

**LUCAS LOCAL  
SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004***

**BARB DONOHUE, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Education  
Lucas Local School District  
Lucas, Ohio

We have reviewed the Independent Auditor's Report of the Lucas Local School District, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lucas Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

April 15, 2005

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**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

Board of Education  
Lucas Local School District  
84 Lucas North Road  
Lucas, Ohio 44843

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County, (the “District”), as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to changes in the reclassification of proprietary fund capital assets and errors and omissions as disclosed in Note 8A.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2005, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Lucas Local School District

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Trimble, Julian, & Grube, Inc.*

Trimble, Julian & Grube, Inc.  
March 8, 2005

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The management's discussion and analysis of the Lucas 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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$177,386 which represents an 8.33% increase from 2003.
- General revenues accounted for \$4,433,331 in revenue or 89.01% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$547,172 or 10.99% of total revenues of \$4,980,503.
- The District had \$4,803,117 in expenses related to governmental activities; \$547,172 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,433,331 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$4,960,732 in revenues and other financing sources and \$4,356,947 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$603,785 from \$242,507 to \$846,292.

**Using these Basic Financial Statements**

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 is by far the most significant fund, and the only governmental fund reported as a major fund.



**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Reporting the District as a Whole**

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

While this document contains the large number of 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 2004?" 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.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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 fund begins on page 9. Fund financial reports 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 only major governmental fund is the general fund.

***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* than 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.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

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

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. 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 25-52 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	<b>Net Assets</b>
	Governmental Activities
	<u>2004</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 3,506,986
Capital assets, net	<u>1,382,452</u>
Total assets	<u>4,889,438</u>
<b><u>Liabilities</u></b>	
Current liabilities	2,362,761
Long-term liabilities	<u>220,471</u>
Total liabilities	<u>2,583,232</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	1,382,452
Restricted	39,385
Unrestricted	<u>884,369</u>
Total net assets	<u>\$ 2,306,206</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$2,306,206. Of this total, \$884,369 is unrestricted in use.

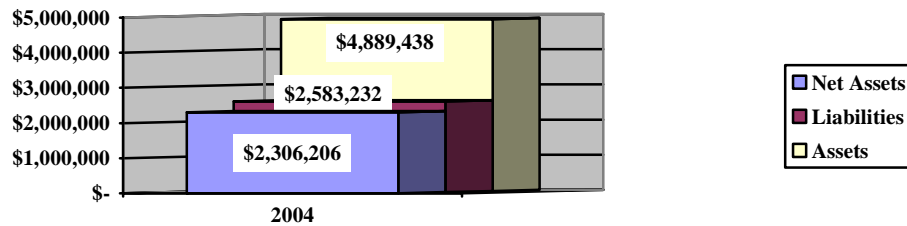
**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

At fiscal year-end, capital assets represented 28.27% 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, 2004, were \$1,382,452. 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, \$39,385, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$884,369 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	Governmental Activities 2004
<b><u>Revenues</u></b>	
Program revenues:	
Charges for services and sales	\$ 273,277
Operating grants and contributions	260,145
Capital grants and contributions	13,750
General revenues:	
Property taxes	1,937,554
Grants and entitlements	2,473,109
Investment earnings	16,672
Other	5,996
Total revenues	<u>4,980,503</u>

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>	
Program expenses:	
Instruction:	
Regular	\$ 1,835,769
Special	275,088
Vocational	97,590
Other	183,321
Support services:	
Pupil	134,401
Instructional staff	276,937
Board of education	20,607
Administration	658,277
Fiscal	178,282
Business	186
Operations and maintenance	414,757
Pupil transportation	254,674
Central	60,109
Operations of non-instructional services	4,382
Extracurricular activities	222,870
Food service operations	<u>185,867</u>
Total expenses	<u>4,803,117</u>
Change in net assets	177,386
Net assets at beginning of year	<u>2,128,820</u>
Net assets at end of year	<u><u>\$ 2,306,206</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$177,386. Total governmental expenses of \$4,803,117 were offset by program revenues of \$547,172 and general revenues of \$4,433,331. Program revenues supported 11.39% 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 88.56% of total governmental revenue.

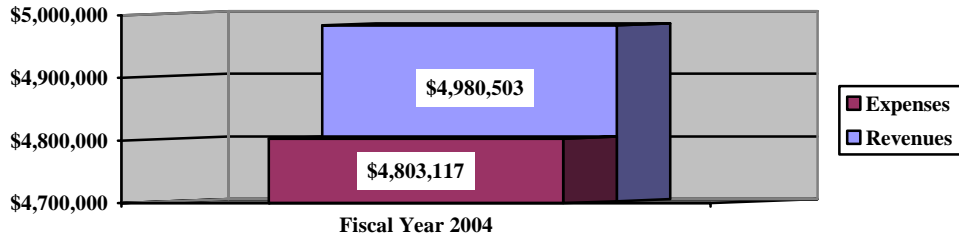
The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,391,768 or 49.80% of total governmental expenses for fiscal year 2004.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**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. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

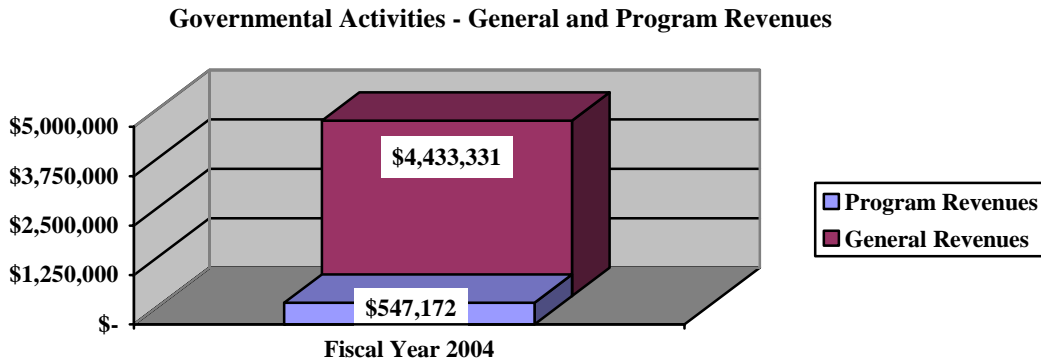
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
<b>Program expenses</b>		
Instruction:		
Regular	\$ 1,835,769	\$ 1,795,123
Special	275,088	225,485
Vocational	97,590	97,040
Other	183,321	183,321
Support services:		
Pupil	134,401	63,403
Instructional staff	276,937	234,742
Board of education	20,607	20,607
Administration	658,277	609,050
Fiscal	178,282	170,689
Business	186	186
Operations and maintenance	414,757	414,757
Pupil transportation	254,674	254,674
Central	60,109	40,670
Operations of non-instructional services	4,382	4,382
Extracurricular activities	222,870	159,087
Food service operations	185,867	(17,271)
<b>Total expenses</b>	<u>\$ 4,803,117</u>	<u>\$ 4,255,945</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 96.20% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.61%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$989,932, which is higher than last year's total of \$819,234. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	(Restated) Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 846,292	\$ 242,507	\$ 603,785	248.98 %
Other Governmental	<u>143,640</u>	<u>576,727</u>	<u>(433,087)</u>	(75.09) %
Total	<u>\$ 989,932</u>	<u>\$ 819,234</u>	<u>\$ 170,698</u>	20.84 %

**General Fund**

The District's general fund balance increased \$603,785 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$144,077. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,993,628	\$ 1,662,375	\$ 331,253	19.93 %
Tuition	9,622	21,683	(12,061)	(55.62) %
Earnings on investments	15,668	34,005	(18,337)	(53.92) %
Intergovernmental	2,473,109	2,357,536	115,573	4.90 %
Other revenues	8,322	11,525	(3,203)	(27.79) %
Total	<u>\$ 4,500,349</u>	<u>\$ 4,087,124</u>	<u>\$ 413,225</u>	10.11 %
<b><u>Expenditures</u></b>				
Instruction	\$ 2,333,029	\$ 2,362,017	\$ (28,988)	(1.23) %
Support services	1,844,574	1,933,858	(89,284)	(4.62) %
Non-instructional services	4,382	4,245	137	3.23 %
Extracurricular activities	163,665	174,411	(10,746)	(6.16) %
Facilities acquisition and construction	10,622	-	10,622	100.00 %
Total	<u>\$ 4,356,272</u>	<u>\$ 4,474,531</u>	<u>\$ (118,259)</u>	(2.64) %

The decrease in tuition revenue is due to the decrease in students through open enrollment. The decrease in earnings on investments can be contributed to reductions of interest rates by the Federal Reserve. The slight decreases which occurred in the instruction and support services expenditures are due to budget cuts by the District.

***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 year 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,213,881 and final budgeted revenues and other financing sources were \$4,908,108. Actual revenues and other financing sources for fiscal 2004 was \$4,908,108. This represents a \$694,227 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,343,189 were increased to \$4,430,161 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$4,403,673, which was \$26,488 less than the final budget appropriations.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2004, the District had \$1,382,452 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 year 2004 balances compared to 2003:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2004	(Restated) 2003
Land	\$ 48,875	\$ 48,875
Land improvements	43,633	46,037
Building and improvements	693,518	742,292
Furniture and equipment	322,057	363,290
Vehicles	274,369	246,434
Total	\$ 1,382,452	\$ 1,446,928

The overall decrease in capital assets of \$64,476 is due to depreciation expense of \$149,831 exceeding capital outlays of \$85,355 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2004, the District had no debt outstanding. The District's long term obligations are limited to \$220,471 in compensated absences payable. Of this total, \$51,524 is due within one year and \$168,947 is due within greater than one year.

At June 30, 2004, the District's overall legal debt margin was \$5,545,646, and an unvoted debt margin of \$61,618.

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



**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

**Current Financial Related Activities**

The Board's five-year projections indicated the school district would require additional operating money for FY 2005. With careful management, additional reductions in spending and the passage of a renewal levy, the district will not require additional operating money until 2007. With voter approval of a \$500,000 emergency levy on the May 2005 ballot, the district will have a strong financial outlook.

A finance committee was created and it is made up of several community members, board members, superintendent and the treasurer. The committee is reviewing and learning about spending decisions made by the school district in an effort to better understand the complexities of school funding and the fiscal position of Lucas Local Schools. The committee is also researching alternative funding for the school district.

The school district faces several challenges: the aging facilities, the future of state funding and declining enrollment. As a result of these challenges, all of the School District's financial abilities will be called upon to meet these challenges. It is imperative the School District's Board and management team continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's 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 Ms. Barb Donohue, Lucas Local School District, 84 Lucas North Road, Lucas, Ohio 44843-9532.

**BASIC  
FINANCIAL STATEMENTS**

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 1,296,638
Cash with fiscal agent. . . . .	81,034
Receivables:	
Taxes . . . . .	2,086,873
Accounts . . . . .	345
Intergovernmental . . . . .	15,239
Accrued interest . . . . .	8,038
Prepayments . . . . .	12,358
Materials and supplies inventory . . . . .	6,461
Capital assets:	
Land . . . . .	48,875
Depreciable capital assets, net . . . . .	1,333,577
Capital assets, net . . . . .	<u>1,382,452</u>
Total assets. . . . .	<u>4,889,438</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	9,905
Accrued wages and benefits . . . . .	296,491
Pension obligation payable. . . . .	130,394
Intergovernmental payable . . . . .	38,910
Deferred revenue . . . . .	1,818,543
Claims payable . . . . .	68,518
Long-term liabilities:	
Due within one year. . . . .	51,524
Due in more than one year . . . . .	<u>168,947</u>
Total liabilities . . . . .	<u>2,583,232</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,382,452
Restricted for:	
Capital projects . . . . .	6,958
Other purposes . . . . .	32,427
Unrestricted. . . . .	<u>884,369</u>
Total net assets . . . . .	<u>\$ 2,306,206</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 1,835,769	\$ 26,006	\$ 14,640	\$ -	\$ (1,795,123)
Special . . . . .	275,088	-	49,603	-	(225,485)
Vocational . . . . .	97,590	-	550	-	(97,040)
Other . . . . .	183,321	-	-	-	(183,321)
Support services:					
Pupil. . . . .	134,401	-	70,998	-	(63,403)
Instructional staff. . . . .	276,937	-	33,884	8,311	(234,742)
Board of education . . . . .	20,607	-	-	-	(20,607)
Administration. . . . .	658,277	40,915	8,312	-	(609,050)
Fiscal. . . . .	178,282	-	7,593	-	(170,689)
Business. . . . .	186	-	-	-	(186)
Operations and maintenance . . . . .	414,757	-	-	-	(414,757)
Pupil transportation. . . . .	254,674	-	-	-	(254,674)
Central . . . . .	60,109	-	14,000	5,439	(40,670)
Operation of					
non-instructional services. . . . .	4,382	-	-	-	(4,382)
Extracurricular activities. . . . .	222,870	63,783	-	-	(159,087)
Food service operations. . . . .	185,867	142,573	60,565	-	17,271
Total governmental activities . . . . .	<u>\$ 4,803,117</u>	<u>\$ 273,277</u>	<u>\$ 260,145</u>	<u>\$ 13,750</u>	<u>(4,255,945)</u>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	1,937,554
Grants and entitlements not restricted to specific programs. . . . .	2,473,109
Investment earnings . . . . .	16,672
Miscellaneous . . . . .	5,996
Total general revenues. . . . .	<u>4,433,331</u>
Change in net assets . . . . .	177,386
<b>Net assets at beginning of year. . . . .</b>	<u>2,128,820</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 2,306,206</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,060,983	\$ 146,860	\$ 1,207,843
Receivables:			
Taxes . . . . .	2,086,873	-	2,086,873
Accounts . . . . .	292	53	345
Intergovernmental . . . . .	6,777	8,462	15,239
Accrued interest . . . . .	8,038	-	8,038
Interfund receivable . . . . .	1,062	-	1,062
Prepayments . . . . .	12,232	126	12,358
Materials and supplies inventory . . . . .	-	6,461	6,461
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	26,086	-	26,086
Total assets . . . . .	<u>\$ 3,202,343</u>	<u>\$ 161,962</u>	<u>\$ 3,364,305</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 8,980	\$ 925	\$ 9,905
Accrued wages and benefits . . . . .	285,906	10,585	296,491
Compensated absences payable . . . . .	30,348	-	30,348
Pension obligation payable. . . . .	72,460	1,900	74,360
Intergovernmental payable. . . . .	37,298	1,612	38,910
Interfund payable. . . . .	-	1,062	1,062
Deferred revenue. . . . .	1,921,059	2,238	1,923,297
Total liabilities . . . . .	<u>2,356,051</u>	<u>18,322</u>	<u>2,374,373</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	39,597	3,510	43,107
Reserved for materials and supplies inventory. . . . .	-	6,461	6,461
Reserved for prepayments . . . . .	12,232	126	12,358
Reserved for property tax unavailable for appropriation . . . . .	158,590	-	158,590
Reserved for school bus purchase . . . . .	16,416	-	16,416
Reserved for capital acquisition . . . . .	9,670	-	9,670
Unreserved, undesignated, reported in:			
General fund . . . . .	609,787	-	609,787
Special revenue funds. . . . .	-	126,585	126,585
Capital projects funds. . . . .	-	6,958	6,958
Total fund balances . . . . .	<u>846,292</u>	<u>143,640</u>	<u>989,932</u>
Total liabilities and fund balances . . . . .	<u>\$ 3,202,343</u>	<u>\$ 161,962</u>	<u>\$ 3,364,305</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$ 989,932
<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.		1,382,452
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 102,516	
Intergovernmental revenue	<u>2,238</u>	
Total		104,754
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		75,225
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(190,123)	
Pension obligation payable	<u>(56,034)</u>	
Total		<u>(246,157)</u>
<b>Net assets of governmental activities</b>		<u>\$ 2,306,206</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 1,993,628	\$ -	\$ 1,993,628
Tuition. . . . .	9,622	4,723	14,345
Charges for services. . . . .	-	142,573	142,573
Earnings on investments. . . . .	15,668	633	16,301
Extracurricular. . . . .	1,938	92,233	94,171
Classroom materials and fees . . . . .	886	15,480	16,366
Other local revenues. . . . .	5,498	13,836	19,334
Other revenue. . . . .	-	797	797
Intergovernmental - State. . . . .	2,473,109	56,365	2,529,474
Intergovernmental - Federal . . . . .	-	236,477	236,477
Total revenues . . . . .	<u>4,500,349</u>	<u>563,117</u>	<u>5,063,466</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	1,822,867	62,307	1,885,174
Special. . . . .	232,725	42,573	275,298
Vocational. . . . .	94,116	1,216	95,332
Other. . . . .	183,321	-	183,321
Support services:			
Pupil. . . . .	63,296	70,901	134,197
Instructional staff . . . . .	250,502	44,416	294,918
Board of education . . . . .	19,529	-	19,529
Administration. . . . .	633,211	43,905	677,116
Fiscal . . . . .	170,142	6,762	176,904
Business . . . . .	186	-	186
Operations and maintenance. . . . .	391,693	-	391,693
Pupil transportation . . . . .	290,085	-	290,085
Central. . . . .	25,930	25,982	51,912
Other non-instructional services. . . . .	4,382	-	4,382
Extracurricular activities. . . . .	163,665	52,887	216,552
Facilities acquisition and construction . . . . .	10,622	-	10,622
Food service operations . . . . .	-	185,547	185,547
Total expenditures . . . . .	<u>4,356,272</u>	<u>536,496</u>	<u>4,892,768</u>
Excess of revenues over expenditures . . . . .	<u>144,077</u>	<u>26,621</u>	<u>170,698</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	460,383	675	461,058
Transfers (out). . . . .	(675)	(460,383)	(461,058)
Total other financing sources (uses) . . . . .	<u>459,708</u>	<u>(459,708)</u>	<u>-</u>
Net change in fund balances . . . . .	603,785	(433,087)	170,698
<b>Fund balances at beginning of year (restated) . . . . .</b>			
	<u>242,507</u>	<u>576,727</u>	<u>819,234</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 846,292</u>	<u>\$ 143,640</u>	<u>\$ 989,932</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND 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, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	170,698
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$149,831) exceeds capital outlays (\$85,355) in the current period.		(64,476)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(83,334)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		15,483
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		139,015
		139,015
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>177,386</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND 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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,531,453	\$ 1,783,408	\$ 1,890,949	\$ 107,541
Tuition . . . . .	8,263	9,622	9,622	-
Earnings on investments . . . . .	16,165	18,825	18,825	-
Extracurricular . . . . .	1,664	1,938	1,938	-
Classroom materials and fees . . . . .	570	664	664	-
Other local revenues . . . . .	3,930	4,576	4,576	-
Intergovernmental - State . . . . .	2,117,895	2,466,331	2,466,331	-
Total revenues . . . . .	<u>3,679,940</u>	<u>4,285,364</u>	<u>4,392,905</u>	<u>107,541</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,745,805	1,780,713	1,774,952	5,761
Special . . . . .	226,780	231,315	230,566	749
Vocational . . . . .	95,208	97,112	96,798	314
Other . . . . .	180,311	183,916	183,321	595
Support services:				
Pupil . . . . .	69,553	70,944	70,714	230
Instructional staff . . . . .	248,133	253,094	252,275	819
Board of education . . . . .	11,933	12,172	12,133	39
Administration . . . . .	621,198	633,619	631,568	2,051
Fiscal . . . . .	166,185	169,508	168,959	549
Business . . . . .	1,167	1,190	1,186	4
Operations and maintenance . . . . .	412,735	420,988	419,625	1,363
Pupil transportation . . . . .	289,523	295,312	294,356	956
Central . . . . .	23,807	24,283	24,204	79
Operation of non-instructional services . . . . .	5,251	5,356	5,345	11
Extracurricular activities . . . . .	171,844	175,280	174,713	567
Facilities acquisition and construction . . . . .	7,202	7,346	7,322	24
Total expenditures . . . . .	<u>4,276,635</u>	<u>4,362,148</u>	<u>4,348,037</u>	<u>14,111</u>
Excess of revenues over (under) expenditures . . . . .	(596,695)	(76,784)	44,868	121,652
<b>Other financing sources (uses):</b>				
Refund of prior year expenditures . . . . .	790	921	921	-
Transfers in . . . . .	526,964	614,607	507,066	(107,541)
Transfers (out) . . . . .	(58,413)	(59,708)	(47,358)	12,350
Advances in . . . . .	6,187	7,216	7,216	-
Advances (out) . . . . .	(8,141)	(8,305)	(8,278)	27
Total other financing sources (uses) . . . . .	<u>467,387</u>	<u>554,731</u>	<u>459,567</u>	<u>(95,164)</u>
Net change in fund balance . . . . .	(129,308)	477,947	504,435	26,488
<b>Fund balance at beginning</b>				
of year (restated) . . . . .	524,683	524,683	524,683	-
Prior year encumbrances appropriated . . . . .	14,293	14,293	14,293	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 409,668</u>	<u>\$ 1,016,923</u>	<u>\$ 1,043,411</u>	<u>\$ 26,488</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . . . .	\$ 62,709
Cash with fiscal agent . . . . .	<u>81,034</u>
 Total assets . . . . .	 <u>143,743</u>
 <b>Liabilities:</b>	
Claims payable . . . . .	<u>68,518</u>
 Total liabilities. . . . .	 <u>68,518</u>
 <b>Net assets:</b>	
Unrestricted. . . . .	<u>75,225</u>
 Total net assets. . . . .	 <u><u>\$ 75,225</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Sales/charges for services . . . . .	\$ 492,628
Other. . . . .	71
	492,699
Total operating revenues. . . . .	492,699
<b>Operating expenses:</b>	
Claims expense. . . . .	354,055
	354,055
Total operating expenses. . . . .	354,055
Operating income. . . . .	138,644
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	371
	139,015
Change in net assets . . . . .	139,015
<b>Net assets (deficit) at beginning of year (restated). . . . .</b>	<b>(63,790)</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 75,225</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services . . . . .	\$ 492,628
Cash received from other operations. . . . .	71
Cash payments for claims expenses . . . . .	(414,477)
Net cash provided by operating activities . . . . .	78,222
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	371
Net increase in cash and cash equivalents. . . . .	78,593
<b>Cash and cash equivalents at beginning of year (Restated) . .</b>	<b>65,150</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 143,743</b>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income. . . . .	\$ 138,644
Decrease in claims payable. . . . .	(60,422)
Net cash provided by operating activities . . . . .	<b>\$ 78,222</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 43,763	\$ 25,639
Total assets. . . . .	43,763	\$ 25,639
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 1,009
Due to students . . . . .	-	24,630
Total liabilities . . . . .	-	\$ 25,639
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	43,763	
Total net assets . . . . .	\$ 43,763	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 359
Gifts and contributions . . . . .	9,445
	9,804
Total additions. . . . .	9,804
<b>Deductions:</b>	
Scholarships awarded . . . . .	9,901
	(97)
Change in net assets . . . . .	(97)
<b>Net assets at beginning of year (Restated). . .</b>	<b>43,860</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 43,763</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The Lucas Local School District (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 ranks as the 586<sup>th</sup> largest by total enrollment among the 613 public and community school districts in the state. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's 4 instructional/support facilities staffed by 37 classified and 49 certificated full-time.

**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 activities and to its proprietary fund 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". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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 provide financial support to, the organization; or (4) 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 basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:



**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

*JOINTLY GOVERNED ORGANIZATIONS*

Heartland Council of Governments (the "COG")

The COG (the North Central Ohio Computer Cooperative) is a jointly governed organization among 24 school districts and 1 county educational service center. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

*PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

Metropolitan Education Council Purchasing Group

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program; custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

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

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.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose, and (d) for food service operation.

*PROPRIETARY FUND*

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:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

*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 of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. 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 and Measurement Focus**

*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 operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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.

Proprietary funds distinguish 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 is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. 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. Proprietary and fiduciary funds also use the accrual basis of accounting.

*Revenues - Exchange and Nonexchange 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.

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).

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency funds). The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District other than with fiscal agent is pooled in a central bank account. Monies for all funds, including proprietary funds, 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 Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements and certificates of deposit. Except for nonparticipating investment contracts and certificates of deposit, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The District has invested funds in STAR Ohio during fiscal year 2004. 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 share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$15,668, which includes \$5,675 assigned from other funds.

For presentation on the basic financial statements, 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 Treasurer's investment account at fiscal year-end is provided in Note 4.

**G. Inventory**

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

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 fund. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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. The District does not possess infrastructure.

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	15 - 40 years
Furniture and equipment	3 - 20 years
Vehicles	10 - 15 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability 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. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, 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 severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**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 internal service 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, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**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 inventory, prepayments, property tax revenue unavailable for appropriation, school bus purchase and capital acquisition. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**N. Net Assets**

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

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

**O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items 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.

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**P. Estimates**

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

**Q. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a school bus purchase reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

**R. 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 fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**S. 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 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

**Governmental Activities - Fund Reclassification and Restatement of Fund Balance** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications, prior period adjustment, and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 228,297	\$ 510,632	\$ 738,929
Fund reclassifications	1,220	66,095	67,315
Implementation of GASB Interpretation No. 6	12,990	-	12,990
Restated fund balance, July 1, 2003	<u>\$ 242,507</u>	<u>\$ 576,727</u>	<u>\$ 819,234</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 819,234
GASB 34 adjustments:	
Long-term (deferred) assets	188,088
Capital assets	1,446,928
Compensated absences	(195,421)
Pension obligation	(66,219)
Internal service fund	(63,790)
Governmental activities net assets, July 1, 2003	<u>\$ 2,128,820</u>

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

*Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - General Fund* - The general fund unencumbered fund balance at the beginning of the year has been restated from \$523,463 to \$524,683 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34 and a prior period adjustment to properly restate cash balances.

*Business-type Activities - Fund Reclassification* – Certain internal service funds have been reclassified as part of the general fund.

	<u>Internal Service</u>
Fund equity as previously reported	\$ (62,570)
Reclassification of fund	<u>(1,220)</u>
Restated net assets as of July 1, 2003	<u>\$ (63,790)</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title I	\$ 306
Reducing Class Size	2,998

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**LUCAS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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 or 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 2% 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

*Cash on hand:* At fiscal year-end, the District had \$70 in undeposited cash on hand which is included on the balance sheet and statement of net assets of the District as part of "Equity in Pooled Cash and Cash Equivalents".

*Cash with fiscal agent:* The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made of numerous participants. The amount held by the fiscal agent at June 30, 2004 was \$81,034.

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

*Deposits:* At fiscal year-end, the carrying amount of the District's deposits was \$724,252 and the bank balance was \$696,500. The entire bank balance was covered by federal deposit insurance.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category <u>3</u>	Reported <u>Amount</u>	Fair <u>Value</u>
Repurchase agreement	\$ 49,848	\$ 49,848	\$ 49,848
Total	<u>\$ 49,848</u>		
Investment in STAR Ohio		<u>591,870</u>	<u>591,870</u>
Total investments		<u>\$ 641,718</u>	<u>\$ 641,718</u>

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,447,074	\$ -
Investments of the cash management pool:		
Repurchase agreements	(49,848)	49,848
Investments in STAR Ohio	(591,870)	591,870
Cash with fiscal agent	(81,034)	-
Cash on hand	(70)	-
GASB Statement No. 3	\$ 724,252	\$ 641,718

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 1,062

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:		
General Fund		\$ 675
Transfers to General fund from:		
Nonmajor Governmental Funds		460,383
Total transfers		\$ 461,058

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The District received authority to transfer the remaining funds from its retired debt service nonmajor governmental fund to the general fund based on such outstanding debt retired during fiscal year 2003.

**LUCAS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

Interfund transfers between governmental funds are eliminated for reporting in 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.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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.

The District receives property taxes from Richland 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date 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, 2004 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 deferred revenue.

The amount available as an advance at June 30, 2004 was \$158,590 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$63,303 in the general fund.



**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 46,633,160	76.36	\$ 47,613,470	77.27
Public utility personal	12,491,590	20.45	12,799,110	20.77
Tangible personal property	<u>1,948,890</u>	<u>3.19</u>	<u>1,205,710</u>	<u>1.96</u>
Total	<u>\$ 61,073,640</u>	<u>100.00</u>	<u>\$ 61,618,290</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 42.60		\$ 42.60	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 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:**

Property taxes	\$ 2,086,873
Accounts	345
Intergovernmental	15,239
Accrued interest	<u>8,038</u>
Total	<u>\$ 2,110,495</u>

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

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to the implementation of GASB Statement No. 34 which included the reclassification of proprietary funds and errors and omissions in prior years.

	<u>Balance</u> <u>June 30, 2003</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2003</u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ 48,875	\$ -	\$ 48,875
Total capital assets, not being depreciated	<u>48,875</u>	<u>-</u>	<u>48,875</u>
Capital assets, being depreciated:			
Land improvements	28,168	75,602	103,770
Buildings and improvements	3,121,886	(176,912)	2,944,974
Furniture and equipment	817,749	225,311	1,043,060
Vehicles	690,968	-	690,968
Total capital assets, being depreciated	<u>4,658,771</u>	<u>124,001</u>	<u>4,782,772</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(3,384,719)</u>	<u>(3,384,719)</u>
Governmental activities capital assets, net	<u>\$ 4,707,646</u>	<u>\$ (3,260,718)</u>	<u>\$ 1,446,928</u>

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 48,875	\$ -	\$ -	\$ 48,875
Total capital assets, not being depreciated	<u>48,875</u>	<u>-</u>	<u>-</u>	<u>48,875</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	103,770	-	-	103,770
Buildings and improvements	2,944,974	-	-	2,944,974
Furniture and equipment	1,043,060	23,355	-	1,066,415
Vehicles	<u>690,968</u>	<u>62,000</u>	<u>(30,817)</u>	<u>722,151</u>
Total capital assets, being depreciated	<u>4,782,772</u>	<u>85,355</u>	<u>(30,817)</u>	<u>4,837,310</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(57,733)	(2,404)	-	(60,137)
Buildings and improvements	(2,202,682)	(48,774)	-	(2,251,456)
Furniture and equipment	(679,770)	(64,588)	-	(744,358)
Vehicles	<u>(444,534)</u>	<u>(34,065)</u>	<u>30,817</u>	<u>(447,782)</u>
Total accumulated depreciation	<u>(3,384,719)</u>	<u>(149,831)</u>	<u>30,817</u>	<u>(3,503,733)</u>
Governmental activities capital assets, net	<u>\$ 1,446,928</u>	<u>\$ (64,476)</u>	<u>\$ -</u>	<u>\$ 1,382,452</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 41,691
Special	3,648
Vocational	6,288

Support Services:

Pupil	1,166
Instructional staff	13,358
Board of Education	1,078
Administration	6,863
Fiscal	2,119
Operations and maintenance	17,415
Pupil transportation	35,323
Central	8,836
Extracurricular activities	7,233
Food service operations	<u>4,813</u>
Total depreciation expense	<u>\$ 149,831</u>

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$27,430 from \$162,445 to \$189,875 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of \$59,540 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$32,110 from \$221,985 to \$189,875. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2004</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 189,875	\$ 61,269	\$ (30,673)	\$ 220,471	\$ 51,524
Total long-term obligations, governmental activities	<u>\$ 189,875</u>	<u>\$ 61,269</u>	<u>\$ (30,673)</u>	<u>\$ 220,471</u>	<u>\$ 51,524</u>

**B. 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 effects of these debt limitations at June 30, 2004 are a voted debt margin of \$5,545,646 and an unvoted debt margin of \$61,618.

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 5 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 15 to 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited. The only exception is the Superintendent who can carry over up to 10 days at the end of his contract, and the Treasurer who can carry over up to 5 days at the end of her contract. Teachers do not earn vacation time.

Administrators, teachers, and classified employees earn sick leave at a rate of 1 and 1/4 days per month. Sick leave may be accumulated up to 220 days. Upon retirement, payment is made to employees with 10 or more years of service at the District for 25% of the total sick leave accumulation with a maximum of 40 days payment.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - COMPENSATED ABSENCES - (Continued)**

During fiscal year 1999, the District adopted a one-time exit bonus for all part-time employees with a minimum of 10 consecutive years of experience with the District. Part-time employees who elect this exit bonus must retire with the State Teachers Retirement System of Ohio (STRS) or School Employees Retirement System of Ohio (SERS). This exit bonus applies only to part-time employees who have not previously retired from STRS or SERS. Upon retirement, the exit bonus will be calculated on a formula of 25% of the first 120 days of accrued sick leave. The exit bonus is calculated using the scheduled daily rate of pay at the time of retirement. For those part-time who have accrued sick leave beyond 120 days, the following additional formula will apply:

<u>Accumulated sick leave</u>	<u>Exit bonus shall be increased by:</u>	<u>Total exit bonus days</u>
130 - 139 days	1 additional day	31
140 - 149 days	2 additional days	32
150 - 150 days	3 additional days	33
160 - 169 days	4 additional days	34
170 - 179 days	5 additional days	35
180 - 189 days	6 additional days	36
190 - 199 days	7 additional days	37
200 - 209 days	8 additional days	38
210 - 219 days	9 additional days	39
> = 220 days	10 additional days	40

The maximum exit bonus days that any employee can earn is forty.

**NOTE 11 - RISK MANAGEMENT**

**A. Property, Fleet, and Liability Insurance**

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 2004, the District retained property insurance coverage in the blanket amount of \$14,340,375 with 90% coinsurance, replacement cost endorsement and a \$1,000 deductible. The District also has inland marine floaters in the amount of \$500,000 with a \$250 deductible for coverage of audio visual equipment, two-way radios, tractors, musical instruments and uniforms.

Vehicles are covered by a policy through KMU-Utica Insurance Company, which provides for a \$250 deductible for comprehensive and a \$500 deductible for collision. Vehicle liability has a \$2,000,000 combined single limit of liability.

KMU-Utica Insurance Companies also provide general liability coverage with a \$1,000,000 single occurrence limit and an aggregate of \$5,000,000 with no deductible.

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

**LUCAS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Employee Dishonesty Bonds**

The District carries employee dishonesty bonds for the Treasurer, Superintendent, and Board President in the amount of \$20,000. Also, an employee blanket dishonesty bond in the amount of \$100,000 is provided to cover all other employees of the District.

**C. Workers' Compensation Plan**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The Plan's business and affairs are conducted by a three-member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's 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 Plan. Each 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

**D. Employee Group Life, Medical, Dental, and Vision Insurance**

Medical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$68,518 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 128,940	\$ 354,055	\$ (414,477)	\$ 68,518
2003	117,965	376,214	(365,239)	128,940

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$120,130, \$114,514, and \$102,599, respectively; 51.38% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$58,404, represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$294,834, \$278,044, and \$261,927, respectively; 81.38% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$54,892 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$6,909 made by the District and \$9,975 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$21,060 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$65,079 during the 2004 fiscal year.

**NOTE 14 - 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) 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).

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 14 - 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:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 504,435
Net adjustment for revenue accruals	107,444
Net adjustment for expenditure accruals	(51,893)
Net adjustment for other sources/uses	141
Adjustment for encumbrances	<u>43,658</u>
GAAP basis	<u>\$ 603,785</u>

**NOTE 15 - CONTINGENCIES**

**A. 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 are 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.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - 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, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (79,620)	\$ -
Current year set-aside requirement	82,974	82,974
Qualifying disbursements	<u>(61,746)</u>	<u>(73,304)</u>
 Total	 <u>\$ (58,392)</u>	 <u>\$ 9,670</u>
 Cash balance carried forward to FY 2005	 <u>\$ (58,392)</u>	 <u>\$ 9,670</u>

During fiscal year 2004, the District had qualifying disbursements for the instructional materials reserve that reduced the set-aside amount below zero. The instructional materials amount may be used to reduce the set-aside requirement of future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases and capital acquisition.

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for bus purchase	\$ 16,416
Amounts restricted for capital acquisition	<u>9,670</u>
 Total restricted assets	 <u>\$ 26,086</u>

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Education  
Lucas Local School District  
84 Lucas North Road  
Lucas, Ohio 44843

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated March 8, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to the reclassification of proprietary fund capital assets and errors and omissions as described in Note 8A. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we reported to management of the District, in a separate letter dated March 8, 2005.

Board of Education  
Lucas Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. However, we noted a matter that we have reported to management of the District in a separate letter dated March 8, 2005.

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



Trimble, Julian & Grube, Inc.  
March 8, 2005

**LUCAS LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003- LLSD-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	Yes	N/A
2003- LLSD-002	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	Yes	N/A
2003- LLSD-003	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	Yes	N/A



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**LUCAS LOCAL SCHOOL DISTRICT**

**RICHLAND 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  
MAY 5, 2005**