



**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types	8
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Types	12
Combined Statement of Cash Flows - All Proprietary Fund Types	13
Notes to the General-Purpose Financial Statements	15
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	35

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INDEPENDENT ACCOUNTANTS' REPORT

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, (the District) as of and for the year ended June 30, 2000, 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, 2000, 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 11, 2000 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.

Jim Petro
Auditor of State

December 11, 2000

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KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and other debits				
Cash and cash equivalents	\$ 3,103,034	\$ 126,267	\$ 650,190	\$ 309,162
Cash with fiscal agent	-	-	6,100	-
Restricted cash	201,585	-	-	-
Receivables, net				
Taxes, current	4,297,863	-	-	207,353
Taxes, delinquent	64,225	-	-	3,297
Accrued interest	20,554	-	-	-
Accounts and other	-	-	-	-
Due from other governments	-	56,979	-	-
Inventories and supplies	-	-	-	-
Fixed assets	-	-	-	-
Accumulated depreciation	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for benefits	-	-	-	-
Total assets and other debits	<u>7,687,261</u>	<u>183,246</u>	<u>656,290</u>	<u>519,812</u>
Liabilities, fund equity and other credits				
Liabilities				
Accounts and contracts payable	38,416	1,297	-	-
Accrued salaries and benefits	743,384	4,068	-	-
Due to other governments	158,173	1,018	-	-
Due to others	-	-	-	-
Matured bonds and interest payable	-	-	6,100	-
Deferred revenue	3,408,556	60,588	-	162,528
Bonds payable	-	-	-	-
Compensated absences	62,431	-	-	-
Total liabilities	<u>4,410,960</u>	<u>66,971</u>	<u>6,100</u>	<u>162,528</u>
Fund equity and other credits				
Investment in general fixed assets	-	-	-	-
Retained earnings				
Unreserved	-	-	-	-
Fund balance				
Reserved for budget stabilization	201,585	-	-	-
Reserved for debt service	-	-	650,190	-
Reserved for property tax	953,532	-	-	48,122
Reserved for encumbrances	582,410	6,552	-	49,123
Unreserved	1,538,774	109,723	-	260,039
Total fund equity and other credits	<u>3,276,301</u>	<u>116,275</u>	<u>650,190</u>	<u>357,284</u>
Total liabilities, fund equity and other credits	<u>\$ 7,687,261</u>	<u>\$ 183,246</u>	<u>\$ 656,290</u>	<u>\$ 519,812</u>

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	
\$ 122,911	\$ 20	\$ 25,223	\$ -	\$ -	\$ 4,336,807
-	-	-	-	-	6,100
-	-	-	-	-	201,585
-	-	-	-	-	4,505,216
-	-	-	-	-	67,522
86	-	-	-	-	20,640
789	-	-	-	-	789
11,280	-	-	-	-	68,259
16,644	-	-	-	-	16,644
188,979	-	-	9,376,744	-	9,565,723
(73,228)	-	-	-	-	(73,228)
-	-	-	-	380,000	380,000
-	-	-	-	898,670	898,670
<u>267,461</u>	<u>20</u>	<u>25,223</u>	<u>9,376,744</u>	<u>1,278,670</u>	<u>19,994,727</u>
110	-	-	-	-	39,823
18,329	-	-	-	-	765,781
22,971	-	-	-	70,771	252,933
-	-	25,223	-	-	25,223
-	-	-	-	-	6,100
5,395	-	-	-	-	3,637,067
-	-	-	-	380,000	380,000
23,422	-	-	-	827,899	913,752
<u>70,227</u>	<u>-</u>	<u>25,223</u>	<u>-</u>	<u>1,278,670</u>	<u>6,020,679</u>
-	-	-	9,376,744	-	9,376,744
197,234	20	-	-	-	197,254
-	-	-	-	-	201,585
-	-	-	-	-	650,190
-	-	-	-	-	1,001,654
-	-	-	-	-	638,085
-	-	-	-	-	1,908,536
<u>197,234</u>	<u>20</u>	<u>-</u>	<u>9,376,744</u>	<u>-</u>	<u>13,974,048</u>
<u>\$ 267,461</u>	<u>\$ 20</u>	<u>\$ 25,223</u>	<u>\$ 9,376,744</u>	<u>\$ 1,278,670</u>	<u>\$ 19,994,727</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 4,595,965	\$ -	\$ -	\$ 224,136
Tuition and fees	55,009	-	-	-
Interest	268,927	-	-	-
Intergovernmental	5,330,480	312,842	-	21,858
Extracurricular	8,490	83,121	-	-
Miscellaneous	47,692	27,504	-	-
Total revenues	<u>10,306,563</u>	<u>423,467</u>	<u>-</u>	<u>245,994</u>
Expenditures				
Current				
Instruction				
Regular	4,815,285	50,704	-	-
Special	701,214	96,264	-	-
Vocational education	118,759	-	-	-
Support services				
Pupil	537,280	128,223	-	-
Instructional	156,611	35,601	-	14,520
Board of education	16,749	-	-	-
Administration	969,822	500	-	-
Fiscal	267,672	-	-	3,395
Operation and maintenance	780,273	5,850	-	174,691
Pupil transportation	570,352	22,023	-	-
Central services	60,484	1,594	-	-
Extracurricular				
Academic oriented	17,132	-	-	-
Sports oriented	162,221	62,399	-	-
Co-curricular	10,494	-	-	-
Capital outlay	12,971	-	-	38,506
Debt service				
Principal	-	-	125,000	-
Interest	-	-	34,538	-
Total expenditures	<u>9,197,319</u>	<u>403,158</u>	<u>159,538</u>	<u>231,112</u>
Excess (deficiency) of revenues over expenditures	<u>1,109,244</u>	<u>20,309</u>	<u>(159,538)</u>	<u>14,882</u>
Other financing sources (uses)				
Operating transfers-out	(6,000)	-	-	-
Pass-through	-	(1,361)	-	-
Total other financing sources (uses)	<u>(6,000)</u>	<u>(1,361)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	1,103,244	18,948	(159,538)	14,882
Fund balances at beginning of year	2,173,057	97,327	809,728	342,402
Fund balances at end of year	<u>\$ 3,276,301</u>	<u>\$ 116,275</u>	<u>\$ 650,190</u>	<u>\$ 357,284</u>

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

Fiduciary Fund Type		Totals
Expendable Trust		(Memorandum Only)
\$ -		\$ 4,820,101
-		55,009
-		268,927
-		5,665,180
-		91,611
1,425		76,621
<u>1,425</u>		<u>10,977,449</u>
	1,425	4,867,414
	-	797,478
	-	118,759
	-	665,503
	-	206,732
	-	16,749
	-	970,322
	-	271,067
	-	960,814
	-	592,375
	-	62,078
	-	17,132
	-	224,620
	-	10,494
	-	51,477
	-	125,000
	-	34,538
	<u>1,425</u>	<u>9,992,552</u>
	<u>-</u>	<u>984,897</u>
	-	(6,000)
	<u>-</u>	<u>(1,361)</u>
	<u>-</u>	<u>(7,361)</u>
	-	977,536
	<u>-</u>	<u>3,422,514</u>
<u>\$ -</u>		<u>\$ 4,400,050</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
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, 2000

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$ 4,148,252	\$ 4,290,507	\$ 142,255
Tuition and fees	31,050	55,009	23,959
Interest	130,375	283,611	153,236
Intergovernmental	5,327,250	5,330,480	3,230
Extracurricular	4,000	8,490	4,490
Miscellaneous	36,825	46,421	9,596
Total revenues	<u>9,677,752</u>	<u>10,014,518</u>	<u>336,766</u>
Expenditures			
Current			
Instruction			
Regular	5,147,092	4,844,235	302,857
Special	958,229	771,817	186,412
Vocational education	139,500	123,635	15,865
Support services			
Pupil	558,975	542,540	16,435
Instructional	192,858	169,357	23,501
Board of education	24,500	16,752	7,748
Administration	1,014,507	947,076	67,431
Fiscal	300,528	282,936	17,592
Operation and maintenance	903,192	777,754	125,438
Pupil transportation	672,222	642,478	29,744
Central services	80,363	71,736	8,627
Extracurricular			
Academic oriented	20,600	17,135	3,465
Sports oriented	181,590	161,437	20,153
Co-curricular	12,550	10,497	2,053
Capital outlay	398,915	398,601	314
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>10,605,621</u>	<u>9,777,986</u>	<u>827,635</u>
Excess (deficiency) of revenues over expenditures	<u>(927,869)</u>	<u>236,532</u>	<u>1,164,401</u>
Other financing sources (uses)			
Operating transfers-in	-	76,195	76,195
Operating transfers-out	(83,000)	(82,195)	805
Refund of prior year's expenditures	1,000	1,271	271
Advances in	20,000	20,000	-
Advances out	(69,985)	(20,000)	49,985
Refund of prior year's receipts	(500)	-	500
Pass-through	-	-	-
Total other financing sources (uses)	<u>(132,485)</u>	<u>(4,729)</u>	<u>127,756</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,060,354)	231,803	1,292,157
Prior year encumbrances	415,433	415,433	-
Fund balances at beginning of year	2,047,192	2,047,192	-
Fund balances at end of year	<u>\$ 1,402,271</u>	<u>\$ 2,694,428</u>	<u>\$ 1,292,157</u>

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
339,913	345,275	5,362	-	-	-
90,475	83,121	(7,354)	-	-	-
14,510	27,504	12,994	-	-	-
<u>444,898</u>	<u>455,900</u>	<u>11,002</u>	<u>-</u>	<u>-</u>	<u>-</u>
93,995	63,854	30,141	-	-	-
99,935	99,555	380	-	-	-
-	-	-	-	-	-
149,610	129,361	20,249	-	-	-
51,011	35,860	15,151	-	-	-
-	-	-	-	-	-
6,641	6,416	225	-	-	-
-	-	-	5,500	-	5,500
6,858	5,601	1,257	-	-	-
24,783	22,018	2,765	-	-	-
3,013	1,648	1,365	-	-	-
-	-	-	-	-	-
66,317	64,730	1,587	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	125,000	125,000	-
-	-	-	34,538	34,538	-
<u>502,163</u>	<u>429,043</u>	<u>73,120</u>	<u>165,038</u>	<u>159,538</u>	<u>5,500</u>
<u>(57,265)</u>	<u>26,857</u>	<u>84,122</u>	<u>(165,038)</u>	<u>(159,538)</u>	<u>5,500</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(1,361)	(1,361)	-	-	-	-
<u>(1,361)</u>	<u>(1,361)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(58,626)	25,496	84,122	(165,038)	(159,538)	5,500
41,466	41,466	-	-	-	-
51,984	51,984	-	809,728	809,728	-
<u>\$ 34,824</u>	<u>\$ 118,946</u>	<u>\$ 84,122</u>	<u>\$ 644,690</u>	<u>\$ 650,190</u>	<u>\$ 5,500</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
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, 2000

	Capital Projects		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 199,657	\$ 208,537	\$ 8,880
Tuition and fees	-	-	-
Interest	-	-	-
Intergovernmental	101,200	21,858	(79,342)
Extracurricular	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>300,857</u>	<u>230,395</u>	<u>(70,462)</u>
Expenditures			
Current			
Instruction			
Regular	23,832	13,754	10,078
Special	-	-	-
Vocational education	-	-	-
Support services			
Pupil			
Instructional	18,000	14,520	3,480
Board of education	-	-	-
Administration	-	-	-
Fiscal	4,000	3,395	605
Operation and maintenance	221,640	182,972	38,668
Pupil transportation	-	-	-
Central services	-	-	-
Extracurricular			
Academic oriented	-	-	-
Sports oriented	-	-	-
Co-curricular	-	-	-
Capital outlay	175,016	110,586	64,430
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>442,488</u>	<u>325,227</u>	<u>117,261</u>
Excess (deficiency) of revenues over expenditures	<u>(141,631)</u>	<u>(94,832)</u>	<u>46,799</u>
Other financing sources (uses)			
Operating transfers-in	-	-	-
Operating transfers-out	-	-	-
Refund of prior years expenditures	-	-	-
Advances in	-	-	-
Advances out	-	-	-
Refund of prior years receipts	-	-	-
Pass-through	-	-	-
Total other financing	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(141,631)	(94,832)	46,799
Prior year encumbrances	155,701	155,701	-
Fund balances at beginning of year	199,170	199,170	-
Fund balances at end of year	<u>\$ 213,240</u>	<u>\$ 260,039</u>	<u>\$ 46,799</u>

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

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,347,909	\$ 4,499,044	\$ 151,135
31,050	55,009	23,959
130,375	283,611	153,236
5,768,363	5,697,613	(70,750)
94,475	91,611	(2,864)
51,335	73,925	22,590
<u>10,423,507</u>	<u>10,700,813</u>	<u>277,306</u>
5,264,919	4,921,843	343,076
1,058,164	871,372	186,792
139,500	123,635	15,865
708,585	671,901	36,684
261,869	219,737	42,132
24,500	16,752	7,748
1,021,148	953,492	67,656
310,028	286,331	23,697
1,131,690	966,327	165,363
697,005	664,496	32,509
83,376	73,384	9,992
20,600	17,135	3,465
247,907	226,167	21,740
12,550	10,497	2,053
573,931	509,187	64,744
125,000	125,000	-
34,538	34,538	-
<u>11,715,310</u>	<u>10,691,794</u>	<u>1,023,516</u>
<u>(1,291,803)</u>	<u>9,019</u>	<u>1,300,822</u>
-	76,195	76,195
(83,000)	(82,195)	805
1,000	1,271	271
20,000	20,000	-
(69,985)	(20,000)	49,985
(500)	-	500
(1,361)	(1,361)	-
<u>(133,846)</u>	<u>(6,090)</u>	<u>127,756</u>
(1,425,649)	2,929	1,428,578
612,600	612,600	-
3,108,074	3,108,074	-
<u>\$ 2,295,025</u>	<u>\$ 3,723,603</u>	<u>\$ 1,428,578</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Tuition and fees	\$ 14,724	\$ -	\$ 14,724
Miscellaneous	32,914	-	32,914
Charges for services	287,360	-	287,360
Total operating revenues	<u>334,998</u>	<u>-</u>	<u>334,998</u>
Operating expenses			
Salaries and wages	164,648	-	164,648
Fringe benefits	55,720	-	55,720
Contractual services	3,691	-	3,691
Materials and supplies	189,546	-	189,546
Other expenses	1,084	-	1,084
Depreciation	4,773	-	4,773
Total operating expenses	<u>419,462</u>	<u>-</u>	<u>419,462</u>
Operating (loss)	<u>(84,464)</u>	<u>-</u>	<u>(84,464)</u>
Non-operating revenues (expenses)			
Intergovernmental	88,296	-	88,296
Interest	1,174	-	1,174
Loss on sale of assets	(3,141)	-	(3,141)
Total non-operating revenues (expenses)	<u>86,329</u>	<u>-</u>	<u>86,329</u>
Income before operating transfers	<u>1,865</u>	<u>-</u>	<u>1,865</u>
Operating transfers			
Operating transfers-in	6,000	-	6,000
Total operating transfers	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Net income	7,865	-	7,865
Retained earnings at beginning of year	<u>189,369</u>	<u>20</u>	<u>189,389</u>
Retained earnings at end of year	<u>\$ 197,234</u>	<u>\$ 20</u>	<u>\$ 197,254</u>

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

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating (loss)	\$ (84,464)	\$ -	\$ (84,464)
Adjustments to reconcile operating (loss) to net cash from operating activities:			
Donated commodities, used	20,302	-	20,302
Depreciation	4,773	-	4,773
Changes in net assets (increase) decrease and liabilities increase (decrease)			
Accounts receivable	2,455	-	2,455
Accrued interest	7	-	7
Intergovernmental receivable	(940)	-	(940)
Inventories	(2,021)	-	(2,021)
Accounts and contracts payable	(246)	-	(246)
Accrued salaries and benefits	(261)	-	(261)
Intergovernmental payable	(1,159)	-	(1,159)
Deferred revenue	(475)	-	(475)
Compensated absences payable	1,684	-	1,684
Total adjustments	<u>24,119</u>	<u>-</u>	<u>24,119</u>
Net cash (used in) operating activities	<u>(60,345)</u>	<u>-</u>	<u>(60,345)</u>
Cash flows from non-capital financing activities:			
Intergovernmental revenue	67,994	-	67,994
Operating transfer-in	6,000	-	6,000
Net cash provided by non-capital financing activities	<u>73,994</u>	<u>-</u>	<u>73,994</u>
Cash flows from capital financing activities:			
Acquisition of fixed assets	(8,055)	-	(8,055)
Net cash (used in) capital financing activities	<u>(8,055)</u>	<u>-</u>	<u>(8,055)</u>
Cash flows from investing activities:			
Interest revenue	1,174	-	1,174
Net cash provided by investing activities	<u>1,174</u>	<u>-</u>	<u>1,174</u>
Net increase in cash and cash equivalents	6,768	-	6,768
Equity in cash and cash equivalents at beginning of year	116,143	20	116,163
Equity in cash and cash equivalents at end of year	<u>\$ 122,911</u>	<u>\$ 20</u>	<u>\$ 122,931</u>
Non-cash transactions:			
Disposal of fixed assets, net book value	<u>\$ 3,141</u>	<u>\$ -</u>	<u>\$ 3,141</u>

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

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KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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, 1999 was 1,870. The District employs 116 certificated and 74 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 that 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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The provisions of the Ohio Revised Code restrict deposit and investment procedures. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances.

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 Ohio Department of Education. A fund balance reserve has also been established.

D. RECEIVABLES

Receivables are reflected at their gross value reduced by an 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 that 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 PROCSS

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

All funds, other than agency funds, require budgets and appropriations. The primary level of budgetary control is at the object code within each 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 object 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.

The allocation of appropriations among objects and 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

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 or accounts payable, whichever is appropriate.

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:

- 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) - <u>reconciliation of budget basis to GAAP basis</u>			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$ 231,803	\$ 25,496	\$ (159,538)	\$ (94,832)
Adjustments, increase (decrease)				
Revenue accruals	194,579	(32,433)	-	15,599
Expenditure accruals	676,862	25,885	-	94,115
GAAP basis, as reported	\$ 1,103,244	\$ 18,948	\$ (159,538)	\$ 14,882

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

B. FUND EQUITY DEFICITS

Not apparent in the general purpose financial statements are deficit fund equity balances of \$ 4,447 in the Title IV 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 "Cash and cash equivalents."

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 issuance 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
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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 (STAROhio);
- 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 \$ 3,375,105 and the bank balance was \$ 3,617,623. Of the bank balance, \$ 300,000 was covered by federal depository insurance, \$ 3,317,623 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.

C. INVESTMENTS

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2000. 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, 2000. The District's interest in STAROhio has a carrying value and market value of \$ 1,169,387 at June 30, 2000.

Interest revenue credited to the general fund during 2000 amounted to \$ 268,927, which included interest assigned from other District funds.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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 July 1, 1999	Additions	Disposals	Balance June 30, 2000
Land	\$ 133,191	\$ -	\$ 634	\$ 132,557
Buildings and improvements	6,051,799	23,100	-	6,074,899
Furniture and equipment	2,323,265	93,496	186,367	2,230,394
Vehicles	836,688	137,540	35,334	938,894
	<u>\$ 9,344,943</u>	<u>\$ 254,136</u>	<u>\$ 222,335</u>	<u>\$ 9,376,744</u>

B. PROPRIETARY FUND TYPE FIXED ASSETS

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

	Balance June 30, 2000
<u>Enterprise</u>	
Machinery and equipment	\$ 188,979
Less accumulated depreciation	73,228
	<u>Net fixed assets</u>
	<u>\$ 115,751</u>

NOTE 6 DEFERRED REVENUE

Deferred revenue at year-end, consisted of:

	Balance June 30, 2000
Property taxes	\$ 3,571,084
Grants receivable	60,588
Federal commodities, unused	5,395
	<u>\$ 3,637,067</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 7 GENERAL LONG-TERM DEBT

Changes in general long-term debts are as follows:

	Outstanding June 30, 1999	Additions	Deductions	Outstanding June 30, 2000
Due to other governments	\$ 73,417	\$ 70,771	\$ 73,417	\$ 70,771
Bonds payable	505,000	-	125,000	380,000
Compensated absences	822,918	73,102	68,121	827,899
	<u>\$ 1,401,335</u>	<u>\$ 143,873</u>	<u>\$ 266,538</u>	<u>\$ 1,278,670</u>

NOTE 8 BONDS PAYABLE

Bonds payable outstanding at year-end consisted of:

	Outstanding June 30, 1999	Additions	Deductions	Outstanding June 30, 2000
School improvement, (1977) 5.00% through 2002	\$ 360,000	\$ -	\$ 90,000	\$ 270,000
Energy conservation, (1982) 13.50% through 2002	145,000	-	35,000	110,000
	<u>\$ 505,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 380,000</u>

NOTE 9 DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire bonds payable outstanding at June 30, 2000, consisted of:

Year ending June 30,	Bonds Payable	Interest	Total
2001	\$ 125,000	\$ 24,863	\$ 149,863
2002	125,000	15,187	140,187
2003	130,000	5,175	135,175
	<u>\$ 380,000</u>	<u>\$ 45,225</u>	<u>\$ 425,225</u>

Not reflected above are compensated absences of \$ 827,899 and due to other governments of \$ 70,771.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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 2000, expenditures for operating leases totaled \$ 39,780. The following is a schedule of future minimum lease payments as of June 30, 2000.

Year ending June 30,	Amount
2001	\$ 27,480
2002	27,480
2003	27,480
2004	27,480
2005	27,480
Total minimum lease payments	<u>\$ 137,400</u>

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 11 PROPERTY TAXES (continued)

The tax applied to real property collected in 2000 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 \$ 27.034 per \$ 1,000 of assessed valuation for residential and agricultural real property, and \$ 36.1 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, 2000, was \$ 55.05 per \$ 1,000 of valuation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable at June 30, 2000. 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, 2000 was \$1,001,654.

The property valuation consisted of:

Real Property - 1999	
Residential / Agricultural	\$ 132,002,500
Commercial / Industrial	11,005,510
Public Utilities	40,790
Mineral	8,540
Tangible Personal Property - 2000	
General	7,760,690
Public Utilities	16,221,590
	16,221,590
	\$ 167,039,620

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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 12 RISK MANAGEMENT (continued)

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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 13 PENSION PLANS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

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, 2000, 1999, and 1998 were \$ 189,800, \$ 191,000, and \$ 198,000, respectively. The District paid the required contributions for the fiscal years ended 1999 and 1998, and 51% of the required contribution for the fiscal year ended 2000. An accrual for the unpaid contribution for the fiscal year 2000 is recorded as a liability within the respective funds and general long-term debt.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Keystone Local 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 its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Keystone Local School District's contribution to STRS for the years ended June 30, 2000, 1999, and 1998 were \$ 670,300, \$ 641,400 and \$ 685,500 respectively. The District paid the required contributions for the fiscal years ended 1999 and 1998, and 83% of the required contribution for the fiscal year ended 2000. An accrual for the unpaid contribution for the fiscal year 2000 is recorded as a liability within the respective funds.

NOTE 14 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide post-retirement 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. At June 30, 1999 (the latest information available) the allocation rate was 6.30%. 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 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

NOTE 14 POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 1999 were \$ 126,380,984 and the health care target level was \$189.6 million. At June 30, 1999 the Retirement System's net assets available for health care benefits was \$ 188.0 million.

The number of participants currently receiving health care benefits is approximately 51,000. The portion of the District's contributions that were used to fund post-employment benefits was \$ 116,101.

B. 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.

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. However, for the fiscal year ended June 30, 1999 (the latest information available), the board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$ 2.783 billion at June 30, 1999. The Health Care Reserve Fund allocation for the year ended June 30, 2000, will be 8% of covered payroll. For the year ended June 30, 1999, the net health care costs paid by STRS were \$ 249,929,000. There were 95,796 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, 2000 and 2001.

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

The amount of early retirement incentive is included in general long-term debt account group at June 30, 2000 is \$10,000 and is included as part of compensated absences payable.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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 are as follows:

	Food Service	Uniform School Supplies	Latchkey Services	Total
Operating revenues	\$ 287,503	\$ 15,138	\$ 32,357	\$ 334,998
Operating expenses				
Salaries and wages	147,536	-	17,112	164,648
Fringe benefits	52,344	-	3,376	55,720
Contractual services	2,021	-	1,670	3,691
Materials and supplies	169,679	18,660	1,207	189,546
Other expenses	1,084	-	-	1,084
Depreciation	4,773	-	-	4,773
Total operating expenses	377,437	18,660	23,365	419,462
Operating income (loss)	(89,934)	(3,522)	8,992	(84,464)
Non-operating revenues, net	86,329	-	-	86,329
Operating transfers-in	-	6,000	-	6,000
Net income (loss)	\$ (3,605)	\$ 2,478	\$ 8,992	\$ 7,865
Other information				
Net working capital	\$ 51,972	\$ 9,882	\$ 43,051	\$ 104,905
Fixed asset additions	\$ 8,055	\$ -	\$ -	\$ 8,055
Fixed assets disposals	\$ 7,998	\$ -	\$ -	\$ 7,998
Total assets	\$ 213,669	\$ 9,882	\$ 43,910	\$ 267,461
Total equity	\$ 144,301	\$ 9,882	\$ 43,051	\$ 197,234

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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, 2000 the District paid approximately \$ 264,195 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. A board of directors chosen from the general membership governs LERC. 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, 2000 the District paid approximately \$ 720,104 to LERC.

Through the Ohio Schools Council, LERC has enlisted Keystone Local in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve month period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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, 2000, the District received \$ 4,834,720 of school foundation support, all of which was recorded in the general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the (Ohio) Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the State's basic aid formula, the school funding program, as discussed above, the mechanism for, and adequacy of, funding for facilities, and the existence of the State's School Solvency Assistance Fund, which the court found took the place of the unconstitutional emergency school loan program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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.

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, 2000, the reserve activity (cash basis) was as follows:

	Textbook	Capital Maintenance	Budget Stabilization
Balance, July 1, 1999	\$ -	\$ -	\$ 125,391
Required set aside	228,583	228,583	76,194
Offset credits	-	-	-
Qualifying expenditures	(235,513)	(228,583)	-
Carry forward at June 30, 2000	<u>\$ (6,930)</u>	<u>\$ -</u>	<u>\$ 201,585</u>

Expenditures for capital maintenance activity during the year was \$ 311,020, which exceeded the required set-aside. The District may reduce the subsequent year textbook set-a-side by the excess expenditure of the current year.

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**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, (the District) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 11, 2000. 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 11, 2000.

Keystone Local School District
Lorain County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page -2-

This report is intended for the information and use of management and the 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 11, 2000



STATE OF OHIO
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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 9, 2001**