

**Mary Taylor, CPA**  
Auditor of State



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each 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, 2008, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, each major fund, and the aggregate remaining fund information of the Keystone Local School District, Lorain County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Auditor of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 17, 2009

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

The discussion and analysis of the Keystone Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- During fiscal year 2008, net assets of governmental activities increased \$1,227,871 from \$10,079,349 (as restated – see Note 3.B) to \$11,307,220. This represents a 12.18% increase from June 30, 2007 (as restated).
- General revenues accounted for \$15,078,888 in revenue or 86.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,289,617 or 13.18% total revenues of \$17,368,505.
- The District had \$16,140,634 in expenses related to governmental activities; only \$2,289,617 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,078,888 were adequate to provide for these programs.
- The general fund and debt service fund are the only major funds of the District. The general fund had \$14,023,492 in revenues and \$12,782,159 in expenditures and other financing uses. During fiscal 2008, the general fund's fund balance increased \$1,241,333 from \$2,989,022 to \$4,230,355.
- The debt service fund had \$1,461,552 in revenues and \$1,365,295 in expenditures. During fiscal 2008, the debt service fund's fund balance increased \$96,257 from \$1,305,862 to \$1,402,119.

**Using these Basic Financial Statements (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire 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 District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

**Reporting the District as a Whole**

*Statement of net assets and the statement of activities*

While this document contains all funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The statement of net assets and the statement of activities include the District's programs and services, including instruction, support services, extracurricular activities, food service operations and latchkey operation.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 9. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund. All other governmental funds are considered nonmajor.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end 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 financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

***Proprietary Funds***

Proprietary funds focus on the District's ongoing activities which are similar to those found in the private sector where net income is necessary or useful to sound financial management. Proprietary funds utilize the *accrual basis* of accounting under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The District's proprietary funds are internal service funds which are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. Proprietary fund statements can be found on pages 20 through 22 of the basic financial statements. For reporting on the statement of net assets and the statement of activities, internal service fund activities are eliminated and consolidated with governmental activities.

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for students. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on pages 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-50 of this report.

**The District as a Whole**

The statement of net assets provides the perspective of the District as a whole. The District restated beginning net assets as described in Note 3.B. The table below provides a summary of the District's net assets for 2008 and 2007.

	<b>Net Assets</b>		
	Governmental Activities 2008	Restated Governmental Activities 2007	Percent Change
<b><u>Assets</u></b>			
Current and other assets	\$ 14,704,578	\$ 14,445,903	1.79 %
Capital assets, net	<u>19,785,612</u>	<u>20,225,241</u>	(2.17) %
Total assets	<u>34,490,190</u>	<u>34,671,144</u>	(0.52) %
<b><u>Liabilities</u></b>			
Current liabilities	6,470,580	7,218,073	(10.36) %
Long-term liabilities	<u>16,712,390</u>	<u>17,373,722</u>	(3.81) %
Total liabilities	<u>23,182,970</u>	<u>24,591,795</u>	(5.73) %
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	4,160,612	3,949,750	5.34 %
Restricted	2,455,662	2,225,265	10.35 %
Unrestricted	<u>4,690,946</u>	<u>3,904,334</u>	20.15 %
Total net assets	<u>\$ 11,307,220</u>	<u>\$ 10,079,349</u>	12.18 %

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

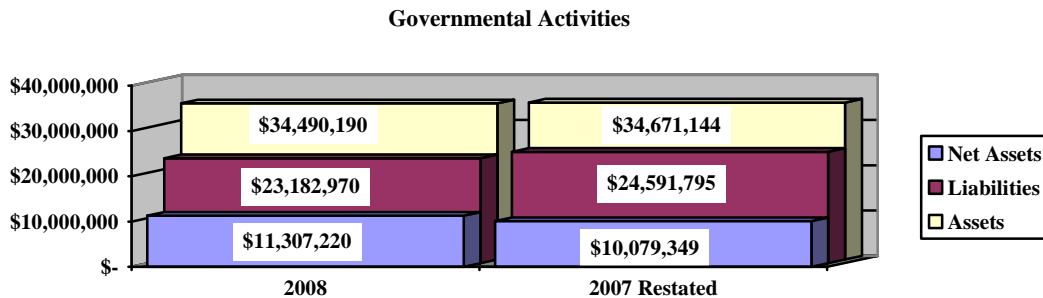
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$11,307,220. Of this total \$2,455,662 is restricted in use and \$4,160,612 is invested in capital assets (net of related debt), resulting in unrestricted net assets of \$4,690,946.

At year-end, capital assets represented 57.37% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$4,160,612. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,455,662, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,690,946 may be used to meet the District's ongoing obligations to the students and creditors.

The following graph shows the District's assets, liabilities and net assets at June 30, 2008 and 2007:



The table below shows the change in net assets for fiscal years 2008 and 2007. Expenses for 2007 have been restated as described in Note 3.B.

<b>Change in Net Assets</b>			
	Governmental	Restated Governmental	
	Activities	Activities	
	<u>2008</u>	<u>2007</u>	<u>Percent</u> <u>Change</u>
<b><u>Revenues</u></b>			
Program revenues:			
Charges for services and sales	\$ 930,100	\$ 997,503	(6.76) %
Operating grants and contributions	1,262,086	839,781	50.29 %
Capital grants and contributions	97,431	16,694	483.63 %
General revenues:			
Property taxes	7,017,015	6,372,136	10.12 %
Grants and entitlements	7,525,555	7,726,248	(2.60) %
Investment earnings	295,028	414,223	(28.78) %
Other	241,290	35,647	576.89 %
<b>Total revenues</b>	<u>17,368,505</u>	<u>16,402,232</u>	5.89 %

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

**Change in Net Assets**

	Governmental Activities <u>2008</u>	Restated Governmental Activities <u>2007</u>	<u>Percentage Change</u>
<b><u>Expenses</u></b>			
Program expenses:			
Instruction:			
Regular	\$ 7,727,254	\$ 6,397,860	20.78 %
Special	1,242,249	1,180,755	5.21 %
Vocational	104,101	97,379	6.90 %
Other	75,094	65,643	14.40 %
Support services:			
Pupil	858,666	750,074	14.48 %
Instructional staff	468,744	454,586	3.11 %
Board of education	40,185	33,019	21.70 %
Administration	1,162,659	903,083	28.74 %
Fiscal	408,441	340,889	19.82 %
Operations and maintenance	1,186,268	1,295,602	(8.44) %
Pupil transportation	870,189	825,234	5.45 %
Central	238,823	219,552	8.78 %
Operations of non-instructional services			
Food service operations	439,113	411,554	6.70 %
Latchkey operations	55,825	45,876	21.69 %
Other non-instructional services	127,319	83,740	52.04 %
Extracurricular activities	375,208	319,684	17.37 %
Interest and fiscal charges	<u>760,496</u>	<u>793,879</u>	(4.21) %
Total expenses	<u>16,140,634</u>	<u>14,218,409</u>	13.52 %
Change in net assets	1,227,871	2,183,823	(43.77) %
Net assets at beginning of year (restated)	<u>10,079,349</u>	<u>7,895,526</u>	27.66 %
Net assets at end of year	<u>\$ 11,307,220</u>	<u>\$ 10,079,349</u>	12.18 %

**Governmental Activities**

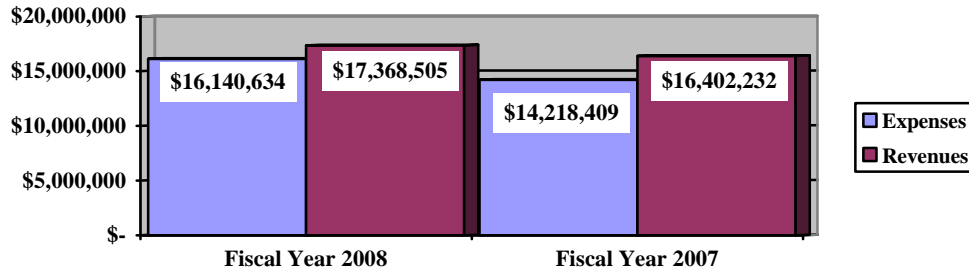
Net assets of the District's governmental activities increased \$1,227,871. Total governmental expenses of \$16,140,634 were offset by program revenues of \$2,289,617 and general revenues of \$15,078,888. Program revenues supported 14.19% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 83.73% of total governmental revenue. The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,148,698 or 56.68% of total governmental expenses for fiscal year 2008.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007. Expenses for 2007 have been restated as described in Note 3.B.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Total cost of services and net cost of services have been restated as described in Note 3.B.

**Governmental Activities**

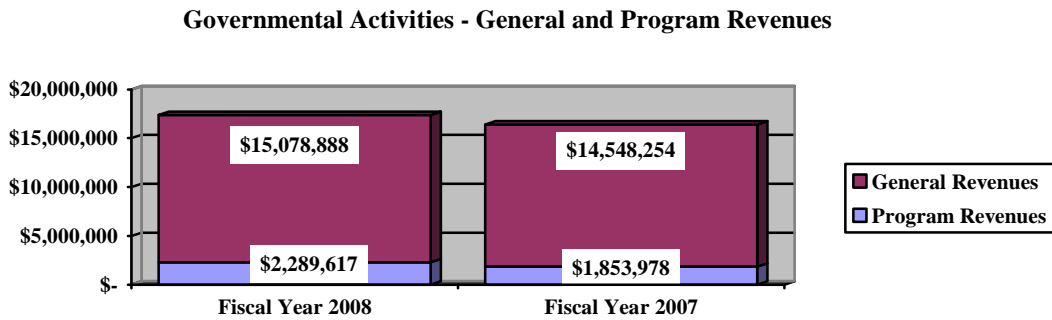
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007 (restated)	Net Cost of Services 2007 (restated)
<b>Program expenses</b>				
Instruction:				
Regular	\$ 7,727,254	\$ 7,265,455	\$ 6,397,860	\$ 5,859,950
Special	1,242,249	605,817	1,180,755	1,012,936
Vocational	104,101	90,324	97,379	97,379
Other	75,094	62,759	65,643	65,643
Support services:				
Pupil	858,666	635,729	750,074	539,707
Instructional staff	468,744	380,772	454,586	292,273
Board of education	40,185	40,185	33,019	33,019
Administration	1,162,659	1,098,093	903,083	883,083
Fiscal	408,441	408,441	340,889	334,879
Operations and maintenance	1,186,268	1,166,207	1,295,602	1,292,602
Pupil transportation	870,189	811,758	825,234	775,234
Central	238,823	232,875	219,552	214,039
Operations of non-instructional services				
Food service operations	439,113	(30,454)	411,554	(46,715)
Latchkey operations	55,825	2,789	45,876	(10,950)
Other non-instructional services	127,319	33,786	83,740	(9,913)
Extracurricular activities	375,208	285,985	319,684	237,386
Interest and fiscal charges	760,496	760,496	793,879	793,879
<b>Total expenses</b>	<u>\$ 16,140,634</u>	<u>\$ 13,851,017</u>	<u>\$ 14,218,409</u>	<u>\$ 12,364,431</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 60.67% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 93.42%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$6,820,292, which is higher than last year's total of \$5,332,261.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	<u>Increase</u>
General Fund	\$ 4,230,355	\$ 2,989,022	\$ 1,241,333
Debt Service Fund	1,402,119	1,305,862	96,257
Other Governmental Funds	<u>1,187,818</u>	<u>1,037,377</u>	<u>150,441</u>
Total	<u>\$ 6,820,292</u>	<u>\$ 5,332,261</u>	<u>\$ 1,488,031</u>

The fund balance of the debt service fund increased due to an increase in tax revenue in 2008. The fund balance of the other governmental funds increased primarily due to an increase in the fund balance of the following funds: food service special revenue fund, schoolnet capital projects fund and technology equipment capital projects fund.

**General Fund**

The District's general fund balance increased \$1,241,333. The table that follows assists in illustrating the financial activities of the general fund.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
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	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,359,926	\$ 4,895,732	\$ 464,194	9.48 %
Tuition	355,958	377,456	(21,498)	(5.70) %
Earnings on investments	285,627	285,859	(232)	(0.08) %
Intergovernmental	7,714,103	7,552,762	161,341	2.14 %
Other revenues	<u>307,878</u>	<u>196,269</u>	<u>111,609</u>	56.87 %
Total	<u>\$ 14,023,492</u>	<u>\$ 13,308,078</u>	<u>\$ 715,414</u>	5.38 %
<b><u>Expenditures</u></b>				
Instruction	\$ 7,763,085	\$ 7,764,761	\$ (1,676)	(0.02) %
Support services	4,686,122	4,631,562	54,560	1.18 %
Operation of non-instructional services	76,056	45,876	30,180	65.79 %
Extracurricular activities	<u>245,209</u>	<u>246,506</u>	<u>(1,297)</u>	(0.53) %
Total	<u>\$ 12,770,472</u>	<u>\$ 12,688,705</u>	<u>\$ 81,767</u>	0.64 %

Taxes increased due to advances from the county were more in 2008 than in 2007. Other revenues increased due to an increase in revenue items such as rental income, contributions and donations, classroom materials and fees and other miscellaneous local revenues. All other revenue and expenditure line items are comparable to fiscal 2007.

***General Fund Budgeting Highlights***

The 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 budgeted fund is the general fund.

During the course of fiscal 2008, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$13,540,060, which is the same as the original budgeted revenues estimate. Actual revenues and other financing sources for fiscal 2008 was \$13,867,298. This represents a \$327,238 increase from final budgeted revenues. This increase is primarily due to tax revenues and intergovernmental revenues being higher than estimated.

General fund final appropriations (appropriated expenditures plus other financing uses) were \$13,344,764, which is \$700,117 higher than the original budgeted appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$13,062,659, which was \$282,105 less than the final budget appropriations.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2008, the District had \$19,785,612 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2008 balances compared to 2007:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
<u>Governmental Activities</u>		
	<u>2008</u>	<u>2007</u>
Land	\$ 521,816	\$ 521,816
Land improvements	1,682,140	1,760,200
Buildings and improvements	16,987,163	17,441,843
Furniture and equipment	335,266	268,566
Vehicles	<u>259,227</u>	<u>232,816</u>
Total	<u>\$ 19,785,612</u>	<u>\$ 20,225,241</u>

Total additions to capital assets for 2008 were \$370,430. The District had \$810,059 in depreciation expense during 2008. The overall decrease in capital assets of \$439,629 is primarily due to the depreciation expense of the District in fiscal 2008.

***Debt Administration***

At June 30, 2008, the District had \$15,694,213 in general obligation bonds, capital appreciation bonds and accreted interest obligations outstanding. Of this total, \$645,000 is due within one year and \$15,049,213 is due in more than one year. The following table summarizes the bonds and accreted interest obligations outstanding.

<b>Outstanding Debt, at Year End</b>		
	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
General obligation bonds	\$ 15,350,000	\$ 15,955,000
Capital appreciation bonds	275,000	275,000
Accreted interest	<u>69,213</u>	<u>45,491</u>
Total	<u>\$ 15,694,213</u>	<u>\$ 16,275,491</u>

See Note 9 to the basic financial statements for detail on the District's debt administration.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

**Current Financial Related Activities**

The financial outlook for the District in fiscal year 2009 and beyond is positive, but challenging. During the current fiscal year, revenues exceeded expenditures; however, revenues are projected to fall just below the breakeven point in fiscal year 2009. The long term financial outlook (fiscal year 2010-11) will be challenging as expenditures will outpace revenues at a faster rate each year. Throughout this period of time the Board of Education and administration will closely monitor District revenues and expenditures in accordance with the District financial forecast.

The District obtains approximately 55% of its general fund revenue from the State of Ohio, 38% from local property taxes, and 7% from other local sources. There are challenges ahead for the District on both the State and local fronts that will largely impact the financial future of the District.

With the passage of HB 119 ushering in the new fiscal year 2008-2009 biennium, several changes were made to the District's state funding formula. Most notably, the District no longer qualifies to receive parity aide, the District's Gap Aide declined, and there was an enrollment decline. This resulted in a significant reduction in formula calculated state aide. However, the State will guarantee funding at the fiscal year 2008 levels. This guarantee is extensive and ultimately, under the present formula, will most likely flat line projected State aide for the next several years.

As we move through this biennium, the governor communicated that the State will undergo a serious budgetary shortfall. However, we have been informed that the State funding deficit will not impact Keystone's state foundation funding. However, the new biennial budget effective for fiscal year 2010-2011 will almost certainly have an effect on the District's financial strategy.

Locally, the District receives approximately 38% of its general fund revenue from local property taxes. The community support for the schools has been good. In 2003, the community passed a \$ 17.5 million bond issue to build a new high school. Since our 8-mill levy expired in 2002, we have dropped to the 20-mill floor. Local valuation growth is largely driven by a county auditor reappraisal/update conducted every three years. On average, this would yield a 12-14% increase, for the District. However with the recent severe crisis in the mortgage market, and 80% of the District's local revenue being driven by residential / agricultural values, the outlook for similar valuation increases is questionable. In addition, a major source of local property taxes, personal tangible taxes, will be phased out beginning in fiscal year 2011. At the bare minimum assessment of 20 mills, and with no state aide growth, the District will need to seek additional operating funds from its citizens and businesses to survive long term. The District has a clear and well defined plan to accomplish this task. We will be undergoing an extensive strategic planning initiative that will involve the community in establishing a common vision and direction for the District. This will ultimately lead to the need for the community to take a proactive interest in the funding for this plan and the future solvency of the District.

In summary, with the challenges mentioned above, it is imperative we continue to monitor the District forecast and stay true to the District operating budget. At the same time, we need to consider the needs of every student as the most important stakeholder in the sound financial management of Keystone Local School District.

**Contacting the District's Financial Management**

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



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 6,762,235
Cash with fiscal agent . . . . .	964,051
Receivables:	
Taxes . . . . .	6,904,171
Accounts . . . . .	1,612
Intergovernmental . . . . .	44,970
Accrued interest . . . . .	6,464
Prepayments . . . . .	15,104
Materials and supplies inventory. . . . .	5,971
Capital assets:	
Land and construction in progress. . . . .	521,816
Depreciable capital assets, net. . . . .	19,263,796
Capital assets, net . . . . .	19,785,612
 Total assets. . . . .	 34,490,190
<b>Liabilities:</b>	
Accounts payable. . . . .	54,093
Accrued wages and benefits . . . . .	1,006,520
Pension obligation payable. . . . .	304,062
Intergovernmental payable . . . . .	34,855
Accrued interest payable . . . . .	60,663
Matured bond and interest payable . . . . .	5,000
Unearned revenue . . . . .	5,005,387
Long-term liabilities:	
Due within one year. . . . .	760,136
Due in more than one year . . . . .	15,952,254
Total liabilities . . . . .	23,182,970
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,160,612
Restricted for:	
Capital projects . . . . .	922,631
Debt service. . . . .	1,405,964
Locally funded programs . . . . .	4,851
State funded programs . . . . .	54,712
Federally funded programs . . . . .	26,107
Student activities . . . . .	197
Public school support. . . . .	41,200
Unrestricted . . . . .	4,690,946
Total net assets . . . . .	\$ 11,307,220

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 7,727,254	\$ 367,690	\$ 3,237	\$ 90,872	\$ (7,265,455)
Special . . . . .	1,242,249	-	636,432	-	(605,817)
Vocational . . . . .	104,101	-	13,777	-	(90,324)
Other . . . . .	75,094	12,335	-	-	(62,759)
Support services:					
Pupil . . . . .	858,666	41,347	181,590	-	(635,729)
Instructional staff . . . . .	468,744	-	87,972	-	(380,772)
Board of education . . . . .	40,185	-	-	-	(40,185)
Administration . . . . .	1,162,659	-	64,566	-	(1,098,093)
Fiscal . . . . .	408,441	-	-	-	(408,441)
Operations and maintenance . . . . .	1,186,268	11,061	9,000	-	(1,166,207)
Pupil transportation . . . . .	870,189	-	51,872	6,559	(811,758)
Central . . . . .	238,823	-	5,948	-	(232,875)
Operation of non-instructional services:					
Food service operations . . . . .	439,113	355,508	114,059	-	30,454
Latchkey operations . . . . .	55,825	53,036	-	-	(2,789)
Other non-instructional services . . . . .	127,319	-	93,533	-	(33,786)
Extracurricular activities . . . . .	375,208	89,123	100	-	(285,985)
Interest and fiscal charges . . . . .	760,496	-	-	-	(760,496)
Total governmental activities . . . . .	<u>\$ 16,140,634</u>	<u>\$ 930,100</u>	<u>\$ 1,262,086</u>	<u>\$ 97,431</u>	<u>(13,851,017)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					5,459,903
Debt service . . . . .					1,323,539
Capital outlay . . . . .					233,573
Grants and entitlements not restricted to specific programs . . . . .					7,525,555
Investment earnings . . . . .					295,028
Miscellaneous . . . . .					241,290
Total general revenues . . . . .					15,078,888
Change in net assets . . . . .					1,227,871
<b>Net assets at beginning of year (restated) . . . . .</b>					<b>10,079,349</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 11,307,220</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments . . . . .	\$ 4,453,127	\$ 1,108,412	\$ 1,171,623	\$ 6,733,162
Cash with fiscal agent . . . . .	-	5,000	-	5,000
Receivables:				
Taxes . . . . .	5,368,957	1,306,679	228,535	6,904,171
Accounts . . . . .	1,466	-	146	1,612
Intergovernmental . . . . .	-	-	44,970	44,970
Accrued interest . . . . .	6,464	-	-	6,464
Prepayments . . . . .	15,104	-	-	15,104
Materials and supplies inventory . . . . .	-	-	5,971	5,971
Total assets . . . . .	<u>\$ 9,845,118</u>	<u>\$ 2,420,091</u>	<u>\$ 1,451,245</u>	<u>\$ 13,716,454</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 46,626	\$ -	\$ 7,467	\$ 54,093
Accrued wages and benefits . . . . .	969,538	-	36,982	1,006,520
Compensated absences payable . . . . .	115,136	-	-	115,136
Pension obligation payable . . . . .	285,295	-	18,767	304,062
Intergovernmental payable . . . . .	33,597	-	1,258	34,855
Matured bond and interest payable . . . . .	-	5,000	-	5,000
Deferred revenue . . . . .	272,396	64,508	34,205	371,109
Unearned revenue . . . . .	<u>3,892,175</u>	<u>948,464</u>	<u>164,748</u>	<u>5,005,387</u>
Total liabilities . . . . .	<u>5,614,763</u>	<u>1,017,972</u>	<u>263,427</u>	<u>6,896,162</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	126,433	-	106,374	232,807
Reserved for materials and supplies inventory . . . . .	-	-	5,971	5,971
Reserved for property tax unavailable for appropriation . . . . .	1,205,276	293,707	51,017	1,550,000
Reserved for prepayments . . . . .	15,104	-	-	15,104
Reserved for debt service . . . . .	-	1,108,412	-	1,108,412
Unreserved, undesignated reported in:				
General fund . . . . .	2,883,542	-	-	2,883,542
Special revenue funds . . . . .	-	-	245,496	245,496
Capital projects funds . . . . .	-	-	778,960	778,960
Total fund balances . . . . .	<u>4,230,355</u>	<u>1,402,119</u>	<u>1,187,818</u>	<u>6,820,292</u>
Total liabilities and fund balances . . . . .	<u>\$ 9,845,118</u>	<u>\$ 2,420,091</u>	<u>\$ 1,451,245</u>	<u>\$ 13,716,454</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008

<b>Total governmental fund balances</b>		\$ 6,820,292
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,785,612
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 348,784	
Interest	890	
Intergovernmental revenue	21,435	
Total		371,109
An internal service fund is used by management to charge the costs of insurances to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		988,124
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(15,694,213)	
Compensated absences	(903,041)	
Accrued interest payable	(60,663)	
Total		(16,657,917)
<b>Net assets of governmental activities</b>		<b>\$ 11,307,220</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,359,926	\$ 1,296,191	\$ 227,696	\$ 6,883,813
Tuition and fees . . . . .	355,958	-	-	355,958
Charges for services . . . . .	-	-	355,508	355,508
Earnings on investments . . . . .	285,627	-	12,819	298,446
Extracurricular . . . . .	1,940	-	75,067	77,007
Classroom materials and fees . . . . .	64,768	-	12,335	77,103
Contributions and donations . . . . .	2,943	-	29,600	32,543
Rental income . . . . .	11,061	-	-	11,061
Other local revenues . . . . .	227,166	-	65,244	292,410
Intergovernmental - Intermediate . . . . .	-	-	7,049	7,049
Intergovernmental - State . . . . .	7,714,103	165,361	213,722	8,093,186
Intergovernmental - Federal . . . . .	-	-	728,894	728,894
Total revenue . . . . .	<u>14,023,492</u>	<u>1,461,552</u>	<u>1,727,934</u>	<u>17,212,978</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,718,931	-	14,190	6,733,121
Special . . . . .	883,293	-	298,126	1,181,419
Vocational . . . . .	96,822	-	867	97,689
Other . . . . .	64,039	-	7,199	71,238
Support Services:				
Pupil . . . . .	607,345	-	217,300	824,645
Instructional staff . . . . .	388,780	-	61,710	450,490
Board of education . . . . .	39,158	-	-	39,158
Administration . . . . .	1,059,917	-	61,446	1,121,363
Fiscal . . . . .	365,214	22,261	3,980	391,455
Operations and maintenance . . . . .	1,152,327	-	14,740	1,167,067
Pupil transportation . . . . .	832,394	-	5,958	838,352
Central . . . . .	240,987	-	1,348	242,335
Operation of non-instructional services:				
Food service operations . . . . .	22,734	-	429,096	451,830
Latchkey operations . . . . .	53,322	-	-	53,322
Other non-instructional services . . . . .	-	-	118,962	118,962
Extracurricular activities . . . . .	245,209	-	109,715	354,924
Facilities acquisition and construction . . . . .	-	-	244,543	244,543
Debt service:				
Principal retirement . . . . .	-	605,000	-	605,000
Interest and fiscal charges . . . . .	-	738,034	-	738,034
Total expenditures . . . . .	<u>12,770,472</u>	<u>1,365,295</u>	<u>1,589,180</u>	<u>15,724,947</u>
Excess of revenues over expenditures . . . . .	<u>1,253,020</u>	<u>96,257</u>	<u>138,754</u>	<u>1,488,031</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	11,687	11,687
Transfers (out) . . . . .	(11,687)	-	-	(11,687)
Total other financing sources (uses) . . . . .	<u>(11,687)</u>	<u>-</u>	<u>11,687</u>	<u>-</u>
Net change in fund balances . . . . .	1,241,333	96,257	150,441	1,488,031
<b>Fund balance at at beginning of year . . . . .</b>	<u>2,989,022</u>	<u>1,305,862</u>	<u>1,037,377</u>	<u>5,332,261</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 4,230,355</u>	<u>\$ 1,402,119</u>	<u>\$ 1,187,818</u>	<u>\$ 6,820,292</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Net change in fund balances - total governmental funds** \$ 1,488,031

*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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$	370,430	
Current year depreciation		(810,059)	
<b>Total</b>		<b>(439,629)</b>	<b>(439,629)</b>

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:

Decrease in accrued interest payable		1,260	
Accreted interest on "capital appreciation" bonds		(23,722)	
<b>Total</b>		<b>(22,462)</b>	<b>(22,462)</b>

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

Taxes		133,202	
Interest		890	
Intergovernmental		21,435	
<b>Total</b>		<b>155,527</b>	<b>155,527</b>

Repayment of bonds are an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 605,000

The internal service fund used by management to charge the costs of insurances 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. (575,979)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 17,383

**Change in net assets of governmental activities** **\$ 1,227,871**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,064,885	\$ 5,064,885	\$ 5,187,294	\$ 122,409
Tuition . . . . .	347,558	347,558	355,958	8,400
Earnings on investments . . . . .	278,793	278,793	285,531	6,738
Extracurricular . . . . .	1,894	1,894	1,940	46
Classroom materials and fees . . . . .	62,351	62,351	63,858	1,507
Contributions and donations . . . . .	2,874	2,874	2,943	69
Rental income . . . . .	10,800	10,800	11,061	261
Other local revenues . . . . .	196,997	196,997	201,758	4,761
Intergovernmental - State . . . . .	7,532,068	7,532,068	7,714,103	182,035
Total revenue . . . . .	<u>13,498,220</u>	<u>13,498,220</u>	<u>13,824,446</u>	<u>326,226</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,426,615	6,782,448	6,880,785	(98,337)
Special . . . . .	830,407	876,386	926,210	(49,824)
Vocational . . . . .	92,721	97,855	97,422	433
Other . . . . .	76,236	80,457	63,635	16,822
Support Services:				
Pupil . . . . .	633,517	668,594	660,994	7,600
Instructional staff . . . . .	390,517	412,139	388,441	23,698
Board of education . . . . .	35,643	37,616	43,761	(6,145)
Administration . . . . .	1,012,462	1,068,521	1,065,034	3,487
Fiscal . . . . .	338,087	356,806	373,570	(16,764)
Operations and maintenance . . . . .	1,218,071	1,285,514	1,177,405	108,109
Pupil transportation . . . . .	831,670	877,718	838,127	39,591
Central . . . . .	365,894	386,153	272,056	114,097
Extracurricular activities . . . . .	236,464	249,557	245,532	4,025
Total expenditures . . . . .	<u>12,488,304</u>	<u>13,179,764</u>	<u>13,032,972</u>	<u>146,792</u>
Excess of revenues over (under) expenditures . . . . .	<u>1,009,916</u>	<u>318,456</u>	<u>791,474</u>	<u>473,018</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	23,034	23,034	23,591	557
Transfers (out) . . . . .	(132,655)	(140,000)	(11,687)	128,313
Advances in . . . . .	17,575	17,575	18,000	425
Advances (out) . . . . .	(23,688)	(25,000)	(18,000)	7,000
Proceeds from sale of capital assets . . . . .	1,231	1,231	1,261	30
Total other financing sources (uses) . . . . .	<u>(114,503)</u>	<u>(123,160)</u>	<u>13,165</u>	<u>136,325</u>
Net change in fund balance . . . . .	895,413	195,296	804,639	609,343
<b>Fund balance at beginning of year . . . . .</b>	3,303,019	3,303,019	3,303,019	-
<b>Prior year encumbrances appropriated . . . . .</b>	185,312	185,312	185,312	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 4,383,744</u>	<u>\$ 3,683,627</u>	<u>\$ 4,292,970</u>	<u>\$ 609,343</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	<b><u>Governmental Activities - Internal Service Fund</u></b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and investments . . . . .	\$ 29,073
Cash with fiscal agent . . . . .	<u>959,051</u>
Total assets . . . . .	<u>988,124</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>988,124</u>
Total net assets . . . . .	<u><u>\$ 988,124</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Sales/charges for services . . . . .	\$ 59,056
	59,056
<b>Operating expenses:</b>	
Purchased services . . . . .	6,105
Claims . . . . .	628,930
	635,035
Total operating expenses . . . . .	635,035
Operating loss/change in net assets . . . . .	(575,979)
<b>Net assets at beginning of year . . . . .</b>	<b>1,564,103</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 988,124</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services . . . . .	\$ 59,056
Cash payments for purchased services . . . . .	(6,105)
Cash payments for claims . . . . .	(628,930)
	(575,979)
Net cash used in operating activities . . . . .	(575,979)
Net decrease in cash and cash equivalents . . . . .	(575,979)
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>1,564,103</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 988,124</b>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss and net cash used in operating activities . . . . .	\$ (575,979)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2008

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 25,581
Receivables:	
Accounts . . . . .	158
	158
Total assets. . . . .	\$ 25,739
	25,739
<b>Liabilities:</b>	
Due to students . . . . .	\$ 25,739
	25,739
Total liabilities . . . . .	\$ 25,739
	25,739

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Keystone Local School District, Lorain County, Ohio (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under an elected Board of Education, consisting of five members and is responsible for the provision of public education to residents of the District.

The District is the 304<sup>th</sup> largest in the State of Ohio (among the 896 public school districts and community schools in the State) in terms of enrollment. It is staffed by 82 non-certified and 101 certified personnel to provide services to approximately 1,803 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. 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 organization's 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or (4) provide 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. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

*JOINTLY GOVERNED ORGANIZATIONS*

Lorain County Joint Vocational School District (JVS)

The Lorain County Joint Vocational School District (JVS) is a distinct subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the JVS is not part of the District and its operations are not included as part of the reporting entity. Financial information can be obtained by contacting the Treasurer at the Lorain County Vocational School District, 15181 State Route 58, Oberlin, Ohio, 44074.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Lake Erie Education Computer Association (LEECA)

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among 35 school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge, dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors which consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2008, the District paid \$6,970 in fees to LEECA. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 14 school 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 media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2008, the District paid \$632,462 to LERC. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves at fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization comprised of one hundred and nine member districts. The mission of the Council is to identify, plan and provide services to member districts that can be more effectively achieved by cooperative endeavors of member districts than by an individual district operating on its own. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2008, the District paid \$289,705 to the Council. Financial information can be obtained by contacting David Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's Energy for Education Program. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating in the program for an extended period of time. The current, three year contract expires in December 2008. The participants make monthly payments based upon estimated usage. At the end of each fiscal year, these estimated payments are compared to actual usage for the year and additional billings are made or refunds are issued accordingly.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

In April 2005, the Energy Acquisition Corporation II, a non-profit corporation with a self-appointing board, issued \$246 million in bonds and used the proceeds to prepay for the estimated electric energy costs for 249 entities from Cleveland Electric Illuminating, Ohio Edison and Toledo Edison.

*INSURANCE PURCHASING POOL*

Ohio Association of School Business Officials Workers' Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

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 are the District's major governmental funds:

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

*Internal Service Fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund accounts for activity of a former self-insurance program for employee insurance benefits.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private-purpose trust funds, agency funds, pension trust funds and investment trust 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. The District has no trust funds. 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. Basis of Presentation**

*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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of 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. 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.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*Fund Financial Statements* - Fund financial statements report detailed information about the District. 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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 fund 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.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund are charges for services for employee insurance premiums. Operating expenses for internal service funds include claims payments and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

**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 on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

*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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.



**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2008, but which were levied to finance fiscal year 2009 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education. Although the legal level of budgetary control is at the fund level, the District has elected to present the budgetary statements at the fund and function level.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Lorain County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflects the amounts in the original and final amended certificates of estimated resources issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenditures of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved 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 resources. The amounts reported as the original budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the original and final budgeted amounts represent the original and final appropriation amounts passed by the Board during the year.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, excluding the internal service fund, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

During fiscal year 2008, investments were limited to federal agency securities, repurchase agreements, non-negotiable certificates of deposit, commercial paper and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and non-negotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$285,627 which includes \$94,700 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These 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 in the fund financial statements.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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.

All reported capital assets except 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>Governmental Activities Estimated Lives</u>
Land improvements	20 - 25 years
Buildings and improvements	20 - 50 years
Furniture/equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable". These amounts are eliminated in governmental column of the statement of net assets. There were no interfund balances at June 30, 2008.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with fifteen or more years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The entire compensated absence liability is reported on the government-wide financial statements.

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

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the proprietary fund 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 future retirement obligations 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 lease obligations are recognized as a liability in the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies, prepayments, debt service and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

**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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no net assets restricted by enabling legislation at June 30, 2008.

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

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**O. Estimates**

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

**P. Interfund Activity**

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 and after nonoperating revenues/expenses in proprietary 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. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**B. Prior Period Adjustment**

A prior period adjustment is required to properly state the District's compensated absences liability at June 30, 2007. The amount reported in the prior year was overstated due to the inclusion of liabilities on certain employees that did not meet the District's requirements under the vesting method as defined by GASB Statement No. 16, "Accounting for Compensated Absences". This prior period adjustment had the following effect on net assets as previously reported.

	Governmental Activities
Net assets at June 30, 2007	\$ 9,573,914
Adjustment for overstatement of compensated absences liability	505,435
Restated net assets at June 30, 2007	\$ 10,079,349

**NOTE 4 - 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 that 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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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



**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash with Fiscal Agent**

At June 30, 2008, the District had \$964,051 held by fiscal agents. Of this total, \$959,051 is held by the Lake Erie Employee Protection Plan as an insurance purchasing pool. The remaining balance of \$5,000 is held by a fiscal agent in a bond and coupon account. These amounts are not included in “deposits with financial institutions” below.

**B. Cash on Hand**

At June 30, 2008, the District had \$100 in cash on hand. This amount is reported as “equity in pooled cash and investments” on the financial statements.

**C. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all District deposits was \$1,335,168, exclusive of the \$3,540,000 repurchase agreement mentioned below. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2008, \$614,046 of the District’s bank balance of \$1,502,046 was exposed to custodial risk as discussed below, while \$888,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**D. Investments**

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FHLB	\$ 450,660	\$ -	\$ 450,660
FNMA	251,175	149,985	101,190
FHLMC	449,491	-	449,491
Repurchase agreement	3,540,000	3,540,000	-
U.S Government money market funds	21,501	21,501	-
STAR Ohio	739,721	739,721	-
	<u>\$ 5,452,548</u>	<u>\$ 4,451,207</u>	<u>\$ 1,001,341</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

The weighted average maturity of investments is 0.15 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments in federal agency securities, the federal agency securities that underlie the District's repurchase agreement, and the U.S government money market funds were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 450,660	8.27
FHLMC	251,175	4.61
FNMA	449,491	8.24
Repurchase agreement	3,540,000	64.92
U.S. government		
money market funds	21,501	0.39
STAR Ohio	<u>739,721</u>	<u>13.57</u>
	<u>\$ 5,452,548</u>	<u>100.00</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**E. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,335,168
Investments	5,452,548
Cash on hand	100
Cash with fiscal agent	<u>964,051</u>
 Total	 <u>\$ 7,751,867</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 7,726,286
Agency fund	<u>25,581</u>
 Total	 <u>\$ 7,751,867</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund statements:

Transfers from general fund to:	<u>Amount</u>
Nonmajor governmental funds	\$ 11,687

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

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

**KEYSTONE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 6 - PROPERTY TAXES - (Continued)**

The amount available as an advance at June 30, 2008 was \$1,205,276 in the general fund, \$293,707 in the debt service fund and \$51,017 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount that was available as an advance at June 30, 2007, was \$1,032,644 in the general fund, \$251,509 in the debt service fund and \$43,968 in the permanent improvement fund (a nonmajor governmental fund).

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential				
Commerical/industrial	\$ 255,923,180	93.91	\$ 261,007,180	95.50
Public utilities	12,065,090	4.43	10,066,060	3.68
Tangible personal property	<u>4,535,488</u>	<u>1.66</u>	<u>2,233,899</u>	<u>0.82</u>
Total	<u>\$ 272,523,758</u>	<u>100.00</u>	<u>\$ 273,307,139</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$49.91		\$49.75

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered 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. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities**

Taxes	\$ 6,904,171
Accounts	1,612
Intergovernmental	44,970
Accrued interest	<u>6,464</u>
Total receivables	<u>\$ 6,957,217</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year-ended June 30, 2008, was as follows:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 521,816	\$ -	\$ -	\$ 521,816
Total capital assets, not being depreciated	<u>521,816</u>	<u>-</u>	<u>-</u>	<u>521,816</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,168,555	17,360	-	2,185,915
Buildings and improvements	22,249,730	143,797	-	22,393,527
Furniture and equipment	407,168	121,408	-	528,576
Vehicles	<u>1,026,636</u>	<u>87,865</u>	<u>(45,438)</u>	<u>1,069,063</u>
Total capital assets, being depreciated	<u>25,852,089</u>	<u>370,430</u>	<u>(45,438)</u>	<u>26,177,081</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(408,355)	(95,420)	-	(503,775)
Buildings and improvements	(4,807,887)	(598,477)	-	(5,406,364)
Furniture and equipment	(138,602)	(54,708)	-	(193,310)
Vehicles	<u>(793,820)</u>	<u>(61,454)</u>	<u>45,438</u>	<u>(809,836)</u>
Total accumulated depreciation	<u>(6,148,664)</u>	<u>(810,059)</u>	<u>45,438</u>	<u>(6,913,285)</u>
Governmental activities capital assets, net	<u>\$ 20,225,241</u>	<u>\$ (439,629)</u>	<u>\$ -</u>	<u>\$ 19,785,612</u>

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 709,164
Support Services:	
Instructional staff	3,350
Operations and maintenance	21,343
Pupil transportation	63,490
Central	2,274
Extracurricular activities	5,086
Food service operations	<u>5,352</u>
Total depreciation expense	<u>\$ 810,059</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 9 - LONG-TERM OBLIGATIONS**

The balance of the District's long-term compensated absences liability has been restated as described in Note 3.B. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	Restated Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Retired</u>	Balance <u>June 30, 2008</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities</b>					
School improvement bonds	\$ 15,955,000	\$ -	\$ (605,000)	\$ 15,350,000	\$ 645,000
Capital appreciation bonds	275,000	-	-	275,000	-
Accretion on capital appreciation bonds	45,491	23,722	-	69,213	-
Compensated absences	<u>1,098,231</u>	<u>61,083</u>	<u>(141,137)</u>	<u>1,018,177</u>	<u>115,136</u>
Total governmental activities long-term liabilities	<u>\$ 17,373,722</u>	<u>\$ 84,805</u>	<u>\$ (746,137)</u>	<u>\$ 16,712,390</u>	<u>\$ 760,136</u>

The bonds payable will be repaid from the debt service fund. The compensated absences will be repaid from the general fund.

During 2007, the Board of Education adopted the PARS 403(b) Supplementary Retirement Plan (the "Plan") for those employees that meet the plan's eligibility requirements, as stated in the Plan. Each person who meets these eligibility requirements will receive \$50,000. Beginning July of the year of retirement, payment will be made in five equal installments into the eligible participant's 403(b) annuity contract held at Pacific Life Insurance Company. At June 30, 2008, the District's liability for the retirement incentive plan was \$200,000. The current portion of this liability is recorded as compensated absences payable in the general fund, with the remainder recorded as long-term compensated absences.

The following is a description of the District's future annual debt service requirements to maturity for bonds payable:

Fiscal Year	School Improvement			Capital Appreciation		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 645,000	\$ 718,275	\$ 1,363,275	\$ -	\$ -	\$ -
2010	690,000	697,388	1,387,388	-	-	-
2011	805,000	670,074	1,475,074	-	-	-
2012	145,000	651,438	796,438	-	-	-
2013	170,000	645,500	815,500	135,000	95,000	230,000
2014 - 2018	985,000	3,149,000	4,134,000	140,000	110,000	250,000
2019 - 2023	2,825,000	2,659,875	5,484,875	-	-	-
2024 - 2028	4,835,000	1,714,125	6,549,125	-	-	-
2029 - 2031	<u>4,250,000</u>	<u>329,000</u>	<u>4,579,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,350,000</u>	<u>\$ 11,234,675</u>	<u>\$ 26,584,675</u>	<u>\$ 275,000</u>	<u>\$ 205,000</u>	<u>\$ 480,000</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The original issue date, interest rate, original issue amount and date of maturity of the District's bonds payable follows:

<u>General obligation bonds:</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
School improvement	2004	December 1, 2030	4.84%	\$ 17,225,000
Capital appreciation	2004	December 1, 2013	5.65%	\$ 135,000
Capital appreciation	2004	December 1, 2014	5.57%	\$ 140,000

**Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$10,706,368 (including available funds of \$1,402,119) and an unvoted debt margin of \$270,881.

**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

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 2008, the District contracted with Ohio School Council Association for insurance. General and professional liability has a \$3,000,000 aggregate limit for each. Automobile liability has a \$1,000,000 combined single limit of liability. Nationwide Mutual Insurance Company maintains performance bonds of \$20,000 for the Superintendent and the Board President and a \$25,000 performance bond for the Treasurer.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2007.

**B. Employee Health and Dental**

The District purchased health and dental coverage through the Lake Erie Regional Council of Governments (LERC), an insurance purchasing pool. The risk of loss transfers to the pool upon payment of the premium. Based upon applicable union contracts, the District pays between 90% to 95% of the monthly insurance premium for single coverage and 85% to 90% of the monthly insurance premium for family coverage for eligible employees. Any employee who is scheduled to work at a full-time equivalency (FTE) below 1.0 but greater than 0.5 is eligible for this coverage, but they are required to pay the difference in premium based on the difference between 1.0 and their scheduled FTE. The premium is generally paid by the fund that pays the salary for the employee.



**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 10 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation Group Rating Plan**

For fiscal year 2008, the District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). 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 provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$162,570, \$175,214 and \$171,033, respectively; 44.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**KEYSTONE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 11 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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. The Combined Plan offers features of both 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$779,379, \$768,000 and \$806,101, respectively; 83.48 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$1,154 made by the District and \$11,519 made by plan members.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 11 - PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2008, five members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$25,000.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$99,186, \$85,771 and \$174,541, respectively; 44.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were \$11,714, \$11,915 and \$13,613, respectively; 44.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$59,952, \$59,100 and \$62,000, respectively; 83.48 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance 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, cash disbursements and encumbrances.

The statement of revenue, expenditures and changes in fund balance - budget (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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General fund</u>
Budget basis	\$ 804,639
Net adjustment for revenue accruals	199,046
Net adjustment for expenditure accruals	109,255
Net adjustment for other financing sources (uses) accruals	(24,852)
Adjustment for encumbrances	<u>153,245</u>
GAAP basis	<u>\$ 1,241,333</u>

**NOTE 14 - CONTINGENCIES**

**Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement 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 District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**NOTE 15 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	Instructional Materials/ <u>Textbooks</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2007	\$ (871,750)	\$ -
Current year set-aside requirement	271,290	271,290
Qualifying disbursements	<u>(448,115)</u>	<u>(825,647)</u>
Total	<u>\$ (1,048,575)</u>	<u>\$ (554,357)</u>
Balance carried forward to FY 2009	<u>\$ (1,048,575)</u>	<u>\$ -</u>

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 15 - STATUTORY RESERVES - (Continued)**

The District had qualifying expenditures during the year that reduced the textbooks/instructional materials set-aside amounts below zero. The extra amount for textbooks/instructional materials is being carried forward to reduce the set-aside requirements for future years. Although the District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital improvement reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal 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					
National School Lunch Program - Food Distribution	10.555		\$8,370		\$8,370
National School Lunch Program	10.555	\$113,141		\$113,141	
<b>Total U.S. Department of Agriculture</b>		<b>113,141</b>	<b>8,370</b>	<b>113,141</b>	<b>8,370</b>
<b>U.S. DEPARTMENT OF EDUCATION</b> <i>Passed through the Ohio Department of Education</i>					
Title I Grants to Local Education Agencies	84.010	134,317		151,068	
Special Education Cluster:					
Special Education - Grants to States	84.027	420,838		433,761	
Safe and Drug Free Schools and Communities - State Grants	84.186	5,504		5,139	
Innovative Education Program Strategies	84.298	2,604		2,604	
Education Technology - State Grants	84.318	1,554		1,554	
Improving Teacher Quality State Grants	84.367	32,561		26,705	
<b>Total U.S. Department of Education</b>		<b>597,378</b>		<b>620,831</b>	
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>		<b>\$710,519</b>	<b>\$8,370</b>	<b>\$733,972</b>	<b>\$8,370</b>

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

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

CFDA – Catalog of Federal Domestic Assistance.





# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each 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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2009. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 17, 2009.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated February 17, 2009.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 17, 2009



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

### Compliance

We have audited the compliance of Keystone Local School District (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 apply to its major federal program for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Keystone Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2008.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more than inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 17, 2009

**KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education Grants to States – CFDA 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

KEYSTONE LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	Deficiencies were noted in financial reporting causing adjustments to the financial statements.	Yes	N/A



**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 12, 2009**