



**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Keystone Local School District
Lorain County
301 Liberty Street
LaGrange, Ohio 44050

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, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002 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.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

November 8, 2002

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KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and other debits				
Cash and cash equivalents	\$ 4,003,830	\$ 137,605	\$ 360,140	\$ 772,152
Cash with fiscal agent	334,536	-	5,413	-
Receivables, net				
Taxes, current	3,922,112	-	-	208,825
Taxes, delinquent	105,304	-	-	5,109
Accrued interest	8,525	-	-	-
Due from other governments	-	381,205	-	-
Inventories and supplies	-	-	-	-
Fixed assets	-	-	-	-
Accumulated depreciation	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for benefits	-	-	-	-
Total assets and other debits	\$ 8,374,307	\$ 518,810	\$ 365,553	\$ 986,086
Liabilities, fund equity and other credits				
Liabilities				
Accounts and contracts payables	\$ 19,020	\$ 907	\$ -	\$ -
Accrued salaries and benefits	867,480	32,436	-	-
Due to other governments	166,249	2,255	-	-
Due to others	-	-	-	-
Matured bonds and interest payable	-	-	5,413	-
Deferred revenue	3,304,469	380,705	-	178,278
Bonds payable	-	-	-	-
Compensated absences	14,847	-	-	-
Total liabilities	4,372,065	416,303	5,413	178,278
Fund equity and other credits				
Investment in general fixed assets	-	-	-	-
Retained earnings				
Unreserved	-	-	-	-
Fund balance				
Reserved for debt service	-	-	360,140	-
Reserved for property tax	722,947	-	-	35,656
Reserved for encumbrances	208,383	14,155	-	4,750
Unreserved				
Designated				
Claims	334,536	-	-	-
Undesignated	2,736,376	88,352	-	767,402
Total fund equity and other credits	4,002,242	102,507	360,140	807,808
Total liabilities, fund equity and other credits	\$ 8,374,307	\$ 518,810	\$ 365,553	\$ 986,086

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
\$ 78,586	\$ 20	\$ 28,913	\$ -	\$ -	\$ 5,381,246
-	-	-	-	-	339,949
-	-	-	-	-	4,130,937
-	-	-	-	-	110,413
19	-	-	-	-	8,544
8,716	-	-	-	-	389,921
7,505	-	-	-	-	7,505
188,417	-	-	10,002,436	-	10,190,853
(80,939)	-	-	-	-	(80,939)
-	-	-	-	130,000	130,000
-	-	-	-	963,009	963,009
<u>\$ 202,304</u>	<u>\$ 20</u>	<u>\$ 28,913</u>	<u>\$ 10,002,436</u>	<u>\$ 1,093,009</u>	<u>\$ 21,571,438</u>
\$ -	\$ -	\$ 397	\$ -	\$ -	\$ 20,324
20,917	-	-	-	-	920,833
26,023	-	-	-	82,462	276,989
-	-	26,278	-	-	26,278
-	-	-	-	-	5,413
4,864	-	-	-	-	3,868,316
-	-	-	-	130,000	130,000
22,583	-	-	-	880,547	917,977
<u>74,387</u>	<u>-</u>	<u>26,675</u>	<u>-</u>	<u>1,093,009</u>	<u>6,166,130</u>
-	-	-	10,002,436	-	10,002,436
127,917	20	-	-	-	127,937
-	-	-	-	-	360,140
-	-	-	-	-	758,603
-	-	-	-	-	227,288
-	-	-	-	-	334,536
-	-	2,238	-	-	3,594,368
<u>127,917</u>	<u>20</u>	<u>2,238</u>	<u>10,002,436</u>	<u>-</u>	<u>15,405,308</u>
<u>\$ 202,304</u>	<u>\$ 20</u>	<u>\$ 28,913</u>	<u>\$ 10,002,436</u>	<u>\$ 1,093,009</u>	<u>\$ 21,571,438</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 4,277,519	\$ -	\$ -	\$ 205,359
Tuition and fees	41,910	3,114	-	-
Interest	147,658	-	-	231
Intergovernmental	6,338,796	345,963	-	71,103
Extracurricular	5,847	103,750	-	-
Miscellaneous	52,387	25,034	-	-
Total revenues	<u>10,864,117</u>	<u>477,861</u>	<u>-</u>	<u>276,693</u>
Expenditures				
Current				
Instruction				
Regular	5,253,797	114,276	-	23,932
Special	727,118	92,391	-	-
Vocational education	144,435	-	-	-
Support services				
Pupil	703,290	130,637	-	-
Instructional	201,733	70,122	-	1,193
Board of education	29,100	-	-	-
Administration	959,948	497	-	-
Fiscal	292,655	-	-	3,565
Operation and maintenance	888,184	8,778	-	33,361
Pupil transportation	609,485	27,331	-	-
Central services	120,828	1,867	-	-
Extracurricular				
Academic oriented	16,423	-	-	-
Sports oriented	175,605	61,703	-	-
Co-curricular	9,836	-	-	-
Capital outlay	-	-	-	292,196
Debt service				
Principal	-	-	125,000	-
Interest	-	-	15,188	-
Total expenditures	<u>10,132,437</u>	<u>507,602</u>	<u>140,188</u>	<u>354,247</u>
Excess (deficiency) of revenues over				
Expenditures	<u>731,680</u>	<u>(29,741)</u>	<u>(140,188)</u>	<u>(77,554)</u>
Other financing sources (uses)				
Operating transfers-in	-	-	-	208,721
Operating transfers-out	(208,721)	-	-	-
Proceeds from sale of equipment	504	-	-	-
Total other financing sources (uses)	<u>(208,217)</u>	<u>-</u>	<u>-</u>	<u>208,721</u>
Excess (deficiency) of revenues over				
expenditures and other sources (uses)	523,463	(29,741)	(140,188)	131,167
Fund balances at beginning of year	3,478,779	132,248	500,328	676,641
Fund balances at end of year	<u>\$ 4,002,242</u>	<u>\$ 102,507</u>	<u>\$ 360,140</u>	<u>\$ 807,808</u>

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

Fiduciary Fund Type	Expendable Trust	Total (Memorandum Only)
	\$ -	\$ 4,482,878
	-	45,024
	-	147,889
	-	6,755,862
	-	109,597
	5,238	82,659
	<u>5,238</u>	<u>11,623,909</u>
	3,000	5,395,005
	-	819,509
	-	144,435
	-	833,927
	-	273,048
	-	29,100
	-	960,445
	-	296,220
	-	930,323
	-	636,816
	-	122,695
	-	16,423
	-	237,308
	-	9,836
	-	292,196
	-	125,000
	-	15,188
	<u>3,000</u>	<u>11,137,474</u>
	<u>2,238</u>	<u>486,435</u>
	-	208,721
	-	(208,721)
	-	504
	<u>-</u>	<u>504</u>
	2,238	486,939
	-	4,787,996
	<u>\$ 2,238</u>	<u>\$ 5,274,935</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, 2002

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 4,486,749	\$ 4,452,369	\$ (34,380)
Tuition and fees	36,600	41,910	5,310
Interest	150,000	149,270	(730)
Intergovernmental	5,671,756	6,338,796	667,040
Extracurricular	6,000	5,847	(153)
Miscellaneous	38,170	52,387	14,217
Total revenues	<u>10,389,275</u>	<u>11,040,579</u>	<u>651,304</u>
Expenditures			
Current			
Instruction			
Regular	5,577,160	5,518,186	58,974
Special	873,894	774,551	99,343
Vocational education	154,255	152,500	1,755
Supporting services			
Pupil	767,215	712,770	54,445
Instructional	235,783	206,417	29,366
Board of education	38,251	29,670	8,581
Administration	1,106,510	1,038,272	68,238
Fiscal	330,233	308,823	21,410
Operation and maintenance	1,144,910	992,266	152,644
Pupil transportation	737,704	678,221	59,483
Central services	158,073	135,573	22,500
Operation of non-instructional services			
Community services	-	-	-
Extracurricular activities			
Academic oriented	21,400	16,837	4,563
Sports oriented	202,595	178,506	24,089
Co-curricular	12,950	10,215	2,735
Capital outlay	22,500	7,750	14,750
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>11,383,433</u>	<u>10,760,557</u>	<u>622,876</u>
Excess (deficiency) of revenues over			
Expenditures	<u>(994,158)</u>	<u>280,022</u>	<u>1,274,180</u>
Other financing sources (uses)			
Operating transfers-in	-	-	-
Operating transfers-out	(221,586)	(208,721)	12,865
Proceeds from the sale of assets	-	504	504
Refund of prior year expenditures	500	26,365	25,865
Advances in	20,000	18,000	(2,000)
Advances out	(20,000)	(18,000)	2,000
Refund of prior year receipts	(500)	-	500
Total other financing sources (uses)	<u>(221,586)</u>	<u>(181,852)</u>	<u>39,734</u>
Excess (deficiency) of revenues over			
expenditures and other sources (uses)	(1,215,744)	98,170	1,131,914
Prior year encumbrances	291,355	291,355	-
Fund balances, beginning of year	3,386,879	3,386,879	-
Fund balances, end of year	<u>\$ 2,462,490</u>	<u>\$ 3,776,404</u>	<u>\$ 1,313,914</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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	3,114	3,114	-	-	-
-	-	-	-	-	-
386,212	366,658	(19,554)	-	-	-
87,386	103,750	16,364	-	-	-
19,000	25,034	6,034	-	-	-
<u>492,598</u>	<u>498,556</u>	<u>5,958</u>	<u>-</u>	<u>-</u>	<u>-</u>
171,752	160,375	11,377	-	-	-
97,329	88,760	8,569	-	-	-
-	-	-	-	-	-
160,400	131,267	29,133	-	-	-
81,148	73,787	7,361	-	-	-
-	-	-	-	-	-
500	500	-	-	-	-
-	-	-	-	-	-
12,396	10,399	1,997	-	-	-
27,395	27,395	-	-	-	-
7,630	1,947	5,683	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
69,083	63,455	5,628	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	125,000	125,000	-
-	-	-	15,188	15,188	-
<u>627,633</u>	<u>557,885</u>	<u>69,748</u>	<u>140,188</u>	<u>140,188</u>	<u>-</u>
(135,035)	(59,329)	75,706	(140,188)	(140,188)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	20,080	20,080	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(16,958)	(16,958)	-	-	-	-
<u>(16,958)</u>	<u>3,122</u>	<u>20,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
(151,993)	(56,207)	95,786	(140,188)	(140,188)	-
60,696	60,696	-	-	-	-
118,178	118,178	-	500,328	500,328	-
<u>\$ 26,881</u>	<u>\$ 122,667</u>	<u>\$ 95,786</u>	<u>\$ 360,140</u>	<u>\$ 360,140</u>	<u>\$ -</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, 2002

	Capital Projects		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 247,703	\$ 213,365	\$ (34,338)
Tuition and fees	-	-	-
Interest	-	231	231
Intergovernmental	24,300	91,083	66,783
Extracurricular	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>272,003</u>	<u>304,679</u>	<u>32,676</u>
Expenditures			
Current			
Instruction			
Regular	28,917	25,682	3,235
Special	-	-	-
Vocational education	-	-	-
Supporting services			
Pupil	-	-	-
Instructional	2,616	1,193	1,423
Board of education	-	-	-
Administration	-	-	-
Fiscal	4,400	3,565	835
Operation and maintenance	56,055	37,649	18,406
Pupil transportation	-	-	-
Central services	-	-	-
Operation of non-instructional services			
Community services	-	-	-
Extracurricular activities			
Academic oriented	-	-	-
Sports oriented	-	-	-
Co-curricular	-	-	-
Capital outlay	399,416	301,488	97,928
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>491,404</u>	<u>369,577</u>	<u>121,827</u>
Excess (deficiency) of revenues over expenditures	<u>(219,401)</u>	<u>(64,898)</u>	<u>154,503</u>
Other financing sources (uses)			
Operating transfers-in	208,721	208,721	-
Operating transfers-out	-	-	-
Proceeds from the sale of assets	-	-	-
Refund of prior year expenditures	-	6,765	6,765
Advances in	-	-	-
Advances out	-	-	-
Refund of prior year receipts	(28,070)	(28,070)	-
Total other financing sources (uses)	<u>180,651</u>	<u>187,416</u>	<u>6,765</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(38,750)	122,518	161,268
Prior year encumbrances	254,802	254,802	-
Fund balances, beginning of year	390,082	390,082	-
Fund balances, end of year	<u>\$ 606,134</u>	<u>\$ 767,402</u>	<u>\$ 161,268</u>

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

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,734,452	\$ 4,665,734	\$ (68,718)
36,600	45,024	8,424
150,000	149,501	(499)
6,082,268	6,796,537	714,269
93,386	109,597	16,211
57,170	77,421	20,251
<u>11,153,876</u>	<u>11,843,814</u>	<u>689,938</u>
5,777,829	5,704,243	73,586
971,223	863,311	107,912
154,255	152,500	1,755
927,615	844,037	83,578
319,547	281,397	38,150
38,251	29,670	8,581
1,107,010	1,038,772	68,238
334,633	312,388	22,245
1,213,361	1,040,314	173,047
765,099	705,616	59,483
165,703	137,520	28,183
-	-	-
21,400	16,837	4,563
271,678	241,961	29,717
12,950	10,215	2,735
421,916	309,238	112,678
125,000	125,000	-
15,188	15,188	-
<u>12,642,658</u>	<u>11,828,207</u>	<u>814,451</u>
<u>(1,488,782)</u>	<u>15,607</u>	<u>1,504,389</u>
208,721	208,721	-
(221,586)	(208,721)	12,865
-	504	504
500	53,210	52,710
20,000	18,000	(2,000)
(20,000)	(18,000)	2,000
(45,528)	(45,028)	500
<u>(57,893)</u>	<u>8,686</u>	<u>66,579</u>
(1,546,675)	24,293	1,570,968
606,853	606,853	-
4,395,467	4,395,467	-
<u>\$ 3,455,645</u>	<u>\$ 5,026,613</u>	<u>\$ 1,570,968</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, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Tuition and fees	\$ 12,894	\$ -	\$ 12,894
Miscellaneous	30,983	-	30,983
Charges for services	288,558	-	288,558
Total operating revenues	<u>332,435</u>	<u>-</u>	<u>332,435</u>
Operating expenses			
Salaries and wages	190,290	-	190,290
Fringe benefits	64,584	-	64,584
Contractual services	2,881	-	2,881
Materials and supplies	196,887	-	196,887
Other expenses	1,482	-	1,482
Depreciation	4,819	-	4,819
Total operating expenses	<u>460,943</u>	<u>-</u>	<u>460,943</u>
Operating loss	(128,508)	-	(128,508)
Non-operating revenues (expenses)			
Interest	599	-	599
Intergovernmental	90,176	-	90,176
Sale and loss of assets	(260)	-	(260)
Total non-operating revenues (expenses)	<u>90,515</u>	<u>-</u>	<u>90,515</u>
Net loss	(37,993)	-	(37,993)
Retained earnings, beginning of year	<u>165,910</u>	<u>20</u>	<u>165,930</u>
Retained earnings, end of year	<u>\$ 127,917</u>	<u>\$ 20</u>	<u>\$ 127,937</u>

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

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

COMBINED STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating (loss)	\$ (128,508)	\$ -	\$ (128,508)
Adjustments to reconcile operating (loss) to net cash from operating activities:			
Donated commodities, used	23,028	-	23,028
Depreciation	4,819	-	4,819
Changes in net assets (increase) decrease and liabilities increase (decrease)			
Accrued interest	75	-	75
Due from other governments receivable	1,359	-	1,359
Inventories and supplies	4,689	-	4,689
Accounts and contracts payable	(2,485)	-	(2,485)
Accrued salaries and benefits	650	-	650
Due to other governments payable	2,857	-	2,857
Deferred revenue	(285)	-	(285)
Compensated absences payable	(3,213)	-	(3,213)
Total Adjustments	31,494	-	31,494
Net cash (used in) operating activities	(97,014)	-	(97,014)
 Cash flows from non-operating financing activities:			
Intergovernmental revenue	67,418	-	67,418
Net cash provided by non-operating financing activities	67,418	-	67,418
 Cash flows from non-capital financing activities:			
Interest revenue	599	-	599
Net cash provided by investing activities	599	-	599
 Cash flows (used in) capital financing activities:			
Purchase of equipment	(3,950)	-	(3,950)
Net cash (used in) capital financing activities	(3,950)	-	(3,950)
 Net decrease in cash and cash equivalents	(33,217)	-	(33,217)
 Equity in cash and cash equivalents, beginning of year	111,803	20	111,823
 Equity in cash and cash equivalents, end of year	\$ 78,586	\$ 20	\$ 78,606

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

JUNE 30, 2002

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, 2001 was 1,830. The District employs 122 certificated and 89 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

JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

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 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, except for what is on hand with the county treasurer on the last day of the fiscal year which is recognized in the current period. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 11). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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. 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. RECEIVABLES

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

D. 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.

E. 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.

F. 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.

G. 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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.

I. 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.

J. 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.

All funds, other than agency funds, require budgets and appropriations. 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCSS (continued)

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, 2001 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.

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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

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:

	<u>Excess (deficiency) of revenues over expenditures and other sources (uses) - reconciliation of budget basis to GAAP basis</u>			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$ 98,171	\$ (56,207)	\$ (140,188)	\$ 122,518
Adjustments, increase (decrease)				
Revenue accruals	(220,827)	(40,775)	-	(34,751)
Expenditure accruals	646,120	67,241	-	43,400
GAAP basis, as reported	<u>\$ 523,463</u>	<u>\$ (29,741)</u>	<u>\$ (140,188)</u>	<u>\$ 131,167</u>

B. FUND EQUITY DEFICITS

Not apparent in the general purpose financial statements are deficit fund equity balances of \$ 7,918 in the Title I Fund and \$ 3,803 in the Title VIB Fund. These deficit fund equity balances at year-end resulted from reflecting expenditures in accordance with the modified accrual basis, which is 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

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;
- 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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 \$ 2,669,803 and the bank balance was \$ 2,799,160. Of the bank balance, \$ 100,000 was covered by federal depository insurance, \$ 2,699,160 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. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

At June 30, 2002, the District's general fund had a balance of \$334,536 with the Lake Erie Regional Council of Governments (LERC) employee health and medical benefits program, a claims servicing pool (see Note 12). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for LERC employee health and medical benefits program may be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035.

C. INVESTMENTS

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2002. 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, 2002. The District's interest in STAROhio has a carrying value and market value of \$ 2,716,856 at June 30, 2002. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Interest revenue credited to the general fund during 2002 amounted to \$ 147,658, which included interest assigned from other District funds.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

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 June 30, 2001	Additions	Disposals	Balance June 30, 2002
Land	\$ 493,807	\$ -	\$ -	\$ 493,807
Buildings and improvements	6,074,899	-	3,540	6,071,359
Furniture and equipment	2,420,927	144,690	116,112	2,449,505
Vehicles	998,188	-	10,423	987,765
	<u>\$ 9,987,821</u>	<u>\$ 144,690</u>	<u>\$ 130,075</u>	<u>\$ 10,002,436</u>

B. PROPRIETARY FUND TYPE FIXED ASSETS

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

	Balance June 30, 2002
<u>Enterprise</u>	
Machinery and equipment	\$ 188,417
Less accumulated depreciation	80,939
Net fixed assets	<u>\$ 107,478</u>

NOTE 6 DEFERRED REVENUE

Deferred revenue at year-end, consisted of:

	Balance June 30, 2002
Property taxes	\$ 3,482,747
Grants receivable	380,705
Federal commodities, unused	4,864
	<u>\$ 3,868,316</u>

NOTE 7 GENERAL LONG-TERM DEBT

Changes in general long-term debts are as follows:

	Outstanding June 30, 2001	Additions	Deductions	Outstanding June 30, 2002
Due to other governments	\$ 74,490	\$ 82,462	\$ 74,490	\$ 82,462
Bonds payable	255,000	-	125,000	130,000
Compensated absences	827,443	112,744	59,640	880,547
	<u>\$ 1,156,933</u>	<u>\$ 195,206</u>	<u>\$ 259,130</u>	<u>\$ 1,093,009</u>

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 8 BONDS PAYABLE

Bonds payable outstanding at year-end consisted of:

	Outstanding June 30, 2001	Additions	Deductions	Outstanding June 30, 2002
School improvement, (1977) 5.00% through 2002	\$ 180,000	\$ -	\$ 90,000	\$ 90,000
Energy conservation, (1982) 13.50% through 2002	75,000	-	35,000	40,000
	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 130,000</u>

NOTE 9 DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire bonds payable outstanding at June 30, 2002, consisted of:

Year ending June 30,	Bonds Payable	Interest	Total
2003	\$ 130,000	\$ 5,175	\$ 135,175

Not reflected above are compensated absences of \$ 880,547 and due to other governments of \$ 82,462.

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 2002, expenditures for operating leases totaled \$ 58,488. The following is a schedule of future minimum lease payments as of June 30, 2002.

	Year ending June 30,	Amount
	2003	\$ 58,488
	2004	58,488
	2005	38,992
Total minimum lease payments		<u>\$ 155,968</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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 11 PROPERTY TAXES (continued)

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 2002 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 \$ 24.31 per \$ 1,000 of assessed valuation for residential and agricultural real property, and \$ 33.32 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, 2002, 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, 2002. 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, 2002 was \$ 758,603.

The property valuation consisted of:

Real Property - 2001	
Residential / Agricultural	\$ 159,246,810
Commercial / Industrial	12,643,730
Public Utilities	43,630
Mineral	8,940
Tangible Personal Property - 2002	
General	8,887,460
Public Utilities	12,453,490
	<u>\$ 193,284,060</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. Nationwide Mutual Insurance Company maintains performance bonds of \$ 20,000 for the superintendent, and the board president, and a \$ 25,000 performance bond for the treasurer.

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, 2002

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 School District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of fourteen Lorain County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating School District would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical and dental plan with deductibles of \$100 for single and \$200 for family coverage.

The LERC's pool premiums are billed to each participating school district based on actuarially determined rates. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims.

NOTE 13 PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Keystone Local School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to the plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 Broad Street, Suite 100 Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Keystone Local School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2002, 2001, and 2000 were \$ 203,300, \$ 187,100, and \$189,800, respectively, equal to the required contribution for each year. The District paid the required contributions for the fiscal years ended 2001 and 2000, and 44% of the required contribution for the fiscal year ended 2002. An accrual for the unpaid contribution for the fiscal year 2002 is recorded as a liability within the respective funds and general long-term debt account group.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 13 PENSION PLANS (continued)

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 or by calling (614) 227-4090.

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 School District's contribution to STRS for the years ended June 30, 2002, 2001, and 2000 were \$ 768,500, \$ 720,200, and \$ 670,300 respectively. The District paid the required contributions for the fiscal years ended 2001 and 2000, and 83% of the required contribution for the fiscal year ended 2002. An accrual for the unpaid contribution for the fiscal year 2002 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, 2001 (the latest information available) the allocation rate was 9.80%. 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 2001 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 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$ 161,439,934 and the health care target level was \$242.2 million. At June 30, 2001 the Retirement System's net assets available for health care benefits was \$ 315.7 million.

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 post-employment benefits was \$ 168,486.

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. Most 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.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 14 POSTEMPLOYMENT BENEFITS (continued)

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

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, 2001 (the latest information available), the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$ 3.256 billion at June 30, 2001. The Health Care Reserve Fund allocation for the year ended June 30, 2002, will be 4.5% of covered payroll.

For the year ended June 30, 2001, the net health care costs paid by STRS were \$ 300,772,000. There were 102,132 eligible benefit recipients. The portion of the District's contributions that were used to fund post-employment benefits was \$ 247,031.

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. Eligible full-time teachers who retire under STRS (excluding disability retirement) shall receive a lump sum payment of \$ 10,000. Teachers who retire in the first year of eligibility and give the District a ninety-day notice are eligible for this retirement incentive.

The Board of Education and the Ohio Association of Public School Employees adopted a retirement incentive policy effective with the 1997-1998 school year. Any Keystone Local School District employee (non-teaching staff) who becomes eligible to retire and retires in the first year of eligibility and gives the District a ninety-day notice 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

There is currently no liability associated with the early retirement incentive.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

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	\$ 288,558	\$ 12,894	\$ 30,983	\$ 332,435
Operating expenses				
Salaries and wages	170,106	-	20,184	190,290
Fringe benefits	60,523	-	4,061	64,584
Contractual services	980	-	1,901	2,881
Materials and supplies	177,453	18,718	716	196,887
Other expenses	1,482	-	-	1,482
Depreciation	4,819	-	-	4,819
Total operating expenses	415,363	18,718	26,862	460,943
Operating income (loss)	(126,805)	(5,824)	4,121	(128,508)
Non-operating revenues, net	90,515	-	-	90,515
Net income (loss)	\$ (36,290)	\$ (5,824)	\$ 4,121	\$ (37,993)
Other information				
Net working capital	\$ 690	\$ 1,033	\$ 41,299	\$ 43,022
Fixed asset additions	\$ 3,950	\$ -	\$ -	\$ 3,950
Fixed assets disposals	\$ 650	\$ -	\$ -	\$ 650
Total assets	\$ 157,644	\$ 1,033	\$ 43,627	\$ 202,304
Total equity	\$ 85,585	\$ 1,033	\$ 41,299	\$ 127,917

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, 2002 the District paid approximately \$6,000 for basic service charges.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 17 JOINTLY GOVERNED ORGANIZATIONS (continued)

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, 2002 the District paid approximately \$ 1,162,700 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.

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

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

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

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, 2002, the reserve activity (cash basis) was as follows:

	Textbook	Capital Maintenance	Budget Stabilization
Balance, July 1, 2001	\$ (120,396)	\$ -	\$ 201,585
Required set aside	218,216	218,216	-
Offset credits	-	(243,265)	-
Qualifying expenditures	(317,399)	(143,874)	(201,585)
Totals	(219,257)	(168,923)	
Carry forward at June 30, 2002	\$ (219,579)	\$ -	\$ -

Excess expenditures for capital maintenance activity during the year may not be carried forward. The District may reduce the subsequent year textbook set-a-side by the excess expenditure of the current year. The District elected not to carry a budget stabilization reserve forward. The reserve balance was transferred into a capital projects fund.

KEYSTONE LOCAL SCHOOL DISTRICT
Lorain County

Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. Department of Agriculture						
<i>Passed Through the Ohio Department of Agriculture</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$22,870	\$0	\$23,155
National School Lunch Program	LL-P401	10.555	65,812	0	65,812	0
Total U. S. Department of Agriculture - Nutrition Cluster			65,812	22,870	65,812	23,155
U. S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF00P	84.027	0	0	762	0
Special Education Grants to States	6B-SF01P	84.027	0	0	16,966	0
Special Education Grants to States	6B-SF02P	84.027	140,605	0	132,350	0
Total of Special Education			140,605	0	150,078	0
Eisenhower Professional Development	MS-S1-2000	84.281	0	0	4,018	0
Eisenhower Professional Development	MS-S1-2001	84.281	634	0	5,711	0
Eisenhower Professional Development	MS-S1-2002	84.281	7,198	0	2,055	0
Total Eisenhower Professional Development			7,832	0	11,784	0
Title I Grants to Local Education Agencies	C1-S1-01	84.010	0	0	3,097	0
Title I Grants to Local Education Agencies	C1-S1-02	84.010	94,164	0	85,664	0
Total Title I Grants			94,164	0	88,761	0
Innovative Educational Program Strategies	C2-S1 01	84.298	0	0	390	0
Innovative Educational Program Strategies	C2-S1 02	84.298	10,635	0	10,635	0
Total Innovative Education Program Strategies			10,635	0	11,025	0
Title IV - Safe and Drug Free Schools	DR-S1 02	84.186	8,070	0	6,312	0
Title VI Class Size Reduction	CR-S1-01	84.340	9,685	0	16,493	0
Title VI Class Size Reduction	CR-S1-02	84.340	30,982	0	22,100	0
Total Title VI Class Size Reduction			40,667	0	38,593	0
Total US Department of Education			301,973	0	306,553	0
U. S. Department of Health and Human Services						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program - Community Alternative Fund System (Medicaid)	N/A	93.778	17,237	0	17,237	0
Total Federal Assistance			\$385,022	\$22,870	\$389,602	\$23,155

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

**KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

JUNE 30, 2002

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) summarizes the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Values may change from month to month and are entirely subjective. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - NATIONAL SCHOOL LUNCH PROGRAM

Federal monies received by the District for this program are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

N/A - Not applicable.

CFDA - Catalog of Federal Domestic Assistance.



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

Board of Education
Keystone Local School District
Lorain County
301 Liberty Street
LaGrange, Ohio 44050

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, 2002, and have issued our report thereon dated November 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 the management of the District in a separate letter dated November 8, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 8, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Keystone Local School District
Lorain County
301 Liberty Street
LaGrange, Ohio 44050

Compliance

We have audited the compliance of the Keystone Local School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 8, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

November 8, 2002

KEYSTONE LOCAL SCHOOL DISTRICT
LORAIN COUNTY
JUNE 30, 2002

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Sec. .510?</i>	No
(d)(1)(vii)	<i>Major Programs (list)</i>	Special Education Grants to States CFDA # 84.027 Title I Grants to Local Education Agencies CFDA # 84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



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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 2, 2003**