

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005***

BARB DONOHUE, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Lucas Local School District
P.O. Box 307 84
Lucas North Road
Lucas, Ohio 44843

We have reviewed the *Independent Auditor's Report* of the Lucas Local School District, Richland County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 to June 30, 2005. 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.

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BETTY MONTGOMERY
Auditor of State

March 22, 2006

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

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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, 2005, 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, 2005, 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) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

Independent Auditor's Report
Lucas Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2006, on our consideration of the District's internal control over financial reporting and on 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.

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 26, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$118,267 which represents a 5.13% increase from 2004.
- General revenues accounted for \$4,444,142 in revenue or 87.97% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$607,996 or 12.03% of total revenues of \$5,052,138.
- The District had \$4,933,871 in expenses related to governmental activities; \$607,996 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 \$4,444,142 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$4,472,327 in revenues and \$4,457,361 in expenditures. During fiscal year 2005, the general fund's fund balance increased \$14,966 from \$794,876 to \$809,842.

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, 2005
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 2005?" 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, 2005
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 25-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 3,471,667	\$ 3,506,986
Capital assets, net	<u>1,529,175</u>	<u>1,382,452</u>
Total assets	<u>5,000,842</u>	<u>4,889,438</u>
<u>Liabilities</u>		
Current liabilities	2,376,981	2,362,761
Long-term liabilities	<u>199,388</u>	<u>220,471</u>
Total liabilities	<u>2,576,369</u>	<u>2,583,232</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,529,175	1,382,452
Restricted	79,867	39,385
Unrestricted	<u>815,431</u>	<u>884,369</u>
Total net assets	<u>\$ 2,424,473</u>	<u>\$ 2,306,206</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$2,424,473. Of this total, \$815,431 is unrestricted in use.

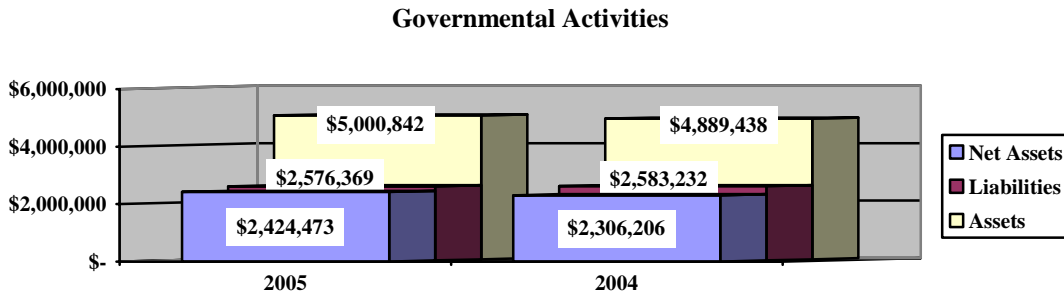
**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

At fiscal year-end, capital assets represented 30.58% 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, 2005, were \$1,529,175. 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, \$79,867, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$815,431 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's net assets for 2005 and 2004:



The table below shows the change in net assets for fiscal year 2005 and 2004.

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 266,855	\$ 273,277
Operating grants and contributions	341,141	260,145
Capital grants and contributions	-	13,750
General revenues:		
Property taxes	1,879,785	1,937,554
Grants and entitlements	2,507,656	2,473,109
Investment earnings	36,335	16,672
Other	<u>20,366</u>	<u>5,996</u>
Total revenues	<u>5,052,138</u>	<u>4,980,503</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 1,858,948	\$ 1,835,769
Special	335,495	275,088
Vocational	103,189	97,590
Other	250,956	183,321
Support services:		
Pupil	140,481	134,401
Instructional staff	240,334	276,937
Board of education	21,810	20,607
Administration	659,503	658,277
Fiscal	171,263	178,282
Business	1,101	186
Operations and maintenance	417,851	414,757
Pupil transportation	313,284	254,674
Central	52,839	60,109
Operations of non-instructional services	3,288	4,382
Extracurricular activities	176,675	222,870
Food service operations	<u>186,854</u>	<u>185,867</u>
Total expenses	<u>4,933,871</u>	<u>4,803,117</u>
Change in net assets	118,267	177,386
Net assets at beginning of year	<u>2,306,206</u>	<u>2,128,820</u>
Net assets at end of year	<u><u>\$ 2,424,473</u></u>	<u><u>\$ 2,306,206</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$118,267. Total governmental expenses of \$4,933,871 were offset by program revenues of \$607,996 and general revenues of \$4,444,142. Program revenues supported 12.32% of the total governmental expenses.

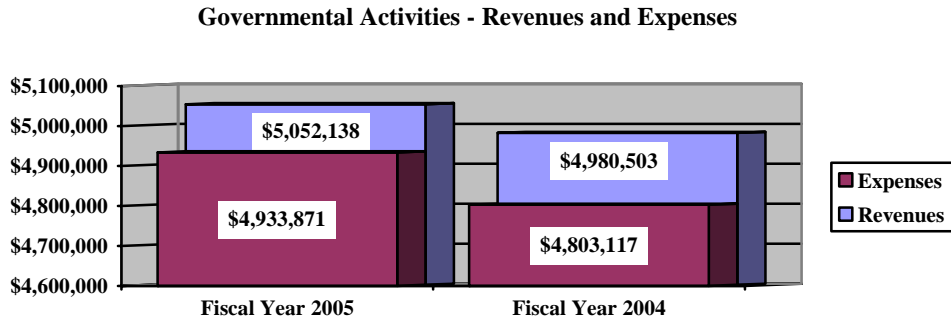
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.84% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,548,588 or 51.65% of total governmental expenses for fiscal year 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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.

Governmental Activities

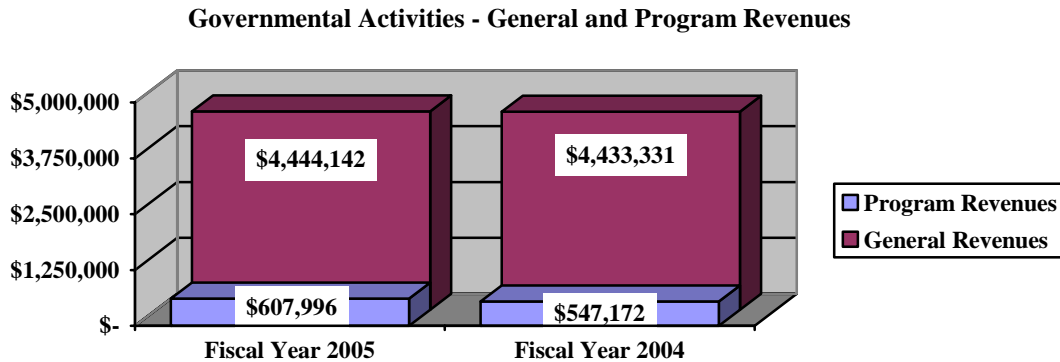
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 1,858,948	\$ 1,755,531	\$ 1,835,769	\$ 1,795,123
Special	335,495	248,624	275,088	225,485
Vocational	103,189	102,870	97,590	97,040
Other	250,956	250,956	183,321	183,321
Support services:				
Pupil	140,481	65,681	134,401	63,403
Instructional staff	240,334	208,438	276,937	234,742
Board of education	21,810	21,810	20,607	20,607
Administration	659,503	658,313	658,277	609,050
Fiscal	171,263	170,831	178,282	170,689
Business	1,101	1,101	186	186
Operations and maintenance	417,851	417,851	414,757	414,757
Pupil transportation	313,284	313,284	254,674	254,674
Central	52,839	38,407	60,109	40,670
Operations of non-instructional services	3,288	3,288	4,382	4,382
Extracurricular activities	176,675	83,499	222,870	159,087
Food service operations	186,854	(14,609)	185,867	(17,271)
Total expenses	<u>\$ 4,933,871</u>	<u>\$ 4,325,875</u>	<u>\$ 4,803,117</u>	<u>\$ 4,255,945</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 92.52% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.68%. 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, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$994,601, which is higher than last year's total of \$933,898. The June 30, 2004 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, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase	Percentage Change
General	\$ 809,842	\$ 794,876	\$ 14,966	1.88 %
Other Governmental	<u>184,759</u>	<u>139,022</u>	<u>45,737</u>	32.90 %
Total	<u>\$ 994,601</u>	<u>\$ 933,898</u>	<u>\$ 60,703</u>	6.50 %

General Fund

The District's general fund balance increased \$14,966 (after a restatement to the June 30, 2004, 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 slightly decreasing revenues and slightly increased expenditures. Revenues still exceed expenditures for fiscal year 2005 by \$14,966. 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, 2005
UNAUDITED

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,899,479	\$ 1,993,628	\$ (94,149)	(4.72) %
Tuition	15,100	9,622	5,478	56.93 %
Earnings on investments	34,203	15,668	18,535	118.30 %
Intergovernmental	2,507,655	2,473,109	34,546	1.40 %
Other revenues	<u>15,890</u>	<u>8,322</u>	<u>7,568</u>	90.94 %
Total	<u>\$ 4,472,327</u>	<u>\$ 4,500,349</u>	<u>\$ (28,022)</u>	(0.62) %
<u>Expenditures</u>				
Instruction	\$ 2,303,024	\$ 2,333,823	\$ (30,799)	(1.32) %
Support services	1,745,540	1,894,572	(149,032)	(7.87) %
Non-instructional services	3,288	4,382	(1,094)	(24.97) %
Extracurricular activities	116,113	164,289	(48,176)	(29.32) %
Facilities acquisition and construction	<u>289,396</u>	<u>10,622</u>	<u>278,774</u>	26.25 %
Total	<u>\$ 4,457,361</u>	<u>\$ 4,407,688</u>	<u>\$ 49,673</u>	1.13 %

The increase in tuition revenue is due to the increase in students through open enrollment. The increase in earnings on investments can be contributed to increased 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. The increase in facilities acquisition and construction is due to the acquisition of land.

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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,492,721 and final budgeted revenues and other financing sources were \$4,536,799. Actual revenues and other financing sources for fiscal 2005 was \$4,535,543. This represents a \$42,822 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,725,717 were decreased to \$4,724,161 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$4,549,067, which was \$175,094 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, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$1,529,175 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 328,875	\$ 48,875
Land improvements	41,229	43,633
Building and improvements	644,309	693,518
Furniture and equipment	283,758	322,057
Vehicles	231,004	274,369
Total	\$ 1,529,175	\$ 1,382,452

The overall increase in capital assets of \$146,723 is due to capital outlays of \$305,752 exceeding depreciation expense of \$159,029 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had no debt outstanding. The District's long term obligations are limited to \$199,388 in compensated absences payable. Of this total, \$31,698 is due within one year and \$167,690 is due within greater than one year.

See Note 8 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, 2005
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 in fiscal 2004, the district will not require additional operating money until 2009. In addition the District employees took a wage freeze for the fiscal 2006 school year.

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, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,320,844
Cash with fiscal agent.	49,010
Receivables:	
Taxes	2,061,883
Accounts	633
Intergovernmental	17,261
Accrued interest	1,002
Prepayments	15,299
Materials and supplies inventory	5,735
Capital assets:	
Land	328,875
Depreciable capital assets, net	1,200,300
Capital assets, net	<u>1,529,175</u>
Total assets.	<u>5,000,842</u>
Liabilities:	
Accounts payable.	24,832
Accrued wages and benefits	305,483
Pension obligation payable.	128,804
Intergovernmental payable	35,302
Deferred revenue	1,847,483
Claims payable	35,077
Long-term liabilities:	
Due within one year.	31,698
Due in more than one year	<u>167,690</u>
Total liabilities	<u>2,576,369</u>
Net Assets:	
Invested in capital assets	1,529,175
Restricted for:	
Capital projects	8,804
Locally funded programs	1,996
State funded programs	13,947
Federally funded programs	6,502
Student activities	29,314
Other purposes	19,304
Unrestricted.	<u>815,431</u>
Total net assets	<u>\$ 2,424,473</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, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,858,948	\$ 34,515	\$ 68,902	\$ (1,755,531)
Special	335,495	-	86,871	(248,624)
Vocational	103,189	-	319	(102,870)
Other	250,956	-	-	(250,956)
Support services:				
Pupil	140,481	-	74,800	(65,681)
Instructional staff	240,334	-	31,896	(208,438)
Board of education	21,810	-	-	(21,810)
Administration	659,503	-	1,190	(658,313)
Fiscal	171,263	-	432	(170,831)
Business	1,101	-	-	(1,101)
Operations and maintenance	417,851	-	-	(417,851)
Pupil transportation	313,284	-	-	(313,284)
Central	52,839	-	14,432	(38,407)
Operation of				
non-instructional services	3,288	-	-	(3,288)
Extracurricular activities	176,675	93,176	-	(83,499)
Food service operations	186,854	139,164	62,299	14,609
Total governmental activities	\$ 4,933,871	\$ 266,855	\$ 341,141	(4,325,875)

General Revenues:

Property taxes levied for:	
General purposes	1,879,785
Grants and entitlements not restricted to specific programs	2,507,656
Investment earnings	36,335
Miscellaneous	20,366
Total general revenues	4,444,142
Change in net assets	118,267
Net assets at beginning of year	2,306,206
Net assets at end of year	\$ 2,424,473

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,109,421	\$ 195,007	\$ 1,304,428
Receivables:			
Taxes	2,061,883	-	2,061,883
Accounts	-	633	633
Intergovernmental	9,240	8,021	17,261
Accrued interest	1,002	-	1,002
Prepayments	15,299	-	15,299
Materials and supplies inventory	-	5,735	5,735
Restricted assets:			
Equity in pooled cash and cash equivalents	16,416	-	16,416
Total assets	<u>\$ 3,213,261</u>	<u>\$ 209,396</u>	<u>\$ 3,422,657</u>
Liabilities:			
Accounts payable	\$ 15,227	\$ 9,605	\$ 24,832
Accrued wages and benefits	300,563	4,920	305,483
Compensated absences payable	-	3,330	3,330
Pension obligation payable	123,406	5,398	128,804
Intergovernmental payable	33,918	1,384	35,302
Deferred revenue	1,930,305	-	1,930,305
Total liabilities	<u>2,403,419</u>	<u>24,637</u>	<u>2,428,056</u>
Fund Balances:			
Reserved for encumbrances	34,864	4,522	39,386
Reserved for materials and supplies inventory	-	5,735	5,735
Reserved for prepayments	15,299	-	15,299
Reserved for property tax unavailable for appropriation	115,517	-	115,517
Reserved for school bus purchase	16,416	-	16,416
Unreserved, undesignated, reported in:			
General fund	627,746	-	627,746
Special revenue funds	-	165,698	165,698
Capital projects funds	-	8,804	8,804
Total fund balances	<u>809,842</u>	<u>184,759</u>	<u>994,601</u>
Total liabilities and fund balances	<u>\$ 3,213,261</u>	<u>\$ 209,396</u>	<u>\$ 3,422,657</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, 2005

Total governmental fund balances	\$ 994,601
<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.	1,529,175
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. Taxes	82,822
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.	13,933
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(196,058)</u>
Net assets of governmental activities	<u><u>\$ 2,424,473</u></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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 1,899,479	\$ -	\$ 1,899,479
Tuition.	15,100	-	15,100
Charges for services.	-	139,164	139,164
Earnings on investments.	34,203	1,085	35,288
Extracurricular.	793	93,176	93,969
Classroom materials and fees	8,584	10,038	18,622
Other local revenues.	6,513	13,853	20,366
Intergovernmental - intermediate.	-	6,984	6,984
Intergovernmental - state.	2,507,655	47,375	2,555,030
Intergovernmental - federal	-	289,021	289,021
Total revenues	<u>4,472,327</u>	<u>600,696</u>	<u>5,073,023</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,717,968	68,629	1,786,597
Special.	234,921	87,739	322,660
Vocational.	99,179	324	99,503
Other.	250,956	-	250,956
Support services:			
Pupil.	64,497	74,800	139,297
Instructional staff	205,210	35,401	240,611
Board of education	20,734	-	20,734
Administration.	592,781	33,271	626,052
Fiscal	166,216	-	166,216
Business	1,101	-	1,101
Operations and maintenance.	392,473	-	392,473
Pupil transportation	268,911	-	268,911
Central.	33,617	11,733	45,350
Other non-instructional services.	3,288	-	3,288
Extracurricular activities.	116,113	54,419	170,532
Facilities acquisition and construction	289,396	-	289,396
Food service operations	-	188,643	188,643
Total expenditures	<u>4,457,361</u>	<u>554,959</u>	<u>5,012,320</u>
Net change in fund balances	14,966	45,737	60,703
Fund balances			
at beginning of year (restated).	794,876	139,022	933,898
Fund balances at end of year.	<u>\$ 809,842</u>	<u>\$ 184,759</u>	<u>\$ 994,601</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, 2005

Net change in fund balances - total governmental funds \$ 60,703

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

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

Capital asset additions	\$	305,752	
Current year depreciation		(159,029)	
Total			146,723

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

Taxes		(19,694)	
Intergovernmental		(2,238)	
Total			(21,932)

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

(5,935)

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.

(61,292)

Change in net assets of governmental activities	\$		118,267

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,920,225	\$ 1,939,972	\$ 1,939,972	\$ -
Tuition	14,946	15,100	15,100	-
Earnings on investments	34,695	35,052	35,052	-
Extracurricular	3,668	1,876	793	(1,083)
Classroom materials and fees	8,716	8,806	8,806	-
Other local revenues	1,804	1,529	1,356	(173)
Intergovernmental - state	2,479,692	2,505,192	2,505,192	-
Total revenues	<u>4,463,746</u>	<u>4,507,527</u>	<u>4,506,271</u>	<u>(1,256)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,797,097	1,795,541	1,728,999	66,542
Special	280,338	280,338	269,947	10,391
Vocational	105,733	105,733	101,814	3,919
Other	260,616	260,616	250,956	9,660
Support services:				
Pupil	70,660	70,660	68,041	2,619
Instructional staff	222,422	222,422	214,178	8,244
Board of education	25,963	25,963	25,001	962
Administration	618,303	618,303	595,385	22,918
Fiscal	176,474	176,474	169,933	6,541
Business	105	105	101	4
Operations and maintenance	410,073	410,073	394,873	15,200
Pupil transportation	273,100	273,100	262,977	10,123
Central	35,772	35,772	34,446	1,326
Operation of non-instructional services	3,415	3,415	3,288	127
Extracurricular activities	114,023	114,023	109,797	4,226
Facilities acquisition and construction	303,962	303,962	292,696	11,266
Total expenditures	<u>4,698,056</u>	<u>4,696,500</u>	<u>4,522,432</u>	<u>174,068</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(234,310)</u>	<u>(188,973)</u>	<u>(16,161)</u>	<u>172,812</u>
Other financing sources (uses):				
Sale of assets	1,980	2,000	2,000	-
Transfers (out)	(3,635)	(3,635)	(3,500)	135
Advances in	23,870	24,115	24,197	82
Advances (out)	(24,026)	(24,026)	(23,135)	891
Reduction of prior year expenditure	3,125	3,157	3,075	(82)
Total other financing sources (uses)	<u>1,314</u>	<u>1,611</u>	<u>2,637</u>	<u>1,026</u>
Net change in fund balance	(232,996)	(187,362)	(13,524)	173,838
Fund balance at beginning of year	1,043,411	1,043,411	1,043,411	-
Prior year encumbrances appropriated	43,658	43,658	43,658	-
Fund balance at end of year	<u>\$ 854,073</u>	<u>\$ 899,707</u>	<u>\$ 1,073,545</u>	<u>\$ 173,838</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Cash with fiscal agent	\$ 49,010
Total assets	<u>49,010</u>
 Liabilities:	
Claims payable	<u>35,077</u>
Total liabilities.	<u>35,077</u>
 Net assets:	
Unrestricted.	<u>13,933</u>
Total net assets.	<u><u>\$ 13,933</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, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 307,055
Total operating revenues.	<u>307,055</u>
Operating expenses:	
Purchased services	23,273
Claims expense.	<u>346,121</u>
Total operating expenses.	<u>369,394</u>
Operating loss.	<u>(62,339)</u>
Nonoperating revenues:	
Interest revenue	<u>1,047</u>
Change in net assets	(61,292)
Net assets at beginning of year	<u>75,225</u>
Net assets at end of year	<u><u>\$ 13,933</u></u>

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, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 307,055
Cash payments for purchased services	(23,273)
Cash payments for claims expenses	(379,562)
	(95,780)
Net cash used in operating activities	(95,780)
Cash flows from investing activities:	
Interest received	1,047
	(94,733)
Net decrease in cash and cash equivalents	(94,733)
Cash and cash equivalents at beginning of year . . .	143,743
Cash and cash equivalents at end of year.	\$ 49,010
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (62,339)
(Decrease) in claims payable.	(33,441)
	(95,780)
Net cash used in operating activities	\$ (95,780)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 47,622	\$ 30,459
Total assets.	47,622	\$ 30,459
Liabilities:		
Accounts payable.	-	\$ 88
Intergovernmental payable	-	177
Due to students	-	30,194
Total liabilities	-	\$ 30,459
Net Assets:		
Held in trust for scholarships	47,622	
Total net assets	\$ 47,622	

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, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 409
Gifts and contributions.	5,450
	5,859
Total additions.	5,859
Deductions:	
Scholarships awarded	2,000
	3,859
Change in net assets	3,859
Net assets at beginning of year	43,763
Net assets at end of year	\$ 47,622

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, 2005**

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 585th largest by total enrollment among the 614 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 35 classified and 45 certificated full-time employees.

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 organizations 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 these 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, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the "COG")

The COG 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.

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.

Ohio Mid-Eastern Regional Education Services Agency

Through May 31, 2005, the District was a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. Effective June 1, 2005, the District maintained a self-insurance program administered by American Benefits Management (a third-party administrator).

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose, and (c) 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:

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 5).

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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 2005 is as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.
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 2005.
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, 2005, 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 re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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, 2005.

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 2005 amounted to \$34,203, which includes \$6,983 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 District'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 capital 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
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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. There were no interfund receivables/payables at June 30, 2005.

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, 2005, 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, 2005, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 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, and school bus purchase. 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; consist of capital assets, net of accumulated depreciation. 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
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15.

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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 846,292	\$ 143,640	\$ 989,932
GASB Technical Bulletin No. 2004-2	(51,416)	(4,618)	(56,034)
Restated Fund Balance, June 30, 2004	\$ 794,876	\$ 139,022	\$ 933,898

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Post Secondary Vocational Education	\$ 5
Title I	912

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 result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash with Fiscal Agent

The District was self-insured through a fiscal agent through May 31, 2005. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The net amount held by the fiscal agent at June 30, 2005, was \$49,010. On June 1, 2005, the District changed third-party administrators that enabled the District's funds to be held with the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,294,229. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,120,433 of the District's bank balance of \$1,320,433 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		6 months or less
STAR Ohio	<u>\$ 104,696</u>	<u>\$ 104,696</u>

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 104,696</u>	<u>\$ 100.00</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,294,229
Investments	104,696
Cash with fiscal agent	<u>49,010</u>
Total	<u>\$ 1,447,935</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,369,854
Private-purpose trust funds	47,622
Agency funds	<u>30,459</u>
Total	<u>\$ 1,447,935</u>

NOTE 5 - 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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 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, 2005 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2005 was \$115,517 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$158,590 in the general fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 47,613,470	77.27	\$ 48,579,820	77.44
Public utility personal	12,799,110	20.77	13,256,520	21.13
Tangible personal property	<u>1,205,710</u>	<u>1.96</u>	<u>898,870</u>	<u>1.43</u>
Total	<u>\$ 61,618,290</u>	<u>100.00</u>	<u>\$ 62,735,210</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 42.60		\$ 41.50	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 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 items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 2,061,883
Accounts	633
Intergovernmental	17,261
Accrued interest	<u>1,002</u>
Total	<u>\$ 2,080,779</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
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 48,875	\$ 280,000	\$ -	\$ 328,875
Total capital assets, not being depreciated	<u>48,875</u>	<u>280,000</u>	<u>-</u>	<u>328,875</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	1,066,415	25,752	-	1,092,167
Vehicles	722,151	-	(78,922)	643,229
Total capital assets, being depreciated	<u>4,837,310</u>	<u>25,752</u>	<u>(78,922)</u>	<u>4,784,140</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(60,137)	(2,404)	-	(62,541)
Buildings and improvements	(2,251,456)	(49,209)	-	(2,300,665)
Furniture and equipment	(744,358)	(64,051)	-	(808,409)
Vehicles	(447,782)	(43,365)	78,922	(412,225)
Total accumulated depreciation	<u>(3,503,733)</u>	<u>(159,029)</u>	<u>78,922</u>	<u>(3,583,840)</u>
Governmental activities capital assets, net	<u>\$ 1,382,452</u>	<u>\$ 146,723</u>	<u>\$ -</u>	<u>\$ 1,529,175</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 40,363
Special	3,644
Vocational	6,469
<u>Support Services:</u>	
Pupil	1,165
Instructional staff	16,534
Board of Education	1,076
Administration	6,982
Fiscal	4,102
Operations and maintenance	13,258
Pupil transportation	44,467
Central	9,221
Extracurricular activities	6,938
Food service operations	<u>4,810</u>
Total depreciation expense	<u>\$ 159,029</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2005</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 220,471	\$ 63,700	\$ (84,783)	\$ 199,388	\$ 31,698
Total long-term obligations, governmental activities	<u>\$ 220,471</u>	<u>\$ 63,700</u>	<u>\$ (84,783)</u>	<u>\$ 199,388</u>	<u>\$ 31,698</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, 2005 are a voted debt margin of \$5,646,169 and an unvoted debt margin of \$62,735.

NOTE 9 - 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.

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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - COMPENSATED ABSENCES - (Continued)

<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 - 159 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 10 - 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 2005, 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - RISK MANAGEMENT - (Continued)

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 was a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium from July 1, 2004 through May 31, 2005, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. Effective June 1, 2005, the District maintained its self-insurance program for insurance benefits, however it began a contract with American Benefits Management (a third-party administrator). The District has elected to maintain the funds within the District, however, monthly premiums (both employee and employer) portions are paid out of the respective employee funds and paid into the self-insurance fund. The third-party administrator processes the claims which are approved by the District Treasurer. Monies are then transferred to a clearing account and claims are paid.

The claims liability of \$35,077 reported in the internal service fund at June 30, 2005, 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>
2005	\$ 68,518	\$ 346,121	\$ (379,562)	\$ 35,077
2004	128,940	354,055	(414,477)	68,518

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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, 2005, 2004, and 2003 were \$108,933, \$120,130 and \$114,514, respectively; 41.00% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$64,272 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (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 2005 and 2004, 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 the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$281,754, \$294,834, and \$278,044, respectively; 82.07% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$50,540 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$3,340 made by the District and \$7,184 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$20,125 during fiscal 2005.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$43,787 during the 2005 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of 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, 2005

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (13,524)
Net adjustment for revenue accruals	(33,944)
Net adjustment for expenditure accruals	12,779
Net adjustment for other sources/uses	(2,637)
Adjustment for encumbrances	<u>52,292</u>
GAAP basis	<u>\$ 14,966</u>

NOTE 14 - 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, 2005

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (58,392)	\$ 9,670
Current year set-aside requirement	83,229	83,229
Qualifying disbursements	<u>(43,705)</u>	<u>(208,304)</u>
Total	<u>\$ (18,868)</u>	<u>\$ (115,405)</u>
Cash balance carried forward to FY 2006	<u>\$ (18,868)</u>	<u>\$ -</u>

The District had enough qualifying disbursements to reduce the set-aside amount below zero for textbooks and capital acquisition. The excess textbooks are allowed to be carried to offset future years. The excess capital acquisitions are not permitted to be carried forward.

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

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for bus purchase	\$ 16,416
Total restricted assets	<u>\$ 16,416</u>



Julian & Grube, Inc.

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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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2006. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. 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 Lucas Local School 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 January 26, 2006.

Board of Education
Lucas Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lucas Local School 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 matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of the District in a separate letter dated January 26, 2006.

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
January 26, 2006



**Auditor of State
Betty Montgomery**

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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
APRIL 4, 2006**