	11,000
0	0	0	0	4,268,684
<u>145,424</u>	<u>226,701</u>	<u>0</u>	<u>0</u>	<u>5,450,186</u>
<u>\$210,993</u>	<u>\$486,578</u>	<u>\$212,315</u>	<u>\$1,776,894</u>	<u>\$19,035,271</u>

Salem City School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001*

	Governmental	
	General	Special Revenue
Revenues		
Property and Other Local Taxes	\$7,273,295	\$0
Income Tax	2,297,228	0
Intergovernmental	7,209,811	1,020,480
Interest	450,130	4,117
Tuition and Fees	0	318,468
Extracurricular Activities	8	206,642
Rentals	53,277	0
Gifts and Donations	0	120,054
Miscellaneous	0	62,758
<i>Total Revenues</i>	<u>17,283,749</u>	<u>1,732,519</u>
Expenditures		
Current:		
Instruction:		
Regular	7,761,788	23,671
Special	2,114,633	578,026
Vocational	612,889	0
Adult/Continuing	0	228,962
Support Services:		
Pupils	948,347	152,135
Instructional Staff	1,014,874	37,514
Board of Education	25,702	0
Administration	1,479,766	185,582
Fiscal	466,229	0
Business	51,091	0
Operation and Maintenance of Plant	1,906,508	19
Pupil Transportation	468,973	0
Central	21,898	25,497
Operation of Non-Instructional Services	0	49,326
Extracurricular Activities	298,617	212,293
Capital Outlay	0	42,485
Debt Service:		
Principal Retirement	0	0
Interest and Fiscal Charges	13,158	0
<i>Total Expenditures</i>	<u>17,184,473</u>	<u>1,535,510</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>99,276</u>	<u>197,009</u>
Other Financing Sources (Uses)		
Operating Transfers In	281,115	160,434
Operating Transfers Out	(175,049)	0
<i>Total Other Financing Sources (Uses)</i>	<u>106,066</u>	<u>160,434</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	205,342	357,443
<i>Fund Balances (Deficit) Beginning of Year (Restated Note 3)</i>	<u>3,400,109</u>	<u>217,685</u>
<i>Fund Balances End of Year</i>	<u><u>\$3,605,451</u></u>	<u><u>\$575,128</u></u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$693,434	\$422,178	\$8,388,907
0	0	2,297,228
103,411	87,807	8,421,509
0	0	454,247
0	0	318,468
0	0	206,650
0	0	53,277
0	0	120,054
0	0	62,758
<u>796,845</u>	<u>509,985</u>	<u>20,323,098</u>
0	0	7,785,459
0	0	2,692,659
0	0	612,889
0	0	228,962
0	0	1,100,482
0	0	1,052,388
0	0	25,702
0	0	1,665,348
0	0	466,229
0	0	51,091
0	0	1,906,527
0	0	468,973
0	0	47,395
0	0	49,326
0	0	510,910
0	814,427	856,912
63,704	0	63,704
30,200	34,039	77,397
<u>93,904</u>	<u>848,466</u>	<u>19,662,353</u>
<u>702,941</u>	<u>(338,481)</u>	<u>660,745</u>
0	814,039	1,255,588
(1,095,154)	0	(1,270,203)
<u>(1,095,154)</u>	<u>814,039</u>	<u>(14,615)</u>
(392,213)	475,558	646,130
<u>908,935</u>	<u>(94,798)</u>	<u>4,431,931</u>
<u>\$516,722</u>	<u>\$380,760</u>	<u>\$5,078,061</u>

Salem City School District
*Combined Statement of Revenues, Expenditures and Changes In
Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$6,693,640	\$7,189,604	\$495,964
Income Tax	2,297,228	2,297,228	0
Intergovernmental	7,532,586	7,209,811	(322,775)
Interest	453,966	453,966	0
Tuition and Fees	0	0	0
Extracurricular Activities	8	8	0
Rentals	50,355	50,355	0
Gifts and Donations	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>17,027,783</u>	<u>17,200,972</u>	<u>173,189</u>
Expenditures			
Current:			
Instruction:			
Regular	7,906,394	7,794,522	111,872
Special	1,586,884	2,110,901	(524,017)
Vocational	512,855	631,719	(118,864)
Adult/Continuing	0	0	0
Support Services:			
Pupils	805,193	974,334	(169,141)
Instructional Staff	766,925	1,008,920	(241,995)
Board of Education	22,424	23,424	(1,000)
Administration	1,304,809	1,472,985	(168,176)
Fiscal	468,172	467,039	1,133
Business	67,592	57,762	9,830
Operation and Maintenance of Plant	1,658,007	1,920,092	(262,085)
Pupil Transportation	495,705	474,738	20,967
Central	25,886	21,898	3,988
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	312,839	303,294	9,545
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>15,933,685</u>	<u>17,261,628</u>	<u>(1,327,943)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,094,098</u>	<u>(60,656)</u>	<u>(1,154,754)</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	(175,049)	(175,049)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(175,049)</u>	<u>(175,049)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	919,049	(235,705)	(1,154,754)
<i>Fund Balances Beginning of Year</i>	5,034,137	5,034,137	0
Prior Year Encumbrances Appropriated	170,153	170,153	0
<i>Fund Balances End of Year</i>	<u>\$6,123,339</u>	<u>\$4,968,585</u>	<u>(\$1,154,754)</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$693,525	\$693,525	\$0
0	0	0	0	0	0
876,448	1,023,401	146,953	401,366	103,411	(297,955)
30,225	4,117	(26,108)	0	0	0
269,310	318,468	49,158	0	0	0
202,248	206,160	3,912	0	0	0
0	0	0	0	0	0
179,203	120,054	(59,149)	0	0	0
87,400	62,758	(24,642)	0	0	0
<u>1,644,834</u>	<u>1,734,958</u>	<u>90,124</u>	<u>1,094,891</u>	<u>796,936</u>	<u>(297,955)</u>
108,798	23,649	85,149	0	0	0
762,773	576,282	186,491	0	0	0
0	0	0	0	0	0
239,954	230,391	9,563	0	0	0
114,452	180,791	(66,339)	0	0	0
24,293	30,838	(6,545)	0	0	0
0	0	0	0	0	0
147,971	185,921	(37,950)	0	0	0
0	0	0	24,209	14,559	9,650
0	0	0	0	0	0
7,656	19	7,637	0	0	0
0	0	0	0	0	0
30,633	25,497	5,136	0	0	0
109,068	59,456	49,612	0	0	0
221,729	212,288	9,441	0	0	0
17,781	42,485	(24,704)	0	0	0
0	0	0	1,870,743	1,111,661	759,082
0	0	0	82,223	62,838	19,385
<u>1,785,108</u>	<u>1,567,617</u>	<u>217,491</u>	<u>1,977,175</u>	<u>1,189,058</u>	<u>788,117</u>
<u>(140,274)</u>	<u>167,341</u>	<u>307,615</u>	<u>(882,284)</u>	<u>(392,122)</u>	<u>490,162</u>
160,434	160,434	0	0	0	0
0	0	0	0	0	0
<u>160,434</u>	<u>160,434</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
20,160	327,775	307,615	(882,284)	(392,122)	490,162
247,379	247,379	0	892,039	892,039	0
102,509	102,509	0	0	0	0
<u>\$370,048</u>	<u>\$677,663</u>	<u>\$307,615</u>	<u>\$9,755</u>	<u>\$499,917</u>	<u>\$490,162</u>

(continued)

Salem City School District
*Combined Statement of Revenues, Expenditures and Changes In
Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Fiscal Year Ended June 30, 2001*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$455,623	\$420,481	(\$35,142)
Charges for Services	0	0	0
Intergovernmental	39,307	87,807	48,500
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Rentals	0	0	0
Gifts and Donations	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>494,930</u>	<u>508,288</u>	<u>13,358</u>
Expenditures			
Current:			
Instruction:			
Regular	64,562	92,804	(28,242)
Special	0	0	0
Vocational	0	0	0
Other	0	0	0
Support Services:			
Pupils	7,661	7,049	612
Instructional Staff	3,480	3,202	278
Board of Education	0	0	0
Administration	10,776	9,915	861
Fiscal	10,440	9,606	834
Business	0	0	0
Operation and Maintenance of Plant	13,860	12,752	1,108
Pupil Transportation	37,355	34,370	2,985
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	712,862	655,894	56,968
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>860,996</u>	<u>825,592</u>	<u>35,404</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(366,066)</u>	<u>(317,304)</u>	<u>48,762</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(366,066)</u>	<u>(317,304)</u>	<u>48,762</u>
<i>Fund Balances Beginning of Year</i>	465,695	465,695	0
Prior Year Encumbrances Appropriated	<u>223,515</u>	<u>223,515</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$323,144</u></u>	<u><u>\$371,906</u></u>	<u><u>\$48,762</u></u>

See accompanying notes to the general purpose financial statements.

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,842,788	\$8,303,610	\$460,822
2,297,228	2,297,228	0
8,849,707	8,424,430	(425,277)
484,191	458,083	(26,108)
269,310	318,468	49,158
202,256	206,168	3,912
50,355	50,355	0
179,203	120,054	(59,149)
87,400	62,758	(24,642)
<u>20,262,438</u>	<u>20,241,154</u>	<u>(21,284)</u>
8,079,754	7,910,975	168,779
2,349,657	2,687,183	(337,526)
512,855	631,719	(118,864)
239,954	230,391	9,563
927,306	1,162,174	(234,868)
794,698	1,042,960	(248,262)
22,424	23,424	(1,000)
1,463,556	1,668,821	(205,265)
502,821	491,204	11,617
67,592	57,762	9,830
1,679,523	1,932,863	(253,340)
533,060	509,108	23,952
56,519	47,395	9,124
109,068	59,456	49,612
534,568	515,582	18,986
730,643	698,379	32,264
1,870,743	1,111,661	759,082
82,223	62,838	19,385
<u>20,556,964</u>	<u>20,843,895</u>	<u>(286,931)</u>
<u>(294,526)</u>	<u>(602,741)</u>	<u>(308,215)</u>
160,434	160,434	0
<u>(175,049)</u>	<u>(175,049)</u>	<u>0</u>
<u>(14,615)</u>	<u>(14,615)</u>	<u>0</u>
(309,141)	(617,356)	(308,215)
6,639,250	6,639,250	0
496,177	496,177	0
<u>\$6,826,286</u>	<u>\$6,518,071</u>	<u>(\$308,215)</u>

Salem City School District
*Combined Statement of Revenues,
Expenses and Changes in Retained Earnings*
Proprietary Fund Types
For the Fiscal Year Ended June 30, 2001

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Operating Revenues			
Sales	\$402,095	\$0	\$402,095
Charges for Services	0	1,198,652	1,198,652
Other	12,748	0	12,748
<i>Total Operating Revenues</i>	<u>414,843</u>	<u>1,198,652</u>	<u>1,613,495</u>
Operating Expenses			
Salaries	205,837	0	205,837
Fringe Benefits	116,191	0	116,191
Purchased Services	1,496	202,590	204,086
Cost of Sales	337,472	0	337,472
Claims	0	608,635	608,635
<i>Total Operating Expenses</i>	<u>660,996</u>	<u>811,225</u>	<u>1,472,221</u>
<i>Operating Loss</i>	<u>(246,153)</u>	<u>387,427</u>	<u>141,274</u>
Non-Operating Revenues			
Federal Donated Commodities	56,727	0	56,727
Operating Grants	236,748	0	236,748
<i>Total Non-Operating Revenues</i>	<u>293,475</u>	<u>0</u>	<u>293,475</u>
<i>Income Before Operating Transfers</i>	47,322	387,427	434,749
Operating Transfers In	14,615	0	14,615
<i>Net Income</i>	61,937	387,427	449,364
<i>Retained Earnings (Deficit)</i>			
<i>Beginning of Year (Restated Note 3)</i>	<u>83,487</u>	<u>(160,726)</u>	<u>(77,239)</u>
<i>Retained Earnings End of Year</i>	<u>\$145,424</u>	<u>\$226,701</u>	<u>\$372,125</u>

See accompanying notes to the general purpose financial statements

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Salem City School District
*Combined Statement of Revenues, Expenses and Changes in
Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Types
For the Fiscal Year Ended June 30, 2001*

	Enterprise Funds		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Sales	\$365,135	\$401,543	\$36,408
Charges for Services	0	0	0
Operating Grants	193,459	193,459	0
Other	12,748	12,748	0
<i>Total Revenues</i>	<u>571,342</u>	<u>607,750</u>	<u>36,408</u>
Expenses			
Salaries	150,072	179,702	(29,630)
Fringe Benefits	114,220	136,770	(22,550)
Purchased Services	1,283	1,536	(253)
Materials and Supplies	248,378	306,928	(58,550)
Claims	0	0	0
<i>Total Expenses</i>	<u>513,953</u>	<u>624,936</u>	<u>(110,983)</u>
<i>Excess of Revenues Over (Under) Expenses</i>	57,389	(17,186)	(74,575)
Operating Transfers In	14,615	14,615	0
<i>Excess of Revenues Over (Under) Expenses and Operating Transfers</i>	72,004	(2,571)	(74,575)
<i>Fund Equity Beginning of Year</i>	125,113	125,113	0
Prior Year Encumbrances Appropriated	40	40	0
<i>Fund Equity End of Year</i>	<u>\$197,157</u>	<u>\$122,582</u>	<u>(\$74,575)</u>

See accompanying notes to the general purpose financial statements

Internal Service Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$365,135	\$401,543	\$36,408
422,155	1,198,652	776,497	422,155	1,198,652	776,497
0	0	0	193,459	193,459	0
0	0	0	12,748	12,748	0
<u>422,155</u>	<u>1,198,652</u>	<u>776,497</u>	<u>993,497</u>	<u>1,806,402</u>	<u>812,905</u>
0	0	0	150,072	179,702	(29,630)
0	0	0	114,220	136,770	(22,550)
26,544	202,590	(176,046)	27,827	204,126	(176,299)
0	0	0	248,378	306,928	(58,550)
124,664	951,455	(826,791)	124,664	951,455	(826,791)
<u>151,208</u>	<u>1,154,045</u>	<u>(1,002,837)</u>	<u>665,161</u>	<u>1,778,981</u>	<u>(1,113,820)</u>
270,947	44,607	(226,340)	328,336	27,421	(300,915)
0	0	0	14,615	14,615	0
270,947	44,607	(226,340)	342,951	42,036	(300,915)
441,971	441,971	0	567,084	567,084	0
0	0	0	40	40	0
<u>\$712,918</u>	<u>\$486,578</u>	<u>(\$226,340)</u>	<u>\$910,075</u>	<u>\$609,160</u>	<u>(\$300,915)</u>

Salem City School District
Combined Statement of Cash Flows
Proprietary Fund Types
For the Fiscal Year Ended June 30, 2001

	Enterprise	Internal Service	Totals (Memorandum Only)
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$401,543	\$0	\$401,543
Cash Received from Quasi-External			
Operating Transactions with Other Funds	0	1,198,652	1,198,652
Cash Received from Other Operating Sources	12,748	0	12,748
Cash Payments to Suppliers for Goods and Services	(294,283)	(202,590)	(496,873)
Cash Payments to Employees for Services	(179,702)	0	(179,702)
Cash Payments for Employee Benefits	(136,770)	(951,455)	(1,088,225)
<i>Net Cash Used for Operating Activities</i>	(196,464)	44,607	(151,857)
Cash Flows from Noncapital Financing Activities			
Operating Grants Received	193,459	0	193,459
Short-Term Loans from Other Funds	223	0	223
Operating Transfers In	14,615	0	14,615
<i>Net Cash Provided by Noncapital Financing Activities</i>	208,297	0	208,297
<i>Net Increase in Cash and Cash Equivalents</i>	11,833	44,607	56,440
<i>Cash and Cash Equivalents Beginning of Year</i>	125,153	441,971	567,124
<i>Cash and Cash Equivalents End of Year</i>	\$136,986	\$486,578	\$623,564
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities			
<i>Operating Loss</i>	(\$246,153)	\$387,427	\$141,274
Adjustments:			
Donated Commodities Used During Year	56,727	0	56,727
<i>(Increase) Decrease in Assets:</i>			
Accounts Receivable	(552)	0	(552)
Materials and Supplies Inventory	(10,694)	0	(10,694)
Inventory Held for Resale	(1,348)	0	(1,348)
<i>Increase (Decrease) in Liabilities:</i>			
Accounts Payable	610	0	610
Accrued Wages	7,472	0	7,472
Compensated Absences Payable	(594)	0	(594)
Intergovernmental Payable	(1,932)	0	(1,932)
Claims Payable	0	(342,820)	(342,820)
<i>Total Adjustments</i>	49,689	(342,820)	(293,131)
<i>Net Cash Used for Operating Activities</i>	(\$196,464)	\$44,607	(\$151,857)

See accompanying notes to the general purpose financial statements

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Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Note 1 - Description of the School

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

The School District operates under a locally elected five-member Board and provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's seven instructional/support facilities staffed by 93 non-certified employees, 181 certified full-time teaching personnel, and 21 administrators who provide services to 2,612 students and other community members.

Reporting Entity

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

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

The School District is associated with a jointly governed organization, two public entity risk pools and a related organization. These organizations are the Area Cooperative Computerized Educational Service System (ACCESS), the Columbiana County Schools Employee Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Salem Public Library. These organizations are presented in Notes 18, 19 and 20 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The general purpose financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

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

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

Special Revenue Funds Special revenue funds are established to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

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

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

Proprietary Fund Types Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

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

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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

Fiduciary Fund Type Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Group To make a clear distinction between long-term liabilities related to specific funds and those of a general nature, the following account group is used:

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

B. Measurement Focus and Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue resulting from exchange transaction, 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the exchange on which the tax is imposed takes place, and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: income taxes, property taxes available as an advance, interest, tuition, grants, student fees and rentals.

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, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operation statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

C. Budgetary Data

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 has been established by the Board of Education at the object level within each fund and function. Any budgetary modifications at this level 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 the Columbiana County Budget Commission for rate determination.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2001.

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 legally 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 expenditures of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except for agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District treasurer is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. The miscellaneous state grants special revenue fund and food service enterprise fund had expended more than their equity interest in the pooled bank account at June 30, 2001. The general fund made an advance to these funds to eliminate their negative cash balances. The general fund has an interfund receivable for the amount advanced while the funds with negative cash balances have an interfund payable for the same amount on the combined balance sheet.

During fiscal year 2001, investments were limited to STAROhio, repurchase agreements, and Federal Home Loan Bank Notes.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Except for nonparticipating contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$450,130, which includes \$301,715 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with maturities of three months or less at the time they were purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of an inventory item is recorded as an expenditure in the governmental fund types when purchased. 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. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. Fixed Assets

General fixed assets are long-lived assets of the School District as a whole. The School District does not currently report fixed assets.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 21 for additional information regarding set-asides.

H. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds". Short-term interfund loans are classified as "interfund receivables/payables".

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

J. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Bonds and long-term loans are reported as liabilities to the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Under Ohio Law, a debt retirement fund may be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the activity of the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

L. Fund Balance Reserves and Designations

The School 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 appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, capital improvements and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

Designations represent tentative plans for future use of financial resources. A designation of fund equity has been established for the potential liability in case of leaks in underground storage tanks.

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals-(Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 - Change in Financial Statement Presentation and Basis of Accounting

For the year ended June 30, 2001, the School District has presented financial statements by fund type and account group in accordance with generally accepted accounting principles. In conjunction with this presentation, the School District has changed its basis of accounting from a cash basis to the modified accrual basis of accounting for its governmental and agency fund types and to the accrual basis for its proprietary funds. This change required that certain adjustments be recorded to the July 1, 2000, fund balances/retained earnings as previously reported to reflect the prior year's effect of adopting these new accounting principles.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

The restatements to the opening fund balance/retained earnings are as follows:

Fund Type/Fund	Previously Stated Balance at 6/30/00	Adjustments	Restated Balance at 6/30/00
<i>Governmental Funds:</i>			
General	\$5,183,143	(\$1,783,034)	\$3,400,109
Special Revenue	360,888	(143,203)	217,685
Debt Service	902,186	6,749	908,935
Capital Projects	689,210	(784,008)	(94,798)
<i>Proprietary Funds:</i>			
Enterprise	125,153	(41,666)	83,487
Internal Service	441,971	(602,697)	(160,726)
<i>Fiduciary Funds:</i>			
Agency	75,590	(75,590)	0

Note 4 - Accountability and Compliance

A. Accountability

Fund balances at June 30, 2001, included the following individual fund deficits:

Special Revenue Funds:	
Local Professional Development	\$8,766
Miscellaneous State Grants	2,810
Title I	84,929

The special revenue deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

B. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code Section 5705.41:

Fund	Appropriations	Expenditures	Excess
General Fund	\$15,933,685	\$17,261,628	\$1,327,943
<i>Special Revenue Funds:</i>			
Scholarship Trust	4,134	8,399	4,265
Trade Extension	371,852	404,929	33,077
Public School Support	14,808	23,741	8,933
Other Grants	56,053	123,199	67,146
Education Foundation	3,874	3,980	106
Ohio Reads Grant	6,241	15,998	9,757
Miscellaneous State Grants	0	2,810	2,810
EPA Loan/Asbestos Removal	0	3,400	3,400
Drug Free Schools	0	17,083	17,083
E-Rate	0	4,745	4,745
<i>Capital Projects Fund:</i>			
Schoolnet Grants	53,262	82,410	29,148
<i>Enterprise Funds:</i>			
Food Service	510,088	610,795	100,707
Uniform School Supplies	3,865	14,141	10,276
<i>Internal Service Fund:</i>			
Self Insurance Fund	151,208	1,154,045	1,002,837

The following funds had total appropriations in excess of estimated resources plus carryover balances in violation of Ohio Revised Code Section 5705.39:

Fund	Estimated Resources	Appropriations	Excess
<i>Special Revenue Funds:</i>			
School Improvement Models	\$282	\$3,276	\$2,994
Local Professional Development	11,456	23,073	11,617
EMIS	8,997	13,711	4,714
Network Connection	0	16,922	16,922
Interactive Distance Learning	510	9,076	8,566
Adult Basic Education	0	7,682	7,682
Eisenhower Grant	13,351	29,741	16,390
Title VI-B	165,579	196,236	30,657
Title I	473,634	591,585	117,951
Title II	13,062	33,473	20,411

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

The School District had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10:

Special Revenue Fund:	
Miscellaneous State Grants	\$2,810
Enterprise Fund:	
Food Service	223

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Proceeds from and principal payments on tax anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.
6. Investments are reported at cost (budget basis) rather than at fair value (GAAP Basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Salem City School District
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For the Fiscal Year Ended June 30, 2001

Excess of Revenues and Other Financing Sources Over
(Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$205,342	\$357,443	(\$392,213)	\$475,558
Revenue Accruals	(90,318)	2,439	91	(1,697)
Transfer for Payment of Debt	(281,115)	0	1,095,154	(814,039)
Expenditure Accruals	74,958	15,869	0	(5,089)
Principal Retirement	0	0	(1,047,957)	0
Interest and Fiscal Charges	13,158	0	(47,197)	34,039
Fair Value Adjustment for Investment	7,541	0	0	0
Encumbrances	(165,271)	(47,976)	0	(6,076)
Budget Basis	(\$235,705)	\$327,775	(\$392,122)	(\$317,304)

Net Income Excess of Revenues Over (Under)
Expenses and Operating Transfers
All Proprietary Fund Types

	Enterprise	Internal Service
GAAP Basis	\$61,937	\$387,427
Revenue Accruals	(100,568)	0
Expense Accruals	50,241	(342,820)
Encumbrances	(14,181)	0
Budget Basis	(\$2,571)	\$44,607

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

Inactive deposits are public deposits 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.

Salem City School District
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For the Fiscal Year Ended June 30, 2001

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 two percent and be marked to 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 Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests 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 School District, and must be purchased with the expectation that it will be held until 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 year-end, the School District had \$6,500 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents."

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

Salem City School District
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Deposits At year end the carrying amount of the School District's deposits was (\$545,107) and the bank balance was \$651,736. Of the bank balance:

1. \$167,580 covered by federal depository insurance; and
2. \$484,156 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments GASB statement 3 requires investments to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$2,261,450	\$2,261,450	\$2,261,450
Federal Home Loan Bank Notes	1,049,881	1,049,881	1,049,881
STAROhio	0	4,792,785	4,792,785
Total Investments	\$3,311,331	\$8,104,116	\$8,104,116

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$7,565,509	\$0
Cash on Hand	(6,500)	
Investments which are part of a cash management pool:		
Repurchase Agreement	(2,261,450)	2,261,450
Federal Home Loan Bank Notes	(1,049,881)	1,049,881
STAROhio	(4,792,785)	4,792,785
GASB Statement 3	(\$545,107)	\$8,104,116

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) are for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property taxes currently are assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001 and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000 on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$206,784,390	72.45%	\$206,721,970	72.20%
Public Utility	13,751,660	4.82	14,675,180	5.14
Tangible Personal Property	64,878,170	22.73	64,878,170	22.66
Total Assessed Value	<u>\$285,414,220</u>	<u>100.00%</u>	<u>\$286,275,320</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$49.80		\$46.00	

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.

Tangible personal property taxes paid 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.

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available to the School District as an advance at June 30, 2001, was \$251,937. \$223,784 was available to the general fund, \$16,805 was available to the debt service fund, \$11,348 was available to the permanent improvement fund capital projects fund.

Note 8 - Receivables

Receivables at June 30, 2001, consisted of property taxes, accounts (rent, billings for user charged services, and student fees) and intergovernmental grants. All receivables are considered collectible in full.

Intergovernmental receivables consisted of \$43,289 in the food service enterprise fund for the national school lunch program.

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School 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 (\$1000 deductible)	22,608,100
Crime Insurance (no deductible)	5,000
Automobile Liability (same as general liability)	
Auto Medical Payments	5,000
Uninsured Motorists (\$100 deductible)	500,000
General Liability	2,000,000

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

B. Workers' Compensation

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the 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

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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.

C. Employee Medical Benefits

The School 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.

A summary of the fund's claims liability during the past two fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Current Year	Claim Payments	Balance at End of Fiscal Year
2000	\$949,490	\$615,688	\$962,481	\$602,697
2001	602,697	608,635	951,455	259,877

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

The Salem City School 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 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Salem City School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund the 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's Retirement Board.

Salem City School District
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The Salem City School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$76,461, \$95,577, and \$239,017 respectively; 63.94 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$27,573 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Salem City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2001, plan members are required to contribute 9.3 percent of their annual covered salaries. The Salem City School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund obligations was 6 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$746,396, \$514,560, and \$1,158,878, respectively; 79.71 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$151,444 represents the unpaid contribution for fiscal year 2001 and is recorded as a liability within the respective funds.

Note 11 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$642,061 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2001 fiscal year equaled \$114,393.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000, (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 12 - 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 ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators 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 a maximum of 270 days for classified employees and unlimited for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit.

B. Life Insurance

The School District provides life insurance to all regular employees. Coverage is \$50,000 for all employees provided through SAFECO Insurance Company.

Note 13 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

B. Litigation

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

Note 14 - Long-term Obligations

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	Principal Outstanding 6/30/00	Additions	Deductions	Principal Outstanding 6/30/01
Long-term Obligations:				
1998 \$315,000				
Salem Public Library Renovation Bonds 8.125%	\$220,000	\$0	\$55,000	\$165,000
Asbestos Removal Loan 0%	56,658	0	8,704	47,954
Pension Obligation	107,483	100,755	107,483	100,755
Compensated Absences	1,482,782	0	19,597	1,463,185
<i>Total General Long-Term Obligations</i>	<u>\$1,866,923</u>	<u>\$100,755</u>	<u>\$190,784</u>	<u>\$1,776,894</u>

The general obligation bond and interest-free asbestos removal loan will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. The pension obligation represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

The School District's overall legal debt margin was \$25,764,779 with an unvoted debt margin of \$286,275 at June 30, 2001. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2001, are as follows:

Fiscal year Ending June 30,	Salem Library Renovation Bonds	Asbestos Removal Loan
2002	\$71,731	\$8,704
2003	72,465	8,704
2004	42,844	8,704
2005	0	8,704
2006	0	8,704
2007	0	4,434
<i>Total</i>	<u>187,040</u>	<u>47,954</u>
<i>Less Interest</i>	<u>(22,040)</u>	<u>0</u>
<i>Total Principal</i>	<u>\$165,000</u>	<u>\$47,954</u>

Salem City School District
Notes to the General Purpose Financial Statements
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Note 15 - Interfund Transactions

Interfund balances at June 30, 2001 consisted of:

Fund	Receivable	Payable
General	\$3,033	\$0
Special Revenue Fund		
Miscellaneous State Grants	0	2,810
Enterprise Fund		
Food Service	0	223
Total	<u>\$3,033</u>	<u>\$3,033</u>

Note 16 - Segment Information for Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The following table reflects in a summarized format the more significant financial data relating to the enterprise funds of the Salem Local School District as of and for the fiscal year ended June 30, 2001.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$359,651	\$55,192	\$414,843
Operating Expenses	660,996	0	660,996
Operating Income (Loss)	(301,345)	55,192	(246,153)
Donated Commodities	56,727	0	56,727
Operating Grants	236,748	0	236,748
Operating Transfers	14,615	0	14,615
Net Income	6,745	55,192	61,937
Net Working Capital	4,532	(8,989)	(4,457)
Total Assets	73,455	137,538	210,993
Total Equity	7,886	137,538	145,424
Encumbrances at June 30, 2001	40	14,141	14,181

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Note 17 - Note Obligations

The School District's note activity for the fiscal year ended June 30, 2001, is as follows:

	Balance 6/30/00	Additions	Deletions	Balance 6/30/01
<i>General Fund:</i>				
Income Tax Anticipation Note 4.83%	\$267,957	\$0	\$267,957	\$0
<i>Permanent Improvement Fund:</i>				
School Improvement Note 4.50%	400,000	0	400,000	0
Energy Conservation Improvement Note 4.26%	380,000	0	380,000	0
Total Permanent Improvement Fund	780,000	0	780,000	0
Total	\$1,047,957	\$0	\$1,047,957	\$0

The School District redeemed the \$1,047,957 in short-term notes during the 2001 fiscal year. All notes were backed by the full faith and credit of the Salem Local School District. Note liability was reflected in the fund which received the proceeds.

Note 18 - Jointly Governed Organization

The Area Cooperative Computer Educational Service System is a jointly governed organization. The School District is a participant in the Area Cooperative Computerized Educational Service System (ACCESS) which is a not-for-profit computer consortium. ACCESS's primary function is to provide data processing services to its twenty-three member school districts with the major emphasis being placed on accounting, payroll, personnel records and inventory control services. 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 revenue is generated from State funding and charges for services. The School District paid ACCESS \$48,359 for services provided during the fiscal year ended June 30, 2001.

Note 19 - Insurance Pools

A. Claims Servicing Pool

The School District participates in the Columbiana County Schools Employee Insurance Consortium (CSEI), a claims servicing pool comprised of seven Columbiana school districts. Each school district has two representatives on the assembly (usually the superintendent and the treasurer). Each member pays an administrative fee to the pool. All participating members retain their risk and are completely responsible for paying their own claims. The CSEI acts solely as the claims servicing agent.

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

B. Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Director of the OSBA, or designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 20 - Related Organization

The Salem Public 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 School District for operational subsidies. Although the School 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 E. State Street, Salem, Ohio 44460.

Note 21 - Set-Aside Calculations and Fund Reserves

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

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

	Budget Stabilization Reserve	Textbook/ Instructional Materials	Capital Improvements
Set-aside balance as of June 30, 2001	\$717,485	(\$331,298)	\$307,175
Current year set-aside requirement	0	439,942	439,942
Reduction Authorized by Legislative Restrictions	(553,035)	0	0
Qualifying disbursements	0	(477,106)	(569,500)
Totals	<u>\$164,450</u>	<u>(\$368,462)</u>	<u>\$177,617</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$164,450</u>	<u>(\$368,462)</u>	<u>\$177,617</u>
Reserve balance as of June 30, 2001	<u>\$164,450</u>	<u>\$0</u>	<u>\$177,617</u>

Salem City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$342,067. The general fund balance includes \$553,035 that has been designated for the amount of set-asides in excess of requirements.

Note 22 - Subsequent Event

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 25, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

SALEM CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

<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		\$51,540		\$56,727
National School Breakfast Program		10.553	\$27,594		\$27,594	
National School Lunch Program		10.555	149,967		149,967	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>177,561</u>	<u>51,540</u>	<u>177,561</u>	<u>56,727</u>
<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)	6B-SF-01	84.027	185,029		111,843	
Total Special Education Cluster			<u>185,029</u>		<u>111,843</u>	
Eisenhower Grant Program	MS-S1-01	84.281	12,961		11,421	
Class Size Reduction - Title VI-R	CR-S1-01	84.340	74,257		0	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-01	84.010	473,505		473,505	
Innovative Educational Program Strategies	C2-S1-01	84.298	13,645		2,151	
Drug-Free Schools Grant	DR-S1-00 DR-S1-01	84.186	11,530 10,754		6,329 10,754	
Total Department of Education			<u>596,652</u>		<u>504,160</u>	
Totals			<u><u>\$959,242</u></u>	<u><u>\$51,540</u></u>	<u><u>\$793,564</u></u>	<u><u>\$56,727</u></u>

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

FISCAL YEAR ENDED JUNE 30, 2001

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.

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

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

To the Board of Education:

We have audited the financial statements of the Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 14, 2001, which identified certain departures from accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-11215-003 and 2001-11215-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 14, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2001-11215-001 and 2001-11215-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item number 2001-11215-001 to be a material weakness. We also noted other matters

Salem City School District
Columbiana County
Report of Independent Accountants on Compliance and on
Internal Control Required by Government Auditing Standards
Page 2

involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 14, 2001.

This report is intended for the information and use of the Board of Education, management, 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.

Jim Petro
Auditor of State

December 14, 2001



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JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS 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, Ohio 44460

To the Board of Education:

Compliance

We have audited the compliance of the Salem City School District, Columbiana County, (the 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, 2001. The District's major federal program are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

This report is intended for the information and use of the Board of Education, management, 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.

Jim Petro
Auditor of State

December 14, 2001

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified - Omission of General Fixed Asset Account Group and Proprietary Fund Type Fixed Assets
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster CFDA# 10.550, 10.555, 10.556
(d)(1)(viii)	Dollar Threshold: Type AIB Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2001-11215-001
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Material Weakness - Fixed Assets

The District has not maintained documentation to support the valuation of fixed assets that should have been recorded in the General Fixed Asset Account Group and the Proprietary Fund Types. Also, the District has not determined the estimated historical or actual cost of its land and buildings. Accordingly, the District's financial statements omit the General Fixed Asset Account Group and the Proprietary Fund fixed assets and related Proprietary Fund depreciation. Generally Accepted Accounting Principles require the presentation of the General Fixed Asset Account Group and the Proprietary Fund fixed assets and related Proprietary Fund depreciation expense.

The District does have a policy to govern the accounting of its property, plant, and equipment. The policy provides for a consistent approach needed by management to exercise proper control over the acquisition, disposal, and maintenance of the District's property, plant, and equipment. However, the District had not maintained accountability of its property, plant, and equipment as provided for in this policy.

We recommend that the District determine the estimated costs of its fixed assets and adhere to the procedures and guidelines as established in the Board policy.

With the implementation of GASB 34 the District will need to be able to calculate depreciation on general fixed assets and will need to allocate depreciation by function/program. We therefore recommend that the District update the fixed asset policy to be in adherence with GASB 34.

Finding Number	2001-11215-002
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Reportable Condition - Set Aside Calculation

The District did not prepare the set-aside calculations required to demonstrate compliance with State Law, until year end. This calculation would include both the revenue calculation and determination of qualifying expenditures for capital/maintenance and textbook/instructional materials less any offset credits.

Failure to calculate the statutorily required set-aside at the beginning of the fiscal year and failure to account for qualifying disbursements made during the year, increase the likelihood the district will not be in compliance with the set-aside requirements.

We recommend that the District determine the set-aside calculations at the beginning of the fiscal year, and that the District account for set-aside amounts and qualifying expenditures and offset credits during the year.

Finding Number	2001-11215-003
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Noncompliance Citation

Salem City School District
 Columbiana County
 Schedule of Findings
 Continued

Ohio Rev. Code Section 5705.39 states the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The District appropriated amounts in excess of total estimated revenue. The following variances were noted at June 30, 2001:

Fund	Estimated Resources	Appropriations	Variance
School Improvement Models	\$282	\$3,276	(\$2,994)
Local Professional Development	\$11,456	\$23,073	(\$11,617)
EMIS	\$8,997	\$13,711	(\$4,714)
Network Connection	\$0	\$16,922	(\$16,922)
Interactive Distance Learning	\$510	\$9,076	(\$8,566)
Adult Basic Education	\$0	\$7,682	(\$7,682)
Eisenhower Grant	\$13,351	\$29,741	(\$16,390)
Title VI-B	\$165,579	\$196,236	(\$30,657)
Title I	\$473,634	\$591,585	(\$117,951)
Title II	\$13,062	\$33,473	(\$20,411)

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

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

Finding Number	2001-11215-004
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Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) states that "No subdivision or taxing unit is to expend money unless it has been appropriated."

The District had actual expenditures that exceeded total appropriations for the following funds:

Fund	Appropriations	Expenditures	Excess
General	\$15,933,685	\$17,261,628	(\$1,327,943)
Scholarship Trust	\$4,134	\$8,399	(\$4,265)
Trade Extension	\$371,852	\$404,929	(\$33,077)

Salem City School District
 Columbiana County
 Schedule of Findings
 Continued

Public School Support	\$14,808	\$23,741	(\$8,933)
Other Grants	\$56,053	\$123,199	(\$67,146)
Education Foundation	\$3,874	\$3,980	(\$106)
Ohio Reads	\$6,241	\$15,998	(\$9,757)
Miscellaneous State Grants	\$0	\$2,810	(\$2,810)
EPA Loan/Asbestos Removal	\$0	\$3,400	(\$3,400)
Drug Free School Grant	\$0	\$17,083	(\$17,083)
Telecom Act Grant - E Rate	\$0	\$4,745	(\$4,745)
Schoolnet Grants	\$53,262	\$82,410	(\$29,148)
Food Service	\$510,088	\$610,795	(\$100,707)
Uniform Supplies	\$3,865	\$14,141	(\$10,276)
Self Insurance	\$151,208	\$1,154,045	(\$1,002,837)

We recommend that the District periodically compare actual disbursements to total appropriations. Appropriations should be amended so that disbursements do not exceed appropriations.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2001**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2000-11215-001	OAC Section 117-02-03 failure to report financial statements on a GAAP basis.	Yes	
2000-11215-002	Bank reconciliations were not performed timely.	Yes	



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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
JANUARY 17, 2002**