

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

SCOTT OSBORNE, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lucas Local School District, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 7, 2007

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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, Ohio (the "District"), as of and for the year ended June 30, 2006, 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.

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

Insurance claims reported in the Self Insurance Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization independent of the District. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of health insurance claims expenses and liabilities. Those claims represent 9% of expenses and 3% of accrued liabilities reported with the governmental activities, and 42% of the expenses and 44% of the liabilities reported in the remaining fund information.

Independent Auditor's Report
Lucas Local School District
Page Two

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to examine certain information regarding health insurance claims reported with the governmental activities and remaining fund information as described in the preceding paragraph, 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, Ohio, as of June 30, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2007, 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 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.



Julian & Grube, Inc.
July 23, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$166,516 which represents a 6.94% increase from 2005.
- General revenues accounted for \$4,405,937 in revenue or 87.85% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$609,153 or 12.15% of total revenues of \$5,015,090.
- The District had \$4,848,574 in expenses related to governmental activities; \$609,153 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 \$4,405,937 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$4,413,369 in revenues and \$4,274,488 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$138,881 from \$809,842 to \$948,723.

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, 2006

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 2006?" 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* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

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, 2006

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 25-50 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 District restated net assets at July 1, 2005, as described in Note 3.B.

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 3,827,288	\$ 3,471,667
Capital assets, net	<u>1,471,019</u>	<u>1,502,474</u>
Total assets	<u>5,298,307</u>	<u>4,974,141</u>
<u>Liabilities</u>		
Current liabilities	2,546,867	2,376,981
Long-term liabilities	<u>187,152</u>	<u>199,388</u>
Total liabilities	<u>2,734,019</u>	<u>2,576,369</u>
<u>Net Assets</u>		
Invested in capital assets	1,471,019	1,502,474
Restricted	188,371	79,867
Unrestricted	<u>904,898</u>	<u>815,431</u>
Total net assets	<u>\$ 2,564,288</u>	<u>\$ 2,397,772</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$2,564,288. Of this total, \$904,898 is unrestricted in use.

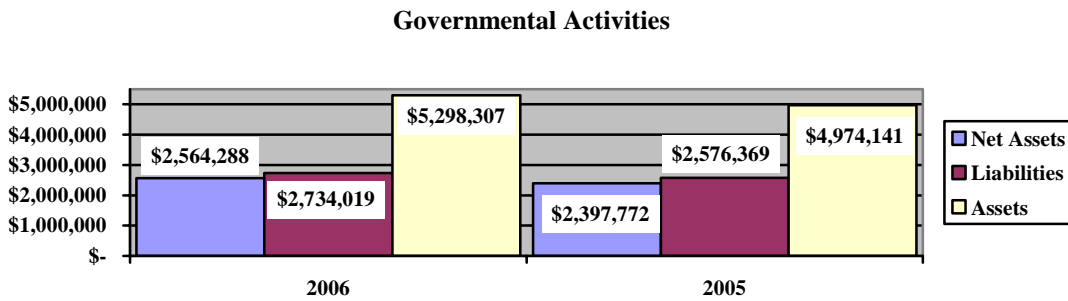
**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

At fiscal year-end, capital assets represented 27.76% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets were \$1,471,019 at June 30, 2006. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets at June 30, 2006, \$188,371 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets at June 30, 2006 of \$904,898 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 2006 and 2005:



The table below shows the change in net assets for fiscal year 2006 and 2005.

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 301,853	\$ 266,855
Operating grants and contributions	307,300	341,141
General revenues:		
Property taxes	1,863,910	1,879,785
Grants and entitlements	2,454,442	2,507,656
Investment earnings	56,830	36,335
Other	30,755	20,366
Total revenues	5,015,090	5,052,138

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Change in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 1,872,101	\$ 1,858,948
Special	328,675	335,495
Vocational	5,213	103,189
Other	256,430	250,956
Support services:		
Pupil	134,962	140,481
Instructional staff	258,426	240,334
Board of education	26,098	21,810
Administration	600,479	659,503
Fiscal	206,235	171,263
Business	36	1,101
Operations and maintenance	445,487	417,851
Pupil transportation	314,332	313,284
Central	43,471	52,839
Operations of non-instructional services	3,435	3,288
Extracurricular activities	159,597	176,675
Food service operations	<u>193,597</u>	<u>186,854</u>
Total expenses	<u>4,848,574</u>	<u>4,933,871</u>
Change in net assets	166,516	118,267
Net assets at beginning of year (restated)	<u>2,397,772</u>	<u>2,279,505</u>
Net assets at end of year	<u>\$ 2,564,288</u>	<u>\$ 2,397,772</u>

Governmental Activities

Net assets of the District's governmental activities increased \$166,516. Total governmental expenses of \$4,848,574 were offset by program revenues of \$609,153 and general revenues of \$4,405,937. Program revenues supported 12.56% 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 86.11% of total governmental revenue.

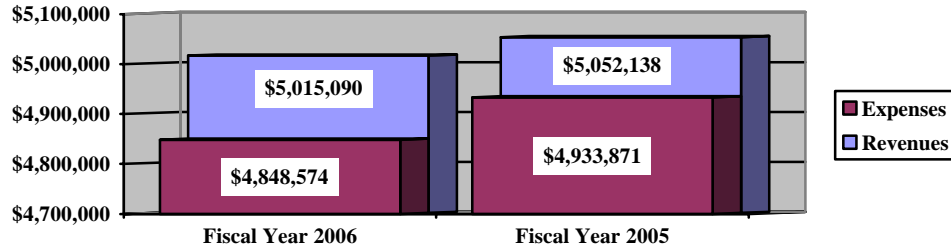
The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,462,419 or 50.79% of total governmental expenses for fiscal year 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

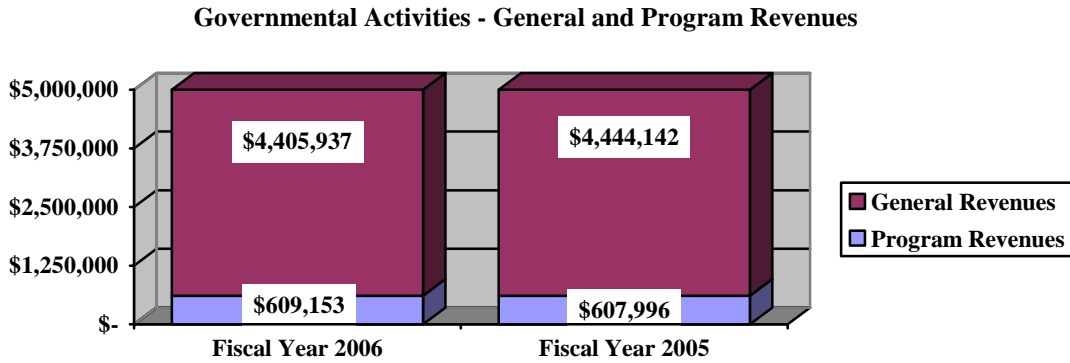
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 1,872,101	\$ 1,803,807	\$ 1,858,948	\$ 1,755,531
Special	328,675	253,304	335,495	248,624
Vocational	5,213	3,999	103,189	102,870
Other	256,430	256,430	250,956	250,956
Support services:				
Pupil	134,962	20,977	140,481	65,681
Instructional staff	258,426	243,417	240,334	208,438
Board of education	26,098	26,098	21,810	21,810
Administration	600,479	551,180	659,503	658,313
Fiscal	206,235	206,095	171,263	170,831
Business	36	36	1,101	1,101
Operations and maintenance	445,487	445,487	417,851	417,851
Pupil transportation	314,332	314,332	313,284	313,284
Central	43,471	32,825	52,839	38,407
Operations of non-instructional services	3,435	3,435	3,288	3,288
Extracurricular activities	159,597	95,987	176,675	83,499
Food service operations	193,597	(17,988)	186,854	(14,609)
Total expenses	<u>\$ 4,848,574</u>	<u>\$ 4,239,421</u>	<u>\$ 4,933,871</u>	<u>\$ 4,325,875</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 94.12% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.44%. 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, 2006**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,147,717 which is higher than last year's total of \$994,601. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase	Percentage Change
General	\$ 948,723	\$ 809,842	\$ 138,881	17.15 %
Other Governmental	<u>198,994</u>	<u>184,759</u>	<u>14,235</u>	7.70 %
Total	<u>\$ 1,147,717</u>	<u>\$ 994,601</u>	<u>\$ 153,116</u>	15.39 %

General Fund

The District's general fund balance increased \$138,881. The increase in fund balance can be attributed to slightly decreasing revenues and decreased expenditures resulting from a wage freeze and additional budget cuts made at the end of fiscal year 2006. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,867,228	\$ 1,899,479	\$ (32,251)	(1.70) %
Tuition	27,657	15,100	12,557	83.16 %
Earnings on investments	51,900	34,203	17,697	51.74 %
Intergovernmental	2,454,442	2,507,655	(53,213)	(2.12) %
Other revenues	<u>12,142</u>	<u>15,890</u>	<u>(3,748)</u>	(23.59) %
Total	<u>\$ 4,413,369</u>	<u>\$ 4,472,327</u>	<u>\$ (58,958)</u>	(1.32) %
<u>Expenditures</u>				
Instruction	\$ 2,249,006	\$ 2,303,024	\$ (54,018)	(2.35) %
Support services	1,902,504	1,745,540	156,964	8.99 %
Non-instructional services	3,435	3,288	147	4.47 %
Extracurricular activities	102,236	116,113	(13,877)	(11.95) %
Facilities acquisition and construction	<u>17,307</u>	<u>289,396</u>	<u>(272,089)</u>	(94.02) %
Total	<u>\$ 4,274,488</u>	<u>\$ 4,457,361</u>	<u>\$ (182,873)</u>	(4.10) %

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 expenditures are due to budget cuts made by the District during fiscal year 2006. The decrease in facilities acquisition and construction is due to a decrease in the acquisition of assets.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,760,354 and final budgeted revenues and other financing sources were \$4,501,446. Actual revenues and other financing sources for fiscal 2006 was \$4,501,446. This represents a \$258,908 decrease from original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,777,175 were decreased to \$4,675,087 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$4,454,799, which was \$322,376 less than the original budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets as described in Note 3.B. At the end of fiscal year 2006, the District had \$1,471,019 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	Restated 2005
Land	\$ 328,875	\$ 328,875
Land improvements	5,894	4,817
Building and improvements	633,381	682,610
Furniture and equipment	226,765	302,049
Vehicles	276,104	184,123
Total	\$ 1,471,019	\$ 1,502,474

The overall decrease in capital assets of \$31,455 is due to depreciation expense of \$181,047 exceeding capital outlays of \$149,592 in the fiscal year.

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

Debt Administration

At June 30, 2006, the District had no debt outstanding. The District's long term obligations are limited to \$187,152 in compensated absences payable. Of this total, \$37,332 is due within one year and \$149,820 is due within greater than one year.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Current Financial Related Activities

The Board's five-year projections indicated the District would require additional operating money for fiscal year 2006. With careful management, additional reductions in spending, and the passage of a renewal levy in fiscal 2007, the District will not require additional operating money until 2008. In addition, the District employees took a wage freeze for the fiscal 2006 school year. During fiscal year 2006 the District attempted to pass a 1% Earned Income Tax on the November 2005 ballot. The levy was defeated. Additional budget cuts were made at the end of fiscal year 2006 which is projected will enable the District to remain in the black through fiscal year 2008. District voters did approve the renewal of an emergency \$300,000 operating levy in November 2006.

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 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 District.

The District faces several challenges: the aging facilities, the future of state funding and declining enrollment. As a result of these challenges, all of the District's financial abilities will be called upon to meet these challenges. It is imperative the 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 Mr. Scott Osborne, 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, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,563,629
Receivables:	
Taxes	2,181,582
Accounts	123
Intergovernmental	61,841
Accrued interest	868
Prepayments	14,912
Materials and supplies inventory	4,333
Capital assets:	
Land	328,875
Depreciable capital assets, net	1,142,144
Capital assets, net	<u>1,471,019</u>
 Total assets.	 <u>5,298,307</u>
Liabilities:	
Accounts payable.	19,032
Accrued wages and benefits	296,829
Pension obligation payable.	104,402
Intergovernmental payable	12,098
Deferred revenue	2,038,800
Claims payable	75,706
Long-term liabilities:	
Due within one year.	37,332
Due in more than one year	149,820
 Total liabilities	 <u>2,734,019</u>
Net Assets:	
Invested in capital assets	1,471,019
Restricted for:	
Capital projects	10,345
Locally funded programs	1,614
State funded programs	11,166
Federally funded programs	54,115
Student activities	42,079
Other purposes	69,052
Unrestricted.	<u>904,898</u>
 Total net assets	 <u>\$ 2,564,288</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, 2006

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,872,101	\$ 44,102	\$ 24,192	\$ (1,803,807)
Special	328,675	-	75,371	(253,304)
Vocational	5,213	982	232	(3,999)
Other	256,430	-	-	(256,430)
Support services:				
Pupil	134,962	-	113,985	(20,977)
Instructional staff	258,426	790	14,219	(243,417)
Board of education	26,098	-	-	(26,098)
Administration	600,479	46,920	2,379	(551,180)
Fiscal	206,235	-	140	(206,095)
Business	36	-	-	(36)
Operations and maintenance	445,487	-	-	(445,487)
Pupil transportation	314,332	-	-	(314,332)
Central	43,471	-	10,646	(32,825)
Operation of				
non-instructional services	3,435	-	-	(3,435)
Extracurricular activities	159,597	63,610	-	(95,987)
Food service operations	193,597	145,449	66,136	17,988
Total governmental activities	\$ 4,848,574	\$ 301,853	\$ 307,300	(4,239,421)

General Revenues:

Property taxes levied for:	
General purposes	1,863,910
Grants and entitlements not restricted	
to specific programs	2,454,442
Investment earnings	56,830
Miscellaneous	30,755
Total general revenues	4,405,937
Change in net assets	166,516
Net assets at beginning of year (restated) . . .	2,397,772
Net assets at end of year	\$ 2,564,288

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,203,984	\$ 215,781	\$ 1,419,765
Receivables:			
Taxes	2,181,582	-	2,181,582
Accounts	-	123	123
Intergovernmental	8,082	53,759	61,841
Accrued interest	868	-	868
Interfund receivable	1,044	-	1,044
Prepayments	14,912	-	14,912
Materials and supplies inventory	-	4,333	4,333
Restricted assets:			
Equity in pooled cash and cash equivalents	68,158	-	68,158
Total assets	<u>\$ 3,478,630</u>	<u>\$ 273,996</u>	<u>\$ 3,752,626</u>
Liabilities:			
Accounts payable	\$ 16,770	\$ 2,262	\$ 19,032
Accrued wages and benefits	280,754	16,075	296,829
Compensated absences payable	4,126	-	4,126
Pension obligation payable.	98,479	5,923	104,402
Intergovernmental payable.	11,474	624	12,098
Interfund payable.	-	1,044	1,044
Deferred revenue.	2,118,304	49,074	2,167,378
Total liabilities	<u>2,529,907</u>	<u>75,002</u>	<u>2,604,909</u>
Fund Balances:			
Reserved for encumbrances	83,312	7,535	90,847
Reserved for materials and supplies inventory.	-	4,333	4,333
Reserved for prepayments	14,912	-	14,912
Reserved for property tax unavailable for appropriation	49,572	-	49,572
Reserved for school bus purchase	16,416	-	16,416
Reserved for textbooks.	51,742	-	51,742
Unreserved, undesignated, reported in:			
General fund	732,769	-	732,769
Special revenue funds.	-	176,781	176,781
Capital projects funds.	-	10,345	10,345
Total fund balances	<u>948,723</u>	<u>198,994</u>	<u>1,147,717</u>
Total liabilities and fund balances	<u>\$ 3,478,630</u>	<u>\$ 273,996</u>	<u>\$ 3,752,626</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, 2006

Total governmental fund balances		\$ 1,147,717
<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.		1,471,019
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 79,504	
Intergovernmental revenue	49,074	
		128,578
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(183,026)
Net assets of governmental activities		\$ 2,564,288

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, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 1,867,228	\$ -	\$ 1,867,228
Tuition.	27,657	11,900	39,557
Charges for services.	-	145,449	145,449
Earnings on investments.	51,900	1,332	53,232
Extracurricular.	1,253	100,402	101,655
Classroom materials and fees	3,501	10,691	14,192
Other local revenues.	7,388	24,367	31,755
Intergovernmental - intermediate.	-	5,188	5,188
Intergovernmental - state.	2,454,442	19,778	2,474,220
Intergovernmental - federal	-	233,260	233,260
Total revenues	<u>4,413,369</u>	<u>552,367</u>	<u>4,965,736</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,742,958	31,792	1,774,750
Special.	249,618	84,174	333,792
Vocational.	-	3,855	3,855
Other.	256,430	-	256,430
Support services:			
Pupil.	67,896	66,788	134,684
Instructional staff	191,213	27,739	218,952
Board of education	26,098	-	26,098
Administration.	544,779	62,361	607,140
Fiscal	201,039	139	201,178
Business	36	-	36
Operations and maintenance.	425,119	-	425,119
Pupil transportation	412,141	-	412,141
Central.	34,183	10,636	44,819
Other non-instructional services.	3,435	-	3,435
Extracurricular activities.	102,236	56,123	158,359
Facilities acquisition and construction	17,307	-	17,307
Food service operations	-	194,525	194,525
Total expenditures	<u>4,274,488</u>	<u>538,132</u>	<u>4,812,620</u>
Net change in fund balances	138,881	14,235	153,116
Fund balances			
at beginning of year.	809,842	184,759	994,601
Fund balances at end of year	<u>\$ 948,723</u>	<u>\$ 198,994</u>	<u>\$ 1,147,717</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, 2006

Net change in fund balances - total governmental funds \$ 153,116

*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 depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$	149,592	
Current year depreciation		<u>(181,047)</u>	
 Total			 (31,455)

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

Taxes		(3,318)	
Intergovernmental		<u>49,074</u>	
 Total			 45,756

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.

13,032

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.

(13,933)

Change in net assets of governmental activities \$ 166,516

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, 2006

	<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	\$ 2,046,853	\$ 1,935,528	\$ 1,935,528	\$ -
Tuition	29,248	27,657	27,657	-
Earnings on investments	55,027	52,034	52,034	-
Extracurricular	1,325	1,253	1,253	-
Classroom materials and fees	3,702	3,501	3,501	-
Other local revenues	7,813	7,388	7,388	-
Intergovernmental - state	2,596,838	2,455,600	2,455,600	-
Total revenues.	<u>4,740,806</u>	<u>4,482,961</u>	<u>4,482,961</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,889,660	1,849,278	1,762,141	87,137
Special	292,863	286,605	273,100	13,505
Vocational	4,922	4,817	4,590	227
Other	292,131	285,888	272,417	13,471
Support services:				
Pupil	75,307	73,697	70,225	3,472
Instructional staff	221,789	217,050	206,822	10,228
Board of education	31,496	30,823	29,371	1,452
Administration	607,310	594,332	566,327	28,005
Fiscal	232,371	227,405	216,690	10,715
Business	38	38	36	2
Operations and maintenance	475,036	464,884	442,979	21,905
Pupil transportation	458,117	448,327	427,202	21,125
Central	35,903	35,135	33,480	1,655
Operation of non-instructional services	3,683	3,605	3,435	170
Extracurricular activities	117,714	115,198	109,770	5,428
Facilities acquisition and construction	18,776	18,375	17,509	866
Total expenditures	<u>4,757,116</u>	<u>4,655,457</u>	<u>4,436,094</u>	<u>219,363</u>
Excess (deficiency) of revenues over (under) expenditures	(16,310)	(172,496)	46,867	219,363
Other financing sources (uses):				
Advances in	18,677	17,661	17,661	-
Advances (out)	(20,059)	(19,630)	(18,705)	925
Reduction of prior year expenditure	871	824	824	-
Total other financing sources (uses)	<u>(511)</u>	<u>(1,145)</u>	<u>(220)</u>	<u>925</u>
Net change in fund balance	(16,821)	(173,641)	46,647	220,288
Fund balance at beginning of year.	1,073,545	1,073,545	1,073,545	-
Prior year encumbrances appropriated	52,292	52,292	52,292	-
Fund balance at end of year	<u>\$ 1,109,016</u>	<u>\$ 952,196</u>	<u>\$ 1,172,484</u>	<u>\$ 220,288</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents. . .	<u>\$ 75,706</u>
Total assets	<u>75,706</u>
Liabilities:	
Claims payable	<u>75,706</u>
Total liabilities.	<u><u>\$ 75,706</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, 2006

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 437,970
Total operating revenues.	<u>437,970</u>
Operating expenses:	
Purchased services	33,109
Claims expense.	<u>422,392</u>
Total operating expenses.	<u>455,501</u>
Operating loss.	<u>(17,531)</u>
Nonoperating revenues:	
Interest revenue	<u>3,598</u>
Change in net assets	(13,933)
Net assets at beginning of year	<u>13,933</u>
Net assets at end of year	<u><u>\$ -</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, 2006

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 437,970
Cash payments for purchased services	(33,109)
Cash payments for claims expenses	(381,763)
	23,098
Net cash provided by operating activities	23,098
Cash flows from investing activities:	
Interest received	3,598
Net increase in cash and cash equivalents	26,696
Cash and cash equivalents at beginning of year . . .	49,010
Cash and cash equivalents at end of year.	\$ 75,706
 Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss.	\$ (17,531)
Increase in claims payable.	40,629
Net cash provided by operating activities	\$ 23,098

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 47,354	\$ 22,307
Total assets.	\$ 47,354	\$ 22,307
Liabilities:		
Due to students	-	\$ 22,307
Total liabilities	-	\$ 22,307
Net Assets:		
Held in trust for scholarships	47,354	
Total net assets	\$ 47,354	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 465
Gifts and contributions.	2,561
	3,026
Total additions.	3,026
Deductions:	
Scholarships awarded	3,294
	(268)
Change in net assets	(268)
Net assets at beginning of year	47,622
Net assets at end of year	\$ 47,354

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, 2006**

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 586th largest by total enrollment among the 615 public 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 42 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, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the 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 organization's 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, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (Heartland)

Heartland is a joint venture among 24 school districts and 3 county boards of education. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports Heartland based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months of financial contribution. Heartland 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 as amended by GASB Statement No. 39, the District does not have any equity interest in Heartland because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Jerry Payne, 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.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

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, 2006, but which were levied to finance fiscal year 2007 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 2006 is as follows:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
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, 2006; 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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, 2006.

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, district managed student activities, food service and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$51,900, which includes \$10,874 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, 2006

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, which were modified from prior year:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 25 years
Buildings and improvements	15 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	8 - 15 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, 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, 2006, 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, 2006

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, school bus purchase and textbooks. 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, 2006

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 16.

R. Interfund Activity

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated due to a reappraisal of capital assets. The adjustment for capital assets had the following effect on net assets as previously reported:

	Governmental Activities
Net assets, July 1, 2005	\$ 2,424,473
Adjustment for capital assets	(26,701)
Restated net assets, July 1, 2005	\$ 2,397,772

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	Deficit
<u>Nonmajor Funds</u>	
Miscellaneous State Grants	\$ 13
Title I	8,899
Reducing Class Size	1,592
Miscellaneous Federal Grants	993

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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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 items 1 and 2 above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,406,280. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$250,781 of the District's bank balance of \$1,433,781 was exposed to custodial risk as discussed below, while \$1,183,000 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.

B. Investments

As of June 30, 2006, 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>\$ 227,010</u>	<u>\$ 227,010</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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 227,010</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments 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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,406,280
Investments	<u>227,010</u>
Total	<u>\$ 1,633,290</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,563,629
Private-purpose trust funds	47,354
Agency funds	<u>22,307</u>
Total	<u>\$ 1,633,290</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 1,044

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Richland and Ashland Counties. 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, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$49,572 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$115,517 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 48,579,820	77.44	\$ 55,819,320	79.69
Public utility personal	13,256,520	21.13	13,346,000	19.05
Tangible personal property	<u>898,870</u>	<u>1.43</u>	<u>879,150</u>	<u>1.26</u>
Total	<u>\$ 62,735,210</u>	<u>100.00</u>	<u>\$ 70,044,470</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 41.50		\$ 40.30	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 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	\$ 2,181,582
Accounts	123
Intergovernmental	61,841
Accrued interest	<u>868</u>
Total	<u>\$ 2,244,414</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, 2006

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated due to a reappraisal of capital assets (See Note 3.B. for detail).

	Balance <u>June 30, 2005</u>	<u>Adjustments</u>	Restated Balance <u>July 1, 2005</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 328,875	\$ -	\$ 328,875
Total capital assets, not being depreciated	<u>328,875</u>	<u>-</u>	<u>328,875</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	103,770	107,872	211,642
Buildings and improvement	2,944,974	(82,359)	2,862,615
Furniture and equipment	1,092,167	259,964	1,352,131
Vehicles	<u>643,229</u>	<u>(189,187)</u>	<u>454,042</u>
Total capital assets, being depreciated	<u>4,784,140</u>	<u>96,290</u>	<u>4,880,430</u>
<i>Less: accumulated depreciation</i>	<u>(3,583,840)</u>	<u>(122,991)</u>	<u>(3,706,831)</u>
Governmental activities capital assets, net	<u>\$ 1,529,175</u>	<u>\$ (26,701)</u>	<u>\$ 1,502,474</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 328,875	\$ -	\$ -	\$ 328,875
Total capital assets, not being depreciated	<u>328,875</u>	<u>-</u>	<u>-</u>	<u>328,875</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	211,642	2,212	-	213,854
Buildings and improvements	2,862,615	-	-	2,862,615
Furniture and equipment	1,352,131	15,960	-	1,368,091
Vehicles	<u>454,042</u>	<u>131,420</u>	<u>-</u>	<u>585,462</u>
Total capital assets, being depreciated	<u>4,880,430</u>	<u>149,592</u>	<u>-</u>	<u>5,030,022</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(206,825)	(1,135)	-	(207,960)
Buildings and improvements	(2,180,005)	(49,229)	-	(2,229,234)
Furniture and equipment	(1,050,082)	(91,244)	-	(1,141,326)
Vehicles	<u>(269,919)</u>	<u>(39,439)</u>	<u>-</u>	<u>(309,358)</u>
Total accumulated depreciation	<u>(3,706,831)</u>	<u>(181,047)</u>	<u>-</u>	<u>(3,887,878)</u>
Governmental activities capital assets, net	<u>\$ 1,502,474</u>	<u>\$ (31,455)</u>	<u>\$ -</u>	<u>\$ 1,471,019</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 80,251
Special	1,847
Vocational	1,358

Support Services:

Instructional staff	39,454
Administration	466
Fiscal	2,228
Operations and maintenance	10,512
Pupil transportation	38,378
Extracurricular activities	2,038
Food service operations	<u>4,515</u>
Total depreciation expense	<u>\$ 181,047</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2006</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 199,388	\$ 33,206	\$ (45,442)	\$ 187,152	\$ 37,332
Total long-term obligations, governmental activities	<u>\$ 199,388</u>	<u>\$ 33,206</u>	<u>\$ (45,442)</u>	<u>\$ 187,152</u>	<u>\$ 37,332</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, 2006 are a voted debt margin of \$6,304,002 and an unvoted debt margin of \$70,044.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 5 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 15 to 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited. The only exception is the Superintendent who can carry over up to 10 days at the end of his contract, and the Treasurer who can carry over up to 5 days at the end of his 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 240 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 60 days payment. Compensated absences are primarily paid from the General fund

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - COMPENSATED ABSENCES - (Continued)

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

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

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

NOTE 11 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District retained property insurance coverage in the blanket amount of \$14,340,375 with 90% coinsurance, replacement cost endorsement and a \$1,000 deductible. The District also has inland marine floaters in the amount of \$500,000 with a \$250 deductible for coverage of audio visual equipment, two-way radios, tractors, musical instruments and uniforms.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Employee Dishonesty Bonds

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

C. Workers' Compensation Plan

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

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

Medical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District maintained its self-insurance program for insurance benefits 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 \$75,706 reported in the internal service fund at June 30, 2006, 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>
2006	\$ 35,077	\$ 422,392	\$ (381,763)	\$ 75,706
2005	68,518	346,121	(379,562)	35,077

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$82,802, \$82,244, and \$77,999; respectively; 55.22 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$37,081 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - PENSION PLANS - (Continued)

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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$252,248, \$261,629 and \$273,774; respectively; 84.57 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$38,922 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,572 made by the District and \$10,145 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS) Ohio, and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$19,404 for fiscal year 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$38,592 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs of \$158.751 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 14 - 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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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).

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	\$ 46,647
Net adjustment for revenue accruals	(69,592)
Net adjustment for expenditure accruals	61,948
Net adjustment for other sources/uses	220
Adjustment for encumbrances	<u>99,658</u>
GAAP basis	<u>\$ 138,881</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$286,978 per year. A portion of the refund may be recovered from additional State entitlement payments.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (18,868)	\$ -
Current year set-aside requirement	84,476	84,476
Qualifying disbursements	<u>(13,866)</u>	<u>(154,061)</u>
Total	<u>\$ 51,742</u>	<u>\$ (69,585)</u>
Cash balance carried forward to FY 2007	<u>\$ 51,742</u>	<u>\$ -</u>

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$51,742.

The District had enough qualifying expenditures to reduce the set-aside amount below zero for the capital acquisition reserve, however this amount may not be carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The balance in the monies restricted for school bus purchases was \$16,416 at June 30, 2006. This balance is reported as restricted equity in pooled cash and reserved fund balance.

A schedule of the restricted assets at June 30, 2006 follows:

Amounts restricted for textbooks	\$ 51,742
Amounts restricted for bus purchase	<u>16,416</u>
Total restricted assets	<u>\$ 68,158</u>

NOTE 17 - SUBSEQUENT EVENT

Effective August 31, 2006, Barb Donahue resigned as Treasurer of the District and as of September 19, 2006, Scott Osborne has assumed the position of District Treasurer.



Julian & Grube, Inc.

Serving Ohio Local Governments

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

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report dated July 23, 2007 which was qualified since certain information related to Internal Service Fund expenses (disbursements) and liabilities reported with governmental activities and with remaining fund information was not available for audit. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item LLSD-2006-001.

Board of Education
Lucas Local School District

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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated July 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 July 23, 2007.

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.



Julian & Grube, Inc.
July 23, 2007

**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
JUNE 30, 2006**

SCHEDULE OF FINDINGS

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2006-LLSD-001

Internal Service Fund - SAS 70 Type II Audit

The District has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The District has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

Consequently, the District has received a qualified independent accountants' report because the scope of the auditor's examination has been restricted. AU 324 requires Julian & Grube, Inc. to gain an understanding of internal control at any service organization that processes financially significant (i.e., material) transactions of the District, which would then have a material affect on the District's financial statements. Under the circumstances stated, Julian & Grube, Inc. can not accumulate sufficient evidence to conclude whether the Internal Service Fund, administered by the third-party administrator, is fairly stated in accordance with generally accepted accounting principles. Whenever a condition such as this exists, which requires a departure from an unqualified opinion, a report other than an unqualified report must be issued.

We recommend the District require a Type II SAS 70 report in its contract with the third-party administrator. This will help the District assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type II Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70 should provide the District with reasonable assurance that health insurance claim transactions conform to the contract.

The District should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the District with a Type II SAS 70 report, we recommend the District contract with a third-party administrator that will provide such a report.

Client Response: The District is currently reviewing its TPA contract and will require a SAS 70 II report in the future years beginning with fiscal year 2008. The Treasurer and District Insurance Committee will be responsible for completing this requirement.



Mary Taylor, CPA
Auditor of State

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
NOVEMBER 20, 2007**