

**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 1999**

KEYSTONE LOCAL SCHOOL DISTRICT

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REPORT OF INDEPENDENT ACCOUNTANTS

Keystone Local School District
Lorain County
301 Liberty Avenue
LaGrange, Ohio 44050

To The Board of Education:

We have audited the accompanying general-purpose financial statements of the Keystone Local School District, Lorain County, Ohio, (District) as of and for the year ended June 30, 1999, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Keystone Local School District, Lorain County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 1999, 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.



JIM PETRO
Auditor of State

December 3, 1999

KEYSTONE LOCAL SCHOOL DISTRICT
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and other debits				
Pooled cash and equivalents	\$ 2,337,234	\$ 93,450	\$ 809,728	\$ 354,871
Cash with fiscal agent	-	-	8,812	-
Restricted cash	125,391	-	-	-
Receivables, net of allowance				
Taxes, current	4,148,252	-	-	199,658
Taxes, delinquent	52,402	-	-	2,685
Accounts and other	-	-	-	-
Accrued interest	35,238	-	-	-
Due from other governments	-	41,007	-	-
Inventories and supplies	-	-	-	-
Fixed assets	-	-	-	-
Accumulated depreciation	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for benefits	-	-	-	-
Total assets and other debits	\$ 6,698,517	\$ 134,457	\$ 818,540	\$ 557,214

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
\$ 116,143	\$ 20	\$ 30,710	\$ -	\$ -	\$ 3,742,156
-	-	-	-	-	8,812
-	-	-	-	-	125,391
-	-	-	-	-	4,347,910
-	-	-	-	-	55,087
3,244	-	-	-	-	3,244
93	-	-	-	-	35,331
10,340	-	-	-	-	51,347
14,623	-	-	-	-	14,623
188,922	-	-	9,344,943	-	9,533,865
(73,312)	-	-	-	-	(73,312)
-	-	-	-	505,000	505,000
-	-	-	-	896,335	896,335
\$ 260,053	\$ 20	\$ 30,710	\$ 9,344,943	\$ 1,401,335	\$ 19,245,789

KEYSTONE LOCAL SCHOOL DISTRICT

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, fund equity and other credits				
Liabilities				
Accounts and contracts payable	\$ 25,866	\$ 17,989	\$ -	\$ 44,992
Accrued liabilities				
Salaries and benefits	703,543	6,064	-	-
Due to other governments	156,407	894	-	-
Due to others	-	-	-	-
Matured bonds and coupons	-	-	8,812	-
Deferred revenue	3,552,580	12,183	-	169,820
Bonds payable	-	-	-	-
Compensated absences	87,064	-	-	-
Total liabilities	4,525,460	37,130	8,812	214,812
Fund equity and other credits				
Investment in general fixed assets	-	-	-	-
Retained earnings				
Unreserved	-	-	-	-
Fund balance				
Reserved for budget stabilization	125,391	-	-	-
Reserved for debt service	-	-	809,728	-
Reserved for property tax	648,074	-	-	32,523
Reserved for encumbrances	396,103	22,520	-	113,858
Unreserved	1,003,489	74,807	-	196,021
Total fund equity and other credits	2,173,057	97,327	809,728	342,402
Total liabilities, fund equity and other credits	\$ 6,698,517	\$ 134,457	\$ 818,540	\$ 557,214

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
\$ 356	\$ -	\$ 5,490	\$ -	\$ -	\$ 94,693
18,590	-	-	-	-	728,197
24,130	-	-	-	73,417	254,848
-	-	25,220	-	-	25,220
-	-	-	-	-	8,812
5,870	-	-	-	-	3,740,453
-	-	-	-	505,000	505,000
21,738	-	-	-	822,918	931,720
70,684	-	30,710	-	1,401,335	6,288,943
-	-	-	9,344,943	-	9,344,943
189,369	20	-	-	-	189,389
-	-	-	-	-	125,391
-	-	-	-	-	809,728
-	-	-	-	-	680,597
-	-	-	-	-	532,481
-	-	-	-	-	1,274,317
189,369	20	-	9,344,943	-	12,956,846
\$ 260,053	\$ 20	\$ 30,710	\$ 9,344,943	\$ 1,401,335	\$ 19,245,789

KEYSTONE LOCAL SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND

FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 4,104,911	\$ -	\$ 54,005	\$ 198,373
Tuition and fees	40,418	-	-	-
Interest	217,334	-	-	-
Intergovernmental	5,243,993	292,457	10,399	323,057
Extracurricular	8,375	92,744	-	-
Miscellaneous	62,205	20,328	-	-
Total revenues	9,677,236	405,529	64,404	521,430
Expenditures				
Current				
Instruction				
Regular	4,743,663	51,024	-	201,988
Special	612,141	103,511	-	-
Vocational education	121,571	-	-	-
Support services				
Pupil	477,830	94,572	-	-
Instructional	149,593	38,531	-	256
Board of education	15,852	-	-	-
Administration	858,676	8,752	-	-
Fiscal	272,513	-	1,356	3,371
Operation and maintenance	767,242	5,466	-	53,971
Pupil transportation	568,095	19,821	-	-
Central services	38,638	-	-	4,790
Extracurricular				
Academic oriented	16,788	-	-	-
Sports oriented	150,411	73,639	-	-
Co-curricular	11,339	-	-	-
Capital outlay	-	136	-	540,973
Debt service				
Principal	-	-	125,000	-
Interest	-	-	44,212	-
Total expenditures	8,804,352	395,452	170,568	805,349
Excess (deficiency) of revenues over expenditures	872,884	10,077	(106,164)	(283,919)
Other financing sources (uses)				
Gain on sale of assets	1,329	-	-	-
Pass-through	-	(1,412)	-	-
Total other financing sources (uses)	1,329	(1,412)	-	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	874,213	8,665	(106,164)	(283,919)
Fund balances at beginning of year	1,298,844	88,662	915,892	626,321
Fund balances at end of year	\$ 2,173,057	\$ 97,327	\$ 809,728	\$ 342,402

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Type	
Expendable Trust	Totals (Memorandum Only)
\$ -	\$ 4,357,289
-	40,418
-	217,334
-	5,869,906
-	101,119
3,775	86,308
<u>3,775</u>	<u>10,672,374</u>
3,275	4,999,950
-	715,652
-	121,571
-	572,402
-	188,380
-	15,852
-	867,428
-	277,240
-	826,679
-	587,916
-	43,428
-	16,788
-	224,050
-	11,339
-	541,109
-	125,000
-	44,212
<u>3,275</u>	<u>10,178,996</u>
500	493,378
-	1,329
(500)	(1,912)
<u>(500)</u>	<u>(583)</u>
-	492,795
-	2,929,719
\$ -	\$ 3,422,514

KEYSTONE LOCAL SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED JUNE 30, 1999

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 3,924,976	\$ 4,175,900	\$ 250,924
Tuition and fees	36,150	40,418	4,268
Interest	145,000	194,255	49,255
Intergovernmental	4,897,050	5,245,651	348,601
Extracurricular	2,750	8,375	5,625
Miscellaneous	32,885	45,752	12,867
Total revenues	9,038,811	9,710,351	671,540
Expenditures			
Current			
Instruction			
Regular	4,807,960	4,726,883	81,077
Special	797,877	780,451	17,426
Vocational education	134,150	125,190	8,960
Support services			
Pupil	528,489	503,621	24,868
Instructional	163,921	148,405	15,516
Board of education	24,350	15,849	8,501
Administration	885,496	850,035	35,461
Fiscal	294,805	275,470	19,335
Operation and maintenance	844,398	828,677	15,721
Pupil transportation	704,659	672,485	32,174
Central services	60,375	43,934	16,441
Extracurricular			
Academic oriented	18,850	16,777	2,073
Sports oriented	176,873	151,626	25,247
Co-curricular	11,400	11,337	63
Capital outlay	17,070	-	17,070
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	9,470,673	9,150,740	319,933
Excess (deficiency) of revenues over expenditures	(431,862)	559,611	991,473
Other financing sources (uses)			
Operating transfers-in	-	111,640	111,640
Gain on sale of assets	-	1,329	1,329
Refund of prior year's expenditures	1,000	16,453	15,453
Advances in	-	69,850	69,850
Operating transfers-out	(111,641)	(111,641)	-
Refund of prior year's receipts	(500)	(151)	349
Advances out	(69,850)	(69,850)	-
Pass-through	-	-	-
Total other financing sources (uses)	(180,991)	17,630	198,621
Excess (deficiency) of revenues over expenditures and other sources (uses)	(612,853)	577,241	1,190,094
Prior year encumbrances	154,339	154,339	-
Fund balances at beginning of year	1,306,814	1,306,814	-
Fund balances at end of year	\$ 848,300	\$ 2,038,394	\$ 1,190,094

The accompanying notes are an integral part of these financial statements.

Special Revenue			Debt Service			
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
\$ -	\$ -	\$ -	\$ 104,500	\$ 89,917	\$ (14,583)	
-	-	-	-	-	-	
250,054	251,325	1,271	7,000	10,399	3,399	
86,498	92,744	6,246	-	-	-	
20,000	20,018	18	-	-	-	
356,552	364,087	7,535	111,500	100,316	(11,184)	
68,099	67,246	853	-	-	-	
111,456	111,407	49	-	-	-	
-	-	-	-	-	-	
105,437	91,619	13,818	-	-	-	
44,366	39,041	5,325	-	-	-	
-	-	-	-	-	-	
9,728	8,752	976	-	-	-	
-	-	-	5,500	1,356	4,144	
7,288	5,727	1,561	-	-	-	
21,593	19,639	1,954	-	-	-	
-	-	-	-	-	-	
82,581	80,667	1,914	-	-	-	
-	-	-	-	-	-	
189	189	-	-	-	-	
-	-	-	125,000	125,000	-	
-	-	-	44,212	44,212	-	
450,737	424,287	26,450	174,712	170,568	4,144	
(94,185)	(60,200)	33,985	(63,212)	(70,252)	(7,040)	
5,222	5,222	-	-	-	-	
-	-	-	-	-	-	
260	310	50	-	-	-	
-	-	-	-	-	-	
(5,222)	(5,222)	-	-	-	-	
(667)	(667)	-	-	-	-	
-	-	-	-	-	-	
(1,412)	(1,412)	-	-	-	-	
(1,819)	(1,769)	50	-	-	-	
(96,004)	(61,969)	34,035	(63,212)	(70,252)	(7,040)	
15,988	15,988	-	-	-	-	
97,217	97,217	-	879,980	879,980	-	
\$ 17,201	\$ 51,236	\$ 34,035	\$ 816,768	\$ 809,728	\$ (7,040)	

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,218,958	\$ 4,468,273	\$ 249,315
36,150	40,418	4,268
145,000	194,255	49,255
5,931,965	6,279,964	347,999
89,248	101,119	11,871
52,885	65,770	12,885
10,474,206	11,149,799	675,593
5,166,817	5,067,477	99,340
909,333	891,858	17,475
134,150	125,190	8,960
633,926	595,240	38,686
214,785	187,702	27,083
24,350	15,849	8,501
895,224	858,787	36,437
304,305	280,197	24,108
1,011,877	976,158	35,719
726,252	692,124	34,128
70,375	48,724	21,651
18,850	16,777	2,073
259,454	232,293	27,161
11,400	11,337	63
582,291	563,978	18,313
125,000	125,000	-
44,212	44,212	-
11,132,601	10,732,903	399,698
(658,395)	416,896	1,075,291
5,222	116,862	111,640
-	1,329	1,329
1,260	16,763	15,503
49,850	119,700	69,850
(116,863)	(116,863)	-
(1,167)	(818)	349
(119,700)	(119,700)	-
(1,412)	(1,412)	-
(182,810)	15,861	198,671
(841,205)	432,757	1,273,962
175,078	175,078	-
2,416,444	2,416,444	-
\$ 1,750,317	\$ 3,024,279	\$ 1,273,962

KEYSTONE LOCAL CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS —
ALL PROPRIETARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 1999

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Charges for services	\$ 284,149	\$ -	\$ 284,149
Tuition and fees	19,371	-	19,371
Miscellaneous	34,683	-	34,683
Total operating revenues	338,203	-	338,203
Operating expenses			
Salaries and wages	164,092	-	164,092
Fringe benefits	57,978	-	57,978
Contractual services	2,944	-	2,944
Materials and supplies	186,392	-	186,392
Depreciation	4,017	-	4,017
Other expenses	984	-	984
Total operating expenses	416,407	-	416,407
Operating (loss)	(78,204)	-	(78,204)
Nonoperating revenues (expenses)			
Interest	629	-	629
Intergovernmental	91,166	-	91,166
Loss on disposal of assets	(2,948)	-	(2,948)
Total nonoperating revenues (expenses)	88,847	-	88,847
Net income	10,643	-	10,643
Retained earnings at beginning of year	178,726	20	178,746
Retained earnings at end of year	\$ 189,369	\$ 20	\$ 189,389

The accompanying notes are an integral part of these financial statements.

KEYSTONE LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating (loss)	\$ (78,204)	\$ -	\$ (78,204)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,017	-	4,107
Donated commodities, used	23,797	-	23,797
Changes in net assets (increase) decrease and liabilities increase (decrease):			
Receivables, accounts and other	(3,244)	-	(3,244)
Accrued interest	(93)	-	(93)
Due from other governments	(707)	-	(707)
Inventories and supplies	1,583	-	1,583
Accounts and contracts payable	328	-	328
Accrued salaries and benefits	2,474	-	2,474
Due to other governments	1,008	-	1,008
Deferred revenue	(1,041)	-	(1,041)
Compensated absences	3,391	-	3,391
Total adjustments	31,513	-	31,513
Net cash (used in) operating activities	(46,691)	-	(46,691)
Cash flows from non-capital financing activities:			
Intergovernmental revenue	67,369	-	67,369
Net cash provided by non-capital financing activities	67,369	-	67,369
Cash flows from capital financing activities:			
Acquisition of fixed assets	(3,462)	-	(3,462)
Net cash (used in) capital financing activities	(3,462)	-	(3,462)
Cash flows from investing activities:			
Interest	629	-	629
Net cash provided by investing activities	629	-	629
Net increase in cash and cash equivalents	17,845	-	17,845
Equity in pooled cash and cash equivalents, beginning of year	98,298	20	98,318
Equity in pooled cash and cash equivalents, end of year	\$ 116,143	\$ 20	\$ 116,163
Noncash transaction:			
Loss on disposal of fixed assets	\$ 2,948	\$ -	\$ 2,948

The accompanying notes are an integral part of these financial statements.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Keystone Local School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 1998 was 1,874. The District employs 113 certificated and 72 non-certificated employees.

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

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

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

Lake Erie Educational Computer Association (LEECA) - The Keystone Local School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The District's participation is disclosed in Note 17 to the financial statements.

Lake Erie Regional Council - The Lake Erie Regional Council (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The District's participation is disclosed in Note 17 to the financial statements.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY (continued)

Lorain County Joint Vocational School District - The Lorain County Joint Vocational School District provides for the vocational and special education needs of participating districts. This is a jointly governed organization. The District's participation is disclosed in Note 17 to the financial statements.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of the Keystone Local School District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Keystone Local School District has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be approximately sixty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. Reimbursements due for federally funded programs are recognized when the corresponding expenditures are made.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

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

Proprietary Fund Types

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the Board of Education has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations. Proprietary funds include the following fund types:

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

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Internal Service Fund - used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Funds - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups

The District maintains two account groups as described below:

General Fixed Assets Account Group - used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary or trust funds.

General Long-term Debt Account Group - used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

B. DEPOSITS AND INVESTMENTS

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State. A fund balance reserve has also been established.

D. RECEIVABLES

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

E. INVENTORIES AND SUPPLIES

The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds. For all funds, cost is determined on a first-in, first-out basis.

F. FIXED ASSETS AND DEPRECIATION

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at their estimated fair value market at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received, based on historical information available. Depreciation is computed using the straight-line method based on estimated life of assets. Depreciable assets consist of equipment and fixtures with estimated useful lives of 5 to 20 years.

G. LONG-TERM LIABILITIES

Unmatured general long-term liabilities, which are related to governmental fund type operations, are reflected in the general long-term debt account group.

H. UNPAID COMPENSATED ABSENCES

The entire estimated amount of unpaid compensated absences, including sick pay and vacation pay, of the proprietary type funds is reflected as a liability in the respective funds. The portion of unpaid compensated absences related to governmental fund type operations is reflected in the general long-term debt account group.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. UNPAID COMPENSATED ABSENCES (continued)

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

I. FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations. The reserve for property tax represents amounts recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

J. TOTAL COLUMNS

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY PROCESS

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.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

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 required to be budgeted and appropriated. The primary level of budgetary control is at the object code function level within each fund. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" do not include July 1, 1998 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Appropriations (continued)

The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

Budgetary Reporting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Budgetary Reporting (continued)

- 1.) Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
- 2.) Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess (deficiency) of revenues over
 expenditures and other sources (uses) -
 reconciliation of budget basis to GAAP basis

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$ 577,241	\$ (61,969)	\$ (70,252)	\$ (12,263)
Adjustments, increase (decrease)				
Revenue accruals	(231,058)	35,910	(35,912)	(503,465)
Expenditure accruals	<u>528,030</u>	<u>34,724</u>	<u>-</u>	<u>231,809</u>
GAAP basis, as reported				
Excess (deficit)	<u>\$ 874,213</u>	<u>\$ 8,665</u>	<u>\$ (106,164)</u>	<u>\$ (283,919)</u>

B. FUND EQUITY DEFICITS

Not apparent in the general purpose financial statements are deficit fund equity balances of \$ 268 in the Title I, and \$ 583 in the Drug Free Schools fund. These deficit fund equity balances at year-end result from reflecting expenditures in accordance with the modified accrual basis which are substantially larger than the amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

NOTE 4 DEPOSITS AND INVESTMENTS

The Keystone Local School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Pooled cash and cash equivalents."

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS

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

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

Inactive deposits are public deposits that the District 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 monies may be invested in:

- 1.) Time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts;
- 2.) 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;
- 3.) Bonds, notes, debentures, or 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;
- 4.) 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 market daily, and that the term of the agreement must not exceed thirty days;

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 5.) Bonds and other obligations of the State of Ohio;
- 6.) 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;
- 7.) The State Treasurer's investment pool (STAR Ohio);
- 8.) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
- 9.) 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 of debt of the District, and must be purchased with the expectation that it will be held until maturity.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

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

B. DEPOSITS

At year-end, the carrying amount of the Keystone Local School District's deposits was \$ 2,770,384 and the bank balance was \$ 2,877,272. Of the bank balance, \$ 100,000 was covered by federal depository insurance, \$ 2,777,272 by collateral held by the District, or by collateral held by a qualified third party trustee in the name of the Keystone Local School District.

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1999. 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 June 30, 1999. The District's interest in STAROhio has a carrying value and market value of \$ 1,105,975 at June 30, 1999.

Interest revenue credited to the general fund during 1999 amounted to \$ 217,334, which included interest assigned from other District funds.

NOTE 5 FIXED ASSETS AND ACCUMULATED DEPRECIATION

A. GENERAL FIXED ASSETS ACCOUNT GROUP

The changes in general fixed assets during the year consisted of:

	Balance <u>July 1, 1998</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 1999</u>
Land	\$ 133,191	\$ -	\$ -	\$ 133,191
Buildings and improvements	6,024,127	31,531	3,859	6,051,799
Furniture, fixtures, and equipment	2,251,366	205,014	133,115	2,323,265
Vehicles	<u>832,180</u>	<u>113,214</u>	<u>108,706</u>	<u>836,688</u>
	<u>\$ 9,240,864</u>	<u>\$ 349,759</u>	<u>\$ 245,680</u>	<u>\$ 9,344,943</u>

B. PROPRIETARY FUND TYPE FIXED ASSETS

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

	Balance <u>June 30, 1999</u>
<u>Enterprise</u>	
Equipment and fixtures	\$ 188,922
Less: accumulated depreciation	<u>(73,312)</u>
	<u>\$ 115,610</u>

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 6 DEFERRED REVENUE

Deferred revenue at year-end, consisted of:

Property taxes receivable		\$ 3,722,400	
Grants receivable		12,183	
Federal commodities, unused		<u>5,870</u>	
		<u>\$ 3,740,453</u>	

NOTE 7 GENERAL LONG-TERM DEBT

Changes in general long-term debt are as follows:

	<u>Outstanding</u> <u>June 30, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding</u> <u>June 30, 1999</u>
Due to other governments	\$ 70,973	\$ 73,417	\$ 70,973	\$ 73,417
Bonds payable	630,000	-	125,000	505,000
Compensated absences	<u>814,174</u>	<u>8,744</u>	<u>-</u>	<u>822,918</u>
	<u>\$ 1,515,147</u>	<u>\$ 82,161</u>	<u>\$ 195,973</u>	<u>\$ 1,401,335</u>

All the long term debt of the School District will be paid from the Debt Service Fund from property taxes. Due to other governments represents contractually required pension contributions and will be paid from the fund from which the employee is paid. Compensated absences will be paid from the fund from which the employee is paid.

NOTE 8 BONDS PAYABLE

Bonds payable outstanding at year-end consisted of:

	<u>Outstanding</u> <u>June 30, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding</u> <u>June 30, 1999</u>
School improvement, (1977), 5.50% through 2002	\$ 450,000	\$ -	\$ 90,000	\$ 360,000
School improvement, (1982) 13.50% through 2002	<u>180,000</u>	<u>-</u>	<u>35,000</u>	<u>145,000</u>
	<u>\$ 630,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 505,000</u>

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 9 DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire bonds payable outstanding at June 30, 1999, consisted of:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 125,000	\$ 34,537	\$ 159,537
2001	125,000	24,863	149,863
2002	125,000	15,187	140,187
2003	<u>130,000</u>	<u>5,175</u>	<u>135,175</u>
Total	<u>\$ 505,000</u>	<u>\$ 79,762</u>	<u>\$ 584,762</u>

Not reflected above are compensated absences of \$ 822,918 and due to other governments of \$ 73,417.

NOTE 10 OPERATING LEASE

Keystone Local School District is obligated under a certain lease accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the District's account groups. During 1999, expenditures for operating leases totaled \$ 39,780. The following is a schedule of future minimum lease payments as of June 30, 1999.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2000	\$ 39,780
2001	39,780
2002	39,780
2003	<u>29,835</u>
Total minimum lease payments	<u>\$ 149,175</u>

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 11 PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Taxes collected on real property, other than public utility, in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property, other than public utility, in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business, except for public utilities, is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts 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.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously. The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the District its portion of the taxes collected.

The tax applied to real property collected in 1999 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$ 55.05 per \$ 1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$ 27.16 per \$ 1,000 of assessed valuation for residential and agricultural real property, and \$ 34.91 per \$ 1,000 of assessed valuation for other real property. The tax rate applied to tangible personal property for the current year ended June 30, 1999, was \$ 55.05 per \$ 1,000 of valuation.

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 11 PROPERTY TAXES (continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 1999 was \$ 680,597.

The property valuation consisted of:

Real Property - 1998	
Residential/Agricultural	\$ 127,016,070
Commercial/Industrial	10,406,340
Public Utilities	30,840
Mineral	8,430
Tangible Personal Property - 1999	
General	6,623,593
Public Utilities	<u>16,359,800</u>
Total valuation	<u>\$ 160,445,073</u>

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 1998, the District contracted with the Indiana Insurance Company for property insurance. Professional liability is covered by the Nationwide Mutual Insurance Company with a \$ 5,000,000 aggregate limit. Vehicles are covered by the Nationwide Mutual Insurance Company. Automobile liability has a \$ 2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past several years. Performance bonds of \$ 20,000 are maintained for the superintendent, and the board president, and a \$ 25,000 performance bond for the treasurer by Nationwide Mutual Insurance Company.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 12 RISK MANAGEMENT (continued)

The District participates in the Ohio School Board Association Workers' Compensation Group Rating System (GRP), an insurance purchase 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. The Executive Director of the OSBA, or his 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.

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 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 GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The District has contracted with Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their covered dependents. The LEEP is a shared risk pool comprised of thirteen school districts that provide public education within Lorain County. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$ 165,000 per participant.

Premium contributions are determined annually based on the claims experience of the individual district. Premiums can be increased or decreased by up to 20% of the prior year's contribution. Member districts may become liable for additional contributions to fund the liability of the pool. In the event of termination, all participating districts' claims would be paid without regard to their individual account balances. The LEEP Board of Directors has authority to return monies to an exiting district subsequent to the settlement of all claims and expenses. This plan provides a medical/surgical and dental plan with a \$ 200 deductible for family coverage and a \$ 100 deductible for single coverage.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 13 PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Keystone Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That 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 Keystone Local School District is required to contribute 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Keystone Local School District's contributions to SERS for the years ended June 30, 1999, 1998, and 1997 were \$ 191,000, \$ 198,000, and \$ 155,300, respectively. The District paid the required contributions for the fiscal years ended 1998 and 1997, and 74% of the required contribution for the fiscal year ended 1999. An accrual for the unpaid contribution for the fiscal year 1999 is recorded as a liability within the respective funds and general long-term debt.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Keystone School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Keystone Local School District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of it's consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Keystone School District's contribution to STRS for the years ended June 30, 1999, 1998, and 1997 were \$ 641,400, \$ 685,500 and \$ 631,500 respectively. The District paid the required contributions for the fiscal years ended 1998 and 1997, and 84% of the required contribution for the fiscal year ended 1999. An accrual for the unpaid contribution for the fiscal year 1999 is recorded as a liability within the respective funds.

KEYSTONE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 14 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the year ended June 30, 1999, employer contributions to fund health care benefits were 6.3% of covered payroll, an increase from 4.98% for the year ended June 30, 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 1999 (the latest information available) the minimum pay has been established as \$12,400. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 125% of annual health care expenses. Expenses for health care at June 30, 1998 were \$111,900,575 and the health care target level was \$139.9 million. At June 30, 1998 the Retirement System's net assets available for health care benefits was \$160.3 million, at cost.

The number of participants currently receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits was \$96,694.

A. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 14 POSTEMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

The Board currently allocates employer contributions equal to 2% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$ 2,156 million at June 30, 1998 (the latest information available). The Health Care Reserve Fund allocation for the year ended June 30, 1999, will be 8% of covered payroll. For the year ended June 30, 1998, the net health care costs paid by STRS were \$ 219,224,000. There were 91,999 eligible benefit recipients.

NOTE 15 RETIREMENT INCENTIVE PLAN

The Board of Education and the Keystone Local Education Association adopted a retirement incentive policy effective with the 1997-1998 school year. Full-time teachers who retire under STRS (excluding disability retirement) shall receive a lump sum payment of \$ 10,000. Teachers to be eligible for this retirement incentive must retire during their initial eligibility on or before July 1, 1998, 1999 and 2000.

The Board of Education and the Ohio Association of Public School Employees adopted a retirement incentive policy effective with the 1997-1998 school year. For the duration of the contract, which includes fiscal years June 30, 1998, 1999 and 2000, any Keystone Local School District employee (non-teaching staff) who becomes eligible to retire and retires in the first year of eligibility shall be entitled to a lump sum payment under the following schedule:

Work Day:	1 - 3 hours	\$ 300
	3+ - 5 hours	600
	5+ - 8 hours	1,000

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 16 SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of school food service, uniform school supplies, and latchkey services. Segment information related to these follows:

	<u>Food Services</u>	<u>Uniform School Supplies</u>	<u>Latchkey Services</u>	<u>Total</u>
Operating revenues	\$ 284,316	\$ 19,371	\$ 34,516	\$ 338,203
Operating expenses				
Salaries and wages	148,121	-	15,971	164,092
Fringe benefits	54,338	-	3,640	57,978
Contractual services	1,589	-	1,355	2,944
Materials and supplies	165,527	19,198	1,667	186,392
Depreciation	4,017	-	-	4,017
Other expenses	984	-	-	984
Total operating expenses	<u>374,576</u>	<u>19,198</u>	<u>22,633</u>	<u>416,407</u>
Operating income (loss)	(90,260)	173	11,883	(78,204)
Nonoperating revenues and (expenses)	<u>88,847</u>	<u>-</u>	<u>-</u>	<u>88,847</u>
Net income (loss)	<u>\$ (1,413)</u>	<u>\$ 173</u>	<u>\$ 11,883</u>	<u>\$ 10,643</u>
Other information				
Net working capital	<u>\$ 54,034</u>	<u>\$ 7,404</u>	<u>\$ 34,059</u>	<u>\$ 95,497</u>
Fixed asset additions	<u>\$ 3,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,462</u>
Fixed asset disposals	<u>\$ 7,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,512</u>
Total assets	<u>\$ 217,753</u>	<u>\$ 7,404</u>	<u>\$ 34,896</u>	<u>\$ 260,053</u>
Total equity	<u>\$ 147,906</u>	<u>\$ 7,404</u>	<u>\$ 34,059</u>	<u>\$ 189,369</u>

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 17 JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION (LEECA)

The Lake Erie Educational Center Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 1999 the District paid approximately \$ 250,193 for basic service charges.

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization among thirteen districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member provided operating resources to LERC on a per pupil or actual usage charge except for insurance.

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 1999 the District paid approximately \$ 674,797 to LERC.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a jointly governed organization. The jointly governed organization was formed for the purpose of providing vocational and special education needs of the students. The Lorain County Joint Vocation School Board is comprised of representatives from each participating school district and is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities.

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KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 17 JOINTLY GOVERNED ORGANIZATIONS (continued)

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT (continued)

The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

NOTE 18 OHIO SCHOOL FUNDING PLAN

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the District. During the fiscal year ended June 30, 1999, the District received \$ 4,771,445 of school foundation support all of which was recorded in its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of these financial statements, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has not been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

KEYSTONE LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 19 STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During fiscal year ended June 30, 1999, the reserve activity (cash basis) was as follows:

	<u>Reserves</u>			<u>Total</u>
	<u>Textbook</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>	
Balance, July 1, 1998	\$ -	\$ -	\$ 51,804	\$ 51,804
Required set-aside	147,175	147,175	73,587	367,937
Offset credits	27,045	202,456	-	229,501
Qualifying expenditures	<u>120,130</u>	<u>-</u>	<u>-</u>	<u>120,130</u>
Balance, June 30, 1999	<u>\$ -</u>	<u>\$ (55,281)</u>	<u>\$ 125,391</u>	<u>\$ 70,110</u>

Expenditures for textbooks and capital activity during the year were \$ 243,054 and \$ 264,873 respectively, which exceeded the required set-aside and budget reserves.

The District is required by HB 412 to establish a Budget Stabilization Reserve within the General Fund. The amount of the reserve may not exceed 5% of the general fund's revenue for the preceding fiscal year and the balance is not to be considered part of the unencumbered fund balance when certifying available balances at year end.

NOTE 20 YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations.

The District has completed an inventory of computer systems and other electronic equipment necessary to conducting operations. The District has identified the following systems as financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information Systems (EMIS)).

KEYSTONE LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 20 YEAR 2000 ISSUE (continued)

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform Payroll System software for its payroll and employee benefits, and the State's EMIS software for its educational statistics reporting. The State of Ohio is responsible for remediating these systems. The District has been advised that the financial reporting, payroll and employee benefits and the education statistical reporting systems have been validated and tested.

The State of Ohio distributes a substantial sum of money to the District in the form of "foundation" and Federal and State grant payments. The State is responsible for remediating these systems.

Lorain County collects property taxes for distributing to the District. Lorain County is responsible for remediating its tax collection system.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District will be year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be year 2000 ready.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Keystone Local School District
Lorain County
301 Liberty Avenue
LaGrange, Ohio 44050

To The Board of Education:

We have audited the financial statements of the Keystone Local School District, Lorain County, Ohio, (District) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 3, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 *no instances of noncompliance that are required to be reported under Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 3, 1999.

This report is intended for the information and use of management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.



JIM PETRO
Auditor of State
December 3, 1999



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OFFICE OF THE AUDITOR

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KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN 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.

By: Susan Babbitt

Date: JAN 11 2000