



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**



**Auditor of State  
Betty Montgomery**



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Education  
Keystone Local School District  
Lorain County  
301 Liberty Street, P.O. Box 65  
LaGrange, Ohio 44050

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

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

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

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Interpretation No. 6 and changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003, 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.

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 19, 2003

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

The discussion and analysis of Keystone Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key Financial Highlights for 2003 are as follows:

- In total, net assets decreased by \$735,159
- Revenues for governmental activities totaled \$12,267,573 in 2003. Of this total, 87.75% consisted of General Revenues while Program Revenues accounted for the balance of 12.25%
- Program expenses totaled \$13,002,732. Instructional expenses made up 57% of this total while support services accounted for 37.02%. Other expenses rounded out the remaining 5.98%
- Outstanding general obligation bonded debt was paid off during 2003.

### **Using this Annual Financial Report**

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

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

### **Reporting the School District as a Whole**

#### *Statement of Net Assets and the Statement of Activities*

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

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

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These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

### **Reporting the School District's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 13. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

#### *Governmental Funds*

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



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

**The School District as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

**Table 1  
STATEMENT OF NET ASSETS**

	<u>6/30/03</u>	<u>6/30/02</u>	<u>Change</u>
<b>Assets</b>			
Equity in pooled cash	\$ 4,854,754	\$5,354,571	\$ (499,817)
Cash with fiscal agent	666,359	597,237	69,122
Accrued interest receivable	19,317	8,544	10,773
Due from other governments	8,742	9,216	(474)
Inventories and supplies	6,315	7,505	(1,190)
Prepaid expenses	17,189	10,860	6,329
Taxes receivable	4,889,471	4,241,350	648,121
Capital assets			
Nondepreciable capital assets	399,414	399,414	-
Depreciable capital assets, net	<u>4,359,081</u>	<u>4,285,871</u>	<u>73,210</u>
<b>Total assets</b>	<u>15,220,642</u>	<u>14,914,568</u>	<u>306,074</u>
<b>Liabilities</b>			
Accounts and contracts payable	64,261	19,927	44,334
Accrued salaries, wages and benefits	1,021,137	920,833	100,304
Claims payable	299,000	189,803	109,197
Due to other governments	298,144	276,989	21,155
Deferred revenue	4,278,999	3,464,374	814,625
Matured bond and interest payable	5,000	5,413	(413)
Long term liabilities			
Due within one year	120,416	167,422	(47,006)
Due in more than one year	<u>879,584</u>	<u>880,547</u>	<u>(963)</u>
<b>Total liabilities</b>	<u>6,966,541</u>	<u>5,925,308</u>	<u>1,041,233</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	4,758,495	4,555,285	203,210
Restricted for:			
Debt service	224,965	360,140	(135,175)
Capital projects	813,683	807,808	5,875
Other purposes	358,065	403,890	(45,825)
Unrestricted	<u>2,098,893</u>	<u>2,862,137</u>	<u>(763,244)</u>
<b>Total net assets</b>	<u>\$ 8,254,101</u>	<u>\$8,989,260</u>	<u>\$ (735,159)</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

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Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2  
STATEMENT OF ACTIVITIES**

	Amount	% of Total
General revenues		
Property taxes levied for:		
General purpose	\$ 4,144,328	33.78%
Capital improvements	210,352	1.71%
Grants and entitlements not restricted to specific purposes	6,184,796	50.42%
Investment earnings	133,858	1.09%
Miscellaneous	91,764	0.75%
Total general revenues	<u>10,765,098</u>	<u>87.75%</u>
Program revenues	<u>1,502,475</u>	<u>12.25%</u>
Total revenue	<u>12,267,573</u>	<u>100.00%</u>
 Governmental activities		
Instruction		
Regular	6,309,447	48.52%
Special	931,240	7.16%
Vocational	171,846	1.32%
Supporting services		
Pupil	957,635	7.36%
Instructional staff	336,881	2.59%
Board of education	32,385	0.25%
Administration	1,138,460	8.76%
Fiscal services	311,966	2.40%
Operation and maintenance	1,023,388	7.87%
Pupil transportation	877,702	6.75%
Central services	135,321	1.04%
Operation of non-instructional		
Food service operation	422,276	3.25%
Enterprise operations	37,131	0.29%
Extracurricular activities		
Academic and subject oriented	18,197	0.14%
Sports oriented	280,285	2.16%
Co-curricular	13,397	0.10%
Interest	5,175	0.04%
Totals	<u>13,002,732</u>	<u>100.00%</u>
 Change in net assets	<u>\$ (735,159)</u>	

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

***Governmental Activities***

The School District has carefully looked at its financial existence by forecasting its revenues and expenditures over the next five years. The School District has a healthy cash carryover for the last couple of years. It had grown from over \$2 million in fiscal year 2000 to \$3.4 million in fiscal year 2003. We know we will need additional operating funds in the future. We are working on that timing now.

Although the District relies heavily upon local property taxes to support its operations, the District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As you can see in Table 2, 57% of the District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 37.02%. The remaining amount of program expenses, roughly 5.98%, is budgeted to facilitate other obligations of the District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**Table 3**

	<u>Total Cost Of Services</u>	<u>Net Cost Of Services</u>
Governmental activities		
Instruction		
Regular	\$6,309,447	(\$5,824,985)
Special	931,240	(823,077)
Vocational	171,846	(128,766)
Supporting services		
Pupil	957,635	(852,722)
Instructional staff	336,881	(246,451)
Board of education	32,385	(32,385)
Administration	1,138,460	(1,132,034)
Fiscal services	311,966	(311,966)
Operation and maintenance	1,023,388	(1,013,932)
Pupil transportation	877,702	(766,354)
Central services	135,321	(135,321)
Operation of non-instructional		
Food service operation	422,276	(47,896)
Enterprise operations	37,131	3,253
Extracurricular activities		
Academic and subject oriented	18,197	(18,197)
Sports oriented	280,285	(150,852)
Co-curricular	13,397	(13,397)
Interest	5,175	(5,175)
Totals	<u>\$13,002,732</u>	<u>(\$11,500,257)</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

As one can see, the reliance upon local tax revenues for governmental activities is important. Almost 35.49% of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support approximately 50.42%, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for approximately 12.25% of all governmental expenses.

**School District's Funds**

Information regarding the School District's major fund can be found on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,262,814 and expenditures of \$13,133,816.

**General Fund Budgeting Highlights**

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

During the course of fiscal 2003, the School District amended its General Fund budget numerous times. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses yet provide flexibility for site-based decision and management.

For the General Fund, the final budget basis revenue estimated totaled \$10,885,830. This was above the original budget estimate of \$10,798,008. The main difference between the original and final estimates was due to additional miscellaneous receipts. The budget basis expense estimate totaled \$12,395,800 compared to the original estimate of \$11,602,881. This difference was primarily due to changes in staffing costs throughout the year.

The School District's unencumbered ending cash balance totaled \$3,540,426, which was above the original budgeted amount.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2003, the School District had \$4,758,495 invested in land, buildings, equipment, vehicles and textbooks. Table 4 shows fiscal 2003 values compared to 2002.

**Table 4**  
Capital Assets at June 30<sup>th</sup>  
Governmental Activities

	<u>2003</u>	<u>2002</u>
Land	\$ 399,414	\$ 399,414
Land improvements	188,946	191,711
Buildings and improvements	3,471,209	3,508,012
Furniture and equipment	224,658	173,831
Vehicles	<u>474,268</u>	<u>412,317</u>
	<u>\$4,758,495</u>	<u>\$4,685,285</u>

All capital assets, except land, are reported net of depreciation. As one can see, the increases in our capital assets during the fiscal year occurred in the categories of Furniture and Equipment and Vehicles. Those increases were due to technology and transportation needs of the School District.

*Debt*

The School District paid the balance of \$130,000 bonds outstanding in December 2002. As of June 30, 2003, there were no bonds outstanding. However, the School District passed a \$17.5 million bond issue on November 4, 2003. That bond issue will cover the construction of a new high school.

**School District Outlook**

Keystone Local School District has a good financial outlook for fiscal year 2004 and fiscal year 2005. The Board of Education and Administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District's Continuous Improvement Plan. The School District is in Continuous Improvement on the Report Card.

The financial future of the School District beyond fiscal year 2005 is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the amount of funding they will allocate to education through each of their biennium budgets.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

UNAUDITED

The School District receives approximately 35.49% of its revenue from local property taxes. The community support for the schools is good, but we have to be cautious since we usually have to go back several times before operating funds are passed. Since our 8-mill levy expired in 2002, we have dropped to the 20-mill floor. We also have two 1-mill continuing permanent improvement levies. The School District has communicated to the community that while we are grateful for their support of the \$17.5 million bond issue passed in November 2003, we will be need additional operating funds and will be back on the ballot in 2005.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed it additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" nor "adequate". The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued another opinion regarding the funding system. The decision identified aspects of the current plan that require modification. In December 2002, the Court ruled again that the funding system is unconstitutional, but removed itself from the picture. There is no "heavy hammer" to require the legislature to make changes. Governor Taft did form a Blue Ribbon Task Force Committee to study the funding system and make recommendations before the next biennium budget.

Keystone Local School District has not anticipated any meaningful growth in State revenue due to the concerns over the State Budget. The State Budget itself is in trouble. They have used many one-time money sources to help balance their budget in 2003 and 2002. Without some major changes, the State just doesn't have money.

As a result of the challenges mentioned above, it is imperative that the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Keystone Local School District has committed itself to financial and educational excellence for many years to come.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bev Fry, Treasurer/CFO, at Keystone Local School District, 301 Liberty Street, P. O. Box 65, LaGrange, Ohio 44050, or e-mail at [keystn\\_bf@leeca.org](mailto:keystn_bf@leeca.org).

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2003

Assets	
Equity in pooled cash	\$ 4,854,754
Cash with fiscal agent	666,359
Accrued interest receivable	19,317
Due from other governments	8,742
Inventories and supplies	6,315
Prepaid expenses	17,189
Taxes receivable	4,889,471
Capital assets	
Nondepreciable capital assets	399,414
Depreciable capital assets, net	4,359,081
Total assets	<u>15,220,642</u>
Liabilities	
Accounts and contracts payable	64,261
Accrued salaries, wages and benefits	1,021,137
Claims payable	299,000
Due to other governments	298,144
Deferred revenue	4,278,999
Matured bond and interest payable	5,000
Long term liabilities	
Due within one year	120,416
Due in more than one year	879,584
Total liabilities	<u>6,966,541</u>
Net assets	
Invested in capital assets, net of related debt	4,758,495
Restricted for:	
Debt service	224,965
Capital projects	813,683
Other purposes	358,065
Unrestricted	2,098,893
Total net assets	<u>\$ 8,254,101</u>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 6,309,447	\$ 116,052	\$ 368,410	\$ -	\$ (5,824,985)
Special	931,240	-	108,163	-	(823,077)
Vocational	171,846	1,297	41,783	-	(128,766)
Supporting services					
Pupil	957,635	-	104,913	-	(852,722)
Instructional staff	336,881	-	90,430	-	(246,451)
Board of education	32,385	-	-	-	(32,385)
Administration	1,138,460	-	6,426	-	(1,132,034)
Fiscal services	311,966	-	-	-	(311,966)
Operation and maintenance	1,023,388	-	9,456	-	(1,013,932)
Pupil transportation	877,702	-	111,348	-	(766,354)
Central services	135,321	-	-	-	(135,321)
Operation of non-instructional					
Food service operation	422,276	309,142	65,238	-	(47,896)
Enterprise operations	37,131	40,384	-	-	3,253
Extracurricular activities					
Academic and subject oriented	18,197	-	-	-	(18,197)
Sports oriented	280,285	125,533	3,900	-	(150,852)
Co-curricular	13,397	-	-	-	(13,397)
Interest	5,175	-	-	-	(5,175)
Totals	<u>\$ 13,002,732</u>	<u>\$ 592,408</u>	<u>\$ 910,067</u>	<u>\$ -</u>	<u>(11,500,257)</u>

General revenues

Property taxes levied for:

General purpose	4,144,328
Capital improvements	210,352
Grants and entitlements not restricted to specific purposes	6,184,796
Investment earnings	133,858
Miscellaneous	91,764
Total general revenues	<u>10,765,098</u>

Change in net assets

Net assets at beginning of year, restated	8,989,260
Net assets at end of year	<u>\$ 8,254,101</u>

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



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in pooled cash	\$ 3,658,002	\$ 1,196,752	\$ 4,854,754
Restricted cash	-	5,000	5,000
Receivables, net of allowance			
Taxes, current	4,552,344	241,682	4,794,026
Taxes, delinquent	90,692	4,753	95,445
Accrued interest	19,317	-	19,317
Due from other governments	-	8,742	8,742
Prepaid expenses	17,189	-	17,189
Inventories and supplies	-	6,315	6,315
<b>Total assets and other debits</b>	<b>\$ 8,337,544</b>	<b>\$ 1,463,244</b>	<b>\$ 9,800,788</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts and contracts payable	\$ 29,778	\$ 34,483	\$ 64,261
Accrued wages and benefits	972,155	48,982	1,021,137
Due to other governments	181,586	3,604	185,190
Deferred revenue	4,151,400	223,044	4,374,444
Compensated absences payable	75,330	-	75,330
Matured bonds and interest payable	-	5,000	5,000
<b>Total liabilities</b>	<b>5,410,249</b>	<b>315,113</b>	<b>5,725,362</b>
<b>Fund balances</b>			
Reserved for prepaids	17,189	-	17,189
Reserved for property taxes	491,636	26,634	518,270
Reserved for encumbrances	90,385	96,872	187,257
Unreserved, reported in			
General Fund	2,328,085	-	2,328,085
Special Revenue Funds	-	108,385	108,385
Debt Service Fund	-	224,965	224,965
Capital Projects Funds	-	691,275	691,275
<b>Total fund balances</b>	<b>2,927,295</b>	<b>1,148,131</b>	<b>4,075,426</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,337,544</b>	<b>\$ 1,463,244</b>	<b>\$ 9,800,788</b>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003

Total governmental funds balances	\$	4,075,426
Amount reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		4,758,495
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		95,445
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		362,359
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(112,954)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: Compensated absences		<u>(924,670)</u>
Net assets of governmental activities	\$	<u><u>8,254,101</u></u>

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 4,158,940	\$ 210,708	\$ 4,369,648
Tuition and fees	99,545	-	99,545
Interest	114,798	147	114,945
Intergovernmental	6,549,878	540,517	7,090,395
Charges for services	-	308,437	308,437
Extracurricular	9,965	110,266	120,231
Other	125,495	34,118	159,613
<b>Total revenues</b>	<b>11,058,621</b>	<b>1,204,193</b>	<b>12,262,814</b>
<b>Expenditures</b>			
<b>Current</b>			
<b>Instruction</b>			
Regular	6,117,731	159,758	6,277,489
Special	830,517	97,631	928,148
Vocational	169,711	-	169,711
<b>Supporting services</b>			
Pupil	771,398	159,781	931,179
Instructional staff	230,523	100,264	330,787
Board of education	32,385	-	32,385
Administration	1,109,731	3,518	1,113,249
Fiscal services	302,212	5,436	307,648
Operation and maintenance	980,317	88,868	1,069,185
Pupil transportation	788,797	27,370	816,167
Central services	133,320	1,125	134,445
<b>Operation of non-instructional</b>			
Food service operation	-	421,298	421,298
Enterprise operations	36,883	-	36,883
<b>Extracurricular activities</b>			
Academic and subject oriented	18,197	-	18,197
Sports oriented	203,071	75,894	278,965
Co-curricular	10,894	2,000	12,894
Capital outlay	15,657	104,354	120,011
<b>Debt service</b>			
Principal	-	130,000	130,000
Interest	-	5,175	5,175
<b>Total expenditures</b>	<b>11,751,344</b>	<b>1,382,472</b>	<b>13,133,816</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(692,723)</b>	<b>(178,279)</b>	<b>(871,002)</b>
<b>Other financing sources (uses)</b>			
Transfers-in	3,500	35,000	38,500
Transfers-out	(38,500)	-	(38,500)
Proceeds from sale of equipment	814	-	814
<b>Total other financing sources (uses)</b>	<b>(34,186)</b>	<b>35,000</b>	<b>814</b>
<b>Net change in fund balances</b>	<b>(726,909)</b>	<b>(143,279)</b>	<b>(870,188)</b>
<b>Fund balances, beginning of year, as restated</b>	<b>3,654,204</b>	<b>1,291,410</b>	<b>4,945,614</b>
<b>Fund balances, end of year</b>	<b>\$ 2,927,295</b>	<b>\$ 1,148,131</b>	<b>\$ 4,075,426</b>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ (870,188)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay	184,909	
Depreciation expense	(111,699)	
Total	73,210	73,210

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		(14,968)
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Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

130,000

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(6,693)	
Pension obligations	(6,858)	
	(13,551)	(13,551)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(39,662)

Change in net assets of governmental activities

\$ (735,159)

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,156,121	\$ 4,190,321	\$ 4,306,390	\$ 116,069
Tuition and fees	79,646	77,975	99,545	21,570
Interest	94,653	95,000	104,006	9,006
Intergovernmental	6,414,883	6,470,352	6,549,878	79,526
Extracurricular	6,454	6,000	9,965	3,965
Other	46,251	46,182	103,255	57,073
Total revenues	<u>10,798,008</u>	<u>10,885,830</u>	<u>11,173,039</u>	<u>287,209</u>
Expenditures				
Current				
Instruction				
Regular	5,733,279	6,122,758	5,991,858	130,900
Special	880,649	941,331	841,785	99,546
Vocational	166,204	177,192	174,204	2,988
Supporting services				
Pupil	732,912	783,258	759,997	23,261
Instructional staff	259,693	277,334	228,463	48,871
Board of education	45,014	48,354	32,486	15,868
Administration	1,110,333	1,187,364	1,110,198	77,166
Fiscal services	318,557	340,968	311,436	29,532
Operation and maintenance	1,101,100	1,177,197	1,016,594	160,603
Pupil transportation	781,388	834,620	783,149	51,471
Central services	154,662	165,170	134,243	30,927
Operation of non-instructional				
Enterprise operations	40,929	42,929	36,891	6,038
Extracurricular activities				
Academic and subject oriented	23,084	24,625	18,180	6,445
Sports oriented	208,909	223,525	203,134	20,391
Co-curricular	12,696	13,925	10,882	3,043
Capital outlay	33,472	35,250	15,657	19,593
Total expenditures	<u>11,602,881</u>	<u>12,395,800</u>	<u>11,669,157</u>	<u>726,643</u>
Excess (deficiency) of revenues over expenditures	<u>(804,873)</u>	<u>(1,509,970)</u>	<u>(496,118)</u>	<u>1,013,852</u>
Other financing sources (uses)				
Transfers-in	-	-	3,500	3,500
Advances in	36,000	36,000	36,000	-
Refund of prior year expenditures	12,000	12,000	22,240	10,240
Refund of prior year receipts	(500)	(500)	-	500
Proceeds from sale of equipment	-	500	814	314
Advances out	(38,000)	(38,000)	(36,000)	2,000
Transfers-out	(20,000)	(38,500)	(38,500)	-
Total other financing sources (uses)	<u>(10,500)</u>	<u>(28,500)</u>	<u>(11,946)</u>	<u>16,554</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(815,373)	(1,538,470)	(508,064)	1,030,406
Fund balances, beginning of year, as restated	3,820,034	3,820,034	3,820,034	-
Prior year encumbrances	228,456	228,456	228,456	-
Fund balance, end of year	<u>\$ 3,233,117</u>	<u>\$ 2,510,020</u>	<u>\$ 3,540,426</u>	<u>\$ 1,030,406</u>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF NET ASSETS  
PROPRIETARY FUND

JUNE 30, 2003

	<u>Internal Service Fund - Self Insurance</u>
Assets	
Equity in pooled cash	\$ 661,359
Liabilities	
Claims payable	<u>299,000</u>
Net assets	
Unrestricted	<u><u>\$ 362,359</u></u>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR JUNE 30, 2003

	<u>Internal Service Fund - Self Insurance</u>
Operating revenues	
Charges for services	<u>\$ 1,241,103</u>
Operating expenses	
Purchased services	70,276
Claims	<u>1,229,402</u>
Total operating expenses	<u>1,299,678</u>
Operating loss	(58,575)
Non-operating revenue	
Interest	<u>18,913</u>
Decrease in net assets	(39,662)
Net assets, beginning of year, as restated in Note 3	<u>402,021</u>
Net assets, end of year	<u><u>\$ 362,359</u></u>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

FOR THE YEAR JUNE 30, 2003

	Internal Service Fund - Self Insurance
Cash Flow s From Operating Activities	
Cash received from interfund services	\$ 1,241,103
Cash payments for purchased services	(70,276)
Cash payments for claims	(1,120,205)
Net cash provided by operating activities	<u>50,622</u>
Cash flow s from investing activities	
Interest	<u>18,913</u>
Net increase in cash and equivalents	69,535
Cash and cash equivalents, beginning of year	<u>591,824</u>
Cash and cash equivalents, end of year	<u>\$ 661,359</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (58,575)
Adjustments	
Increase in claims payable	<u>109,197</u>
Net cash provided by operating activities	<u>\$ 50,622</u>

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



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

STATEMENT OF NET ASSETS  
FIDUCIARY FUND

JUNE 30, 2003

	<u>Student Activity</u>
Assets	
Equity in pooled cash	\$ 25,567
Total assets	<u>25,567</u>
Liabilities	
Accounts and contracts payable	321
Due to students	25,246
Total liabilities	<u>\$ 25,567</u>

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING 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, 2002 was 1,846. The District employs 124 certificated and 88 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 the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' 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 District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council (LERC) and Lorain County Joint Vocational School District. These organizations and their relationships with the District are described in more detail in Notes 10 and 16 to these financial statements.

**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. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The following are the more significant of the District's accounting policies.

**A. BASIS OF PRESENTATION**

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds (continued)

General Fund - the general fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District's self insurance fund is classified as an internal service fund. The District has no enterprise funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

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

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund, object level for the General Fund and Debt Service Fund and at the fund level for all other funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

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

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2003, totaled \$ 133,858.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when used.

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation.

I. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5 - 30 years
Buildings	30 - 50 years
Buildings improvements	30 - 50 years
Furniture and equipment	7 - 20 years
Vehicles	10 years

J. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net assets. The District did not have "interfund receivables/payables" on the fund financial statements.

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

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

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

N. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, prepaids, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

P. INTERFUND TRANSACTIONS

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

Q. ESTIMATES

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

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

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

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

Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of the self insurance program to an internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that some enterprise funds be rolled into the general fund and certain enterprise and internal service funds should be reclassified to special revenue funds.

B. RESTATEMENT OF FUND BALANCE

The cash basis fund balance in the statement of revenues, expenditures and changes in fund balance – budget and actual (non GAAP basis) was restated to reflect the reclassification of the uniform supply fund and the latchkey fund into the general fund. The effect on the beginning fund balance in the general fund is as follows:

	<u>General</u>
Fund balance, June 30, 2002	\$ 3,776,404
Fund reclassification	43,630
Restated fund balance, June 30, 2002	<u>\$ 3,820,034</u>

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (continued)

B. RESTATEMENT OF FUND BALANCE (continued)

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Non-Major Funds	Total
Fund balances, June 30, 2002	\$ 4,002,242	\$ 1,272,693	\$ 5,274,935
Fund reclassification	(292,204)	85,605	(206,599)
Fixed assets, net	-	(107,478)	(107,478)
Deferred revenue	(83,861)	(3,315)	(87,176)
Prepaid expenses	10,860	-	10,860
Accrued expenses	17,167	43,905	61,072
Restated fund balances, June 30, 2002	<u>\$ 3,654,204</u>	<u>\$ 1,291,410</u>	4,945,614
GASB 34 adjustments			
Capital assets			4,685,285
Internal Service Fund			402,021
Long-term assets			110,413
Long-term liabilities			(1,154,073)
Governmental activities net assets, June 30, 2002			<u>\$ 8,989,260</u>

	Business-type Activities
Net assets, June 30, 2002	\$ 127,937
Fund reclassification	(127,937)
Adjusted net assets, June 30, 2002	<u>\$ -</u>

In addition, the net assets, as previously reported for the Internal Service Fund as of June 30, 2002, has been restated to properly account for the District's medical insurance program. The previously reported amount of \$20 has been restated to \$402,021 due to the fund previously being part of the General Fund. See Note 10 for additional information regarding this matter.

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTE 4 – DEFICIT FUND BALANCE

At June 30, 2003, the Title V Fund, Innovative Programs had a deficit fund balance of \$ 1,980. The General Fund is liable for deficits in the fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance General Fund	
	General
Budget basis	\$ (508,064)
Adjustments, increase (decrease)	
Revenue accruals	(114,418)
Expenditure accruals	(82,187)
Other sources (uses)	(22,240)
GAAP basis, as reported	\$ (726,909)

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTE 6 - DEPOSITS AND INVESTMENTS

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 the Board of Education has identified as not required for use within the current five 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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

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

At fiscal year end, the District had \$ 100 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

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

At fiscal year end, the carrying amount of the District's deposits was \$ 3,343,212 and the bank balance was \$ 3,454,537, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the District.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

	Carrying Value	
Investment in State Treasurer's Investment Pool	\$ 2,203,368	
	Cash and Cash	Investments
	Equivalents	
GASB Statement No. 9	\$ 5,546,680	\$ -
Investment in State Treasurer's Investment Pool	(2,203,368)	2,203,368
GASB Statement No. 3	\$ 3,343,312	\$ 2,203,368

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 88 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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 BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003/2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 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 was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$ 491,636 in the General Fund and \$ 26,634 in the Capital Projects Fund.

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

	2002 Second - Half Collections			2003 First - Half Collections	
	Amount	%		Amount	%
Agricultural/Residential	\$ 159,246,810	82.39	%	\$ 165,091,600	82.44 %
Commercial/Industrial	12,643,730	6.55		12,782,020	6.38
Public Utilities	43,630	0.02		46,060	0.02
Mineral	8,940	0.00		9,350	0.00
Tangible Personal Property	21,340,950	11.04		22,346,670	11.16
Total Assessed Value	<u>\$ 193,284,060</u>	<u>100.00</u>	%	<u>\$ 200,275,700</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	<u>55.05</u>			<u>47.05</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, amounts due from other governments, and accrued interest. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 8 – RECEIVABLES (continued)

A summary of the principal items due from other governmentst follows:

	Amount
Governmental Activities	
Non-major funds	
Food Service	\$ 8,742

NOTE 9 - CAPITAL ASSETS

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

	Balance June 30, 2002 (As Restated)	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 399,414	\$ -	\$ -	\$ 399,414
Depreciable capital assets				
Land improvements	326,004	-	9,020	316,984
Buildings and improvements	5,539,566	-	-	5,539,566
Furniture and equipment	369,612	68,767	25,109	413,270
Vehicles	818,027	116,142	63,050	871,119
Total capital assets being depreciated	7,053,209	184,909	97,179	7,140,939
Less accumulated depreciation				
Land improvements	134,293	2,765	9,020	128,038
Buildings and improvements	2,031,554	36,803	-	2,068,357
Furniture and equipment	195,781	17,940	25,109	188,612
Vehicles	405,710	54,191	63,050	396,851
Total accumulated depreciation	2,767,338	111,699	97,179	2,781,858
Depreciable capital assets, net of accumulated depreciation	4,285,871	73,210	-	4,359,081
Governmental activities capital assets, net	\$ 4,685,285	\$ 73,210	\$ -	\$ 4,758,495

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	35,400
Special		277
Supporting services		
Operation and maintenance of plant		11,665
Pupil transportation		58,978
Central services		389
Operation of noninstructional services		
Food service operation		2,930
Extracurricular activities		
Co-curricular		503
Sports oriented		1,557
Total depreciation expense	\$	<u>111,699</u>

NOTE 10 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft of damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District contracted with the Indiana Insurance Company for property insurance. Professional liability is covered by the Nationwide Mutual Insurance Company with a \$ 5,000,000 aggregate limit. Professional liability is 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 \$ 25,000 performance bond for the treasurer.

B. WORKERS' COMPENSATION

The District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc., provides administrative, cost control and actuarial services to the GRP.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 10 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District has contracted with the Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their covered dependents. LEEP is a program administered by LERC (Lake Erie Regional Council of Governments). The LEEP is a claims sharing pool comprised of fourteen 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 \$300 deductible for family coverage and a \$150 deductible for single coverage.

The claim liability of \$ 299,000 reported at June 30, 2003, was estimated by LERC and is based on their requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2003 are summarized below. Changes in the balance of claims liability during the year ended June 30, 2002 are not available due to this fund previously being part of the General Fund. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	June 30, 2003
Unpaid claims, beginning of year	\$ 189,803
Incurred claims	1,229,402
Claims payment	(1,120,205)
Unpaid claims, end of year	\$ 299,000

NOTE 11 - DEFINED BENEFIT 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute 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 SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTE 11 - DEFINED BENEFIT 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 District is required to contribute at an actuarially determined rate. The current rate is 14 percent 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, 2003, 2002, and 2001 were \$ 221,100, \$ 203,300, and \$ 187,100, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 98,400 (45%) has been contributed with the remainder being reflected as an intergovernmental payable.

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 is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan options – Effective July 1, 2002, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

DC Plan Benefits – Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among nine investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's year's of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Prior to February 1, 2003, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. Effective February 1, 2003, benefits are increased annually by 3% of the original base amount, regardless of the change in the CPI.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

A defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$ 1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$ 2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to member's beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2003 were 9.3% of covered payroll for members and 14% for employers. The District's contribution to STRS for the years ended June 30, 2003, 2002, and 2001 were \$ 795,700, \$ 768,500, and \$ 720,200, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 657,500 (83%) has been contributed with the remainder being reported as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2003 Comprehensive Annual Financial Report can be requested by writing STRS Ohio , 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 2003, the healthcare allocation rate is 8.54%. 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 2003, 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, 2003 were \$ 182,946,777 and the target level was \$ 274.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits was \$ 335.2 million.

The number of benefit recipients receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 164,991.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Stabilization Fund. Effective, July 1, 2002, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$ 3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$ 354,697,000. There were 105,300 eligible benefit recipients.

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding July 1, 2002	Additions	Retired	Outstanding June 30, 2003	Amounts Due In One Year
Bonds, 5.00%; matured 2002	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ -
Bonds, 13.50%; matured 2002	40,000	-	40,000	-	-
Total bonds	130,000	-	130,000	-	-
Compensated absences	917,977	83,815	1,792	1,000,000	120,416
	<u>\$ 1,047,977</u>	<u>\$ 83,815</u>	<u>\$ 131,792</u>	<u>\$ 1,000,000</u>	<u>\$ 120,416</u>

NOTE 14 - OPERATING LEASES

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the District's statement of net assets. During 2003, expenditures for operating leases totaled \$58,488.

The following is a schedule of future minimum rental payments required under operating leases that have

	Year ending June 30,	Amount
	2004	\$ 62,232
	2005	62,232
	2006	62,232
	2007	62,232
	2008	62,231
Total minimum lease payments		<u>\$ 311,159</u>

initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 15 - SET-ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

	Textbook	Capital Maintenance	Total
Balance, July 1, 2002	\$ (219,579)	\$ -	\$ (219,579)
Required set aside	239,801	239,801	479,602
Offset credits	-	(240,115)	(240,115)
Qualifying expenditures	(538,837)	(225,700)	(764,537)
Totals	<u>\$ (518,615)</u>	<u>\$ (226,014)</u>	<u>\$ (744,629)</u>
Carry forward at June 30, 2003	<u>\$ (518,615)</u>	<u>\$ -</u>	<u>\$ (518,615)</u>

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 538,837 and \$ 225,700, respectively, which exceeded the required set-aside and the reserve balance. Textbook expenditures have exceeded statutory requirements by \$ 518,615 which may be used to offset future years' set aside requirements.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages 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, 2003, the District paid \$ 37,318 to LEECA.



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization among fourteen 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, 2003, the District paid approximately \$ 1,260,007 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 Vocational 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 17 - SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 18 - INTERFUND TRANSFERS

During the year ended June 30, 2003, the General Fund transferred \$ 35,000 to the Food Service Fund to provide for the payment of expenditures and maintain food service operations for students. A transfer of \$ 3,500 was made from the General Fund to the Uniform Supply Fund to subsidize the sale of supplies to students.

NOTE 19 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 20 – SUBSEQUENT EVENT

On November 4, 2003, the District passed a levy for a \$ 17.5 million bond issue. The proceeds of that bond issue will be used to fund the construction of a new high school.

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U. S. Department of Agriculture</b>						
<i>Passed Through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$22,059	\$0	\$23,692
National School Lunch Program	LL-P402 - 03	10.555	62,980		62,980	
Total U. S. Department of Agriculture - Nutrition Cluster			62,980	22,059	62,980	23,692
<b>U. S. Department of Education</b>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education - Grants to States	6BSF-2002-P	84.027	1,440		9,695	
	6BSF-2003-P		185,273		165,956	
<b>Total Cluster/CFDA</b>			186,713	0	175,651	0
Eisenhower Professional Development State Grants	MSS1-2002	84.281	(742)		4,401	
Title I Grants to Local Education Agencies	C1S1-2003	84.010	92,874		92,874	
Innovative Educational Program Strategies	C2S1-2003	84.298	11,173		11,173	
Safe and Drug-Free Schools and Communities State Grants	DRS1-2002	84.186	(1,173)		585	
	DRS1-2003		8,297		8,000	
<b>Total CFDA</b>			7,124	0	8,585	0
Technology Literacy Challenge Fund Grants	TJS1-2003	84.318	2,541		2,541	
Class Size Reduction	CR-S1-02	84.340	(242)		8,641	
Assistive Technology	ATS2-2002	84.352	8,139		8,139	
	ATS3-2002		7,150		7,150	
<b>Total CFDA</b>			15,289	0	15,289	0
Improving Teacher Quality State Grants	TRS1-2003	84.367	52,757		45,734	
Total U.S. Department of Education			367,487	0	364,889	0
<b>U. S. Department of Health and Human Services</b>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	24,337		24,337	
Total			<b>\$454,804</b>	<b>\$22,059</b>	<b>\$452,206</b>	<b>\$23,692</b>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures and Receipts (Schedule) summarizes 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 basic financial statements.

**NOTE B – CHILD NUTRITION CLUSTER**

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

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

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Keystone Local School District  
Lorain County  
301 Liberty Street, P.O. Box 65  
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, 2003, and have issued our report thereon dated December 19, 2003, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34, Interpretation No. 6 and changed its accounting for capital assets. 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 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 19, 2003.

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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 19, 2003



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' 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, P.O. Box 65  
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 its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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 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 19, 2003.

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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 19, 2003



KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
JUNE 30, 2003

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 Section .505

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

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY  
JUNE 30, 2003

SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 Section .505*  
(Continued)

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

None.

**3. FINDING FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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  
FEBRUARY 10, 2004**