

**VILLAGE OF LUCAS
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008-2007



Mary Taylor, CPA

Auditor of State

Village Council
Village of Lucas
P. O. Box 366
Lucas, Ohio 44843

We have reviewed the *Independent Accountants' Report* of the Village of Lucas, Richland County, prepared by Knox & Knox, for the audit period January 1, 2007 through December 31, 2008. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Village of Lucas is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 9, 2009

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VILLAGE OF LUCAS
RICHLAND COUNTY

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KNOX & KNOX

Accountants and Consultants

Independent Accountants' Report

Village of Lucas
Richland County
P.O. Box 366
Lucas, Ohio 44843

We have audited the accompanying financial statements of the Village of Lucas, Richland County, Ohio, as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village of Lucas to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2008 and 2007. Instead of the combined funds the accompanying financial statements present for 2008 and 2007, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2008 and 2007. While the Village of Lucas does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village of Lucas has elected not to reformat its statements. Since the Village of Lucas does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Lucas, Richland County combined funds as of December 31, 2008 and 2007, and their changes in financial position and cash flows.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lucas, Richland County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also required the Village of Lucas to include Management's Discussion and Analysis for the years ended December 31, 2008 and 2007. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2009, on our consideration of the Village of Lucas's internal control over financial reporting and our tests of its compliance with 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KNOX & KNOX

Orrville, Ohio
July 24, 2009

VILLAGE OF LUCAS
 RICHLAND COUNTY

COMBINED STATEMENT OF CASH FUND BALANCES
 ALL FUND TYPES
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

CASH AND CASH EQUIVALENTS	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents	<u>\$411,737</u>	<u>\$435,463</u>
Total Cash and Cash Equivalents	<u><u>\$411,737</u></u>	<u><u>\$435,463</u></u>
 CASH FUND BALANCES		
Governmental Fund Types:		
General Fund	36,623	63,433
Special Revenue Funds	40,723	33,087
Capital Project Fund	<u>19,298</u>	<u>9,245</u>
Total Governmental Fund types	<u>96,644</u>	<u>105,765</u>
 Proprietary Fund Type:		
Enterprise Fund	<u>315,093</u>	<u>329,698</u>
Total Proprietary Fund Type	<u>315,093</u>	<u>329,698</u>
 TOTAL CASH FUND BALANCES	 <u><u>\$411,737</u></u>	 <u><u>\$435,463</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LUCAS
RICHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES – ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
CASH RECEIPTS:				
Property and Other Local Taxes	\$12,615			\$12,615
Intergovernmental	55,760	\$46,177	\$44,947	146,884
Charges for Services	1,555			1,555
Fines, Licenses, and Permits	6,174			6,174
Earnings on Investments	8,698	285		8,983
Miscellaneous	1,160	6,777		7,937
Total Cash Receipts	85,962	53,239	44,947	184,148
CASH DISBURSEMENTS:				
Current:				
Security of Persons and Property	25,000			25,000
Community Environment	869			869
Transportation		29,094		29,094
General Government	34,476			34,476
Capital Outlay	1,708	41,228	34,893	77,829
Total Cash Disbursements	62,053	70,322	34,893	167,268
Total Receipts Over/(Under) Disbursements	23,909	(17,083)	10,054	16,880
OTHER FINANCING RECEIPTS/(DISBURSEMENTS)				
Transfers-In		24,719		24,719
Transfers-Out	(50,719)			(50,719)
Total Other Financing Receipts/(Disbursements)	(50,719)	24,719		(26,000)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(26,810)	7,636	10,054	(9,120)
Fund Cash Balances, January 1	63,433	33,087	9,244	105,764
FUND CASH BALANCES, DECEMBER 31	\$36,623	\$40,723	\$19,298	\$96,644

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LUCAS
 RICHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
 FUND CASH BALANCES – ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
CASH RECEIPTS:				
Property and Other Local Taxes	\$12,438			\$12,438
Intergovernmental	88,764	\$45,862	\$438,378	573,004
Charges for Services	1,160			1,160
Fines, Licenses, and Permits	5,541			5,541
Earnings on Investments	23,104	1,337		24,441
Miscellaneous	455	86		541
Total Cash Receipts	131,462	47,285	438,378	617,125
CASH DISBURSEMENTS:				
Current:				
Security of Persons and Property	25,000			25,000
Community Environment	263			263
Transportation		43,876		43,876
General Government	38,443		44,282	82,725
Capital Outlay	5,404	46,327	439,682	491,413
Total Cash Disbursements	69,110	90,203	483,964	643,277
Total Receipts Over/(Under) Disbursements	62,352	(42,918)	(45,586)	(26,152)
OTHER FINANCING RECEIPTS/(DISBURSEMENTS)				
Transfers-In		33,300		33,300
Transfers-Out	(57,300)			(57,300)
Total Other Financing Receipts/(Disbursements)	(57,300)	33,300		(24,000)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	5,052	(9,618)	(45,586)	(50,152)
Fund Cash Balances, January 1	58,381	42,705	54,830	155,916
FUND CASH BALANCES, DECEMBER 31	\$63,433	\$33,087	\$9,244	\$105,764

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LUCAS
RICHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES – ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	<u>Only</u>
OPERATING CASH RECEIPTS:			
Charges for Services	<u>\$601,262</u>	<u> </u>	<u>\$601,262</u>
Total Operating Cash Receipts	<u>601,262</u>	<u> </u>	<u>601,262</u>
OPERATING CASH DISBURSEMENTS:			
Personal Services	206,916		206,916
Travel Transportation	1,592		1,592
Contractual Services	319,014		319,014
Supplies and Materials	22,606		22,606
Capital Outlay	<u>36,171</u>	<u> </u>	<u>36,171</u>
Total Operating Cash Disbursements	<u>586,299</u>	<u> </u>	<u>586,299</u>
Operating Income	<u>14,963</u>	<u> </u>	<u>14,963</u>
NON-OPERATING CASH RECEIPTS			
Other Non-Operating Cash Receipts	<u> </u>	<u>\$7,770</u>	<u> </u>
Total Non-Operating Cash Receipts	<u> </u>	<u>7,770</u>	<u>7,770</u>
NON-OPERATING CASH DISBURSEMENTS			
Redemption of Principle	42,838		42,838
Interest	12,730		12,730
Other Non-Operating Cash Disbursements	<u> </u>	<u>7,770</u>	<u>7,770</u>
Total Non-Operating Cash Disbursements	<u>55,568</u>	<u>7,770</u>	<u>63,338</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(40,605)		(40,605)
Transfers-In	26,000		26,000
Net Receipts Over/(Under) Disbursements	(14,605)		(14,605)
Fund Cash Balances, January 1	<u>329,698</u>	<u> </u>	<u>329,698</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$315,093</u></u>	<u><u> </u></u>	<u><u>\$315,093</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LUCAS
RICHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES – ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
OPERATING CASH RECEIPTS:			
Charges for Services	<u>\$587,314</u>		<u>\$587,314</u>
Total Operating Cash Receipts	<u>587,314</u>		<u>587,314</u>
OPERATING CASH DISBURSEMENTS:			
Personal Services	201,143		201,143
Travel Transportation	3,791		3,791
Contractual Services	320,132		320,132
Supplies and Materials	21,148		21,148
Capital Outlay	<u>70,433</u>		<u>70,433</u>
Total Operating Cash Disbursements	<u>616,647</u>		<u>616,647</u>
Operating Income	<u>(29,333)</u>		<u>(29,333)</u>
NON-OPERATING CASH RECEIPTS			
Other Non-Operating Cash Receipts		<u>\$6,950</u>	
Total Non-Operating Cash Receipts		<u>6,950</u>	<u>6,950</u>
NON-OPERATING CASH DISBURSEMENTS			
Redemption of Principle	42,929		42,929
Interest	15,553		15,553
Other Non-Operating Cash Disbursements		<u>6,950</u>	<u>6,950</u>
Total Non-Operating Cash Disbursements	<u>58,482</u>	<u>6,950</u>	<u>65,432</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(87,815)		(87,815)
Transfers-In	24,000		24,000
Net Receipts Over/(Under) Disbursements	(63,815)		(63,815)
Fund Cash Balances, January 1	<u>393,513</u>		<u>393,513</u>
FUND CASH BALANCES, DECEMBER 31	<u>\$329,698</u>		<u>\$329,698</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Village of Lucas, Richland County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water, sewer and electric utilities. The Village contracts with the Richland County Sheriff's Department to provide security of persons and property.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. STAR Ohio is recorded at share values reported by STAR Ohio.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Piggyback Sales Tax Fund – This fund receives permissive sales tax revenues and is used to purchase capital items related to the Village streets.

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village has the following significant Enterprise Fund:

Electric Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

4. Fiduciary Fund (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. The Village does not have any Trust Funds. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village has the following significant Agency Fund:

Mayor's Court Fund – This fund receives money from the collection of fines and forfeitures.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the department, division, or office level of control, and within each the amount appropriated for personal services. The Council must annually approve

VILLAGE OF LUCAS
 RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process (continued)

1. Appropriations (continued)

the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are cancelled, and reappropriated in the subsequent year.

A summary of 2008 and 2007 budgetary activity appears in Note 3

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$233,526	\$261,700
Cash on hand	100	100
Total deposits	<u>\$233,626</u>	<u>\$261,800</u>
STAR Ohio	<u>178,111</u>	<u>173,663</u>
Total deposits and investments	<u><u>\$411,737</u></u>	<u><u>\$435,463</u></u>

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

2. EQUITY IN POOLED CASH (continued)

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2008 and 2007 follows:

<u>Fund Type</u>	<u>2008 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$141,373	\$ 85,962	(\$55,411)
Special Revenue	76,869	77,958	1,089
Capital Projects	347,400	44,947	(302,453)
Enterprise	649,100	627,262	(21,838)
Total	<u>\$1,214,742</u>	<u>\$836,129</u>	<u>(\$378,613)</u>

<u>Fund Type</u>	<u>2008 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$147,254	\$112,772	\$34,482
Special Revenue	104,975	70,322	34,653
Capital Projects	356,645	34,893	321,752
Enterprise	858,325	641,867	216,458
Total	<u>\$1,467,199</u>	<u>\$859,854</u>	<u>\$607,345</u>

<u>Fund Type</u>	<u>2007 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$118,405	\$131,462	\$13,057
Special Revenue	62,100	80,585	18,485
Capital Projects	663,205	438,378	(224,827)
Enterprise	688,376	611,314	(77,062)
Total	<u>\$1,532,086</u>	<u>\$1,261,739</u>	<u>(\$270,347)</u>

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

3. BUDGETARY ACTIVITY (continued)

<u>Fund Type</u>	<u>2007 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$159,108	\$126,410	\$32,698
Special Revenue	104,805	90,203	14,602
Capital Projects	663,155	483,964	179,191
Enterprise	863,134	675,129	188,005
Total	<u>\$1,790,202</u>	<u>\$1,375,706</u>	<u>\$414,496</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation.

Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$64,878	7.65%
Sanitary Sewer Improvement Notes	70,717	4.92%
Water-Loop Note	51,836	5.05%
Total	<u>\$187,431</u>	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved \$325,504 in loans to the Village for this project. The loans will be repaid in semi-annual installments of \$14,793, including interest, over 25 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt in the amount of service requirements.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

5. DEBT (Continued)

The Sanitary Sewer Improvement Note was issued in 2006 in the amount of \$84,500 to finance the construction of improvements to the sanitary sewer system. The loan is collateralized by water and sewer receipts. The note will be amortized over 10 years with monthly payments of \$900.

The Water-Loop Project note was issued in 2006 in the amount 56,500. The note will be amortized over ten years with monthly payments of principal and interest of \$664. The loan is collateralized by water receipts.

Amortization of the debt, including principal and interest follows:

Year ending December 31:	<u>OWDA</u>		Year ending December 31:	<u>Sanitary Sewer</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2009	\$24,623	\$4,541	2009	\$7,411	\$3,389
2010	26,507	2,818	2010	7,780	3,020
2011	13,744	960	2011	8,167	2,633
2012			2012	8,574	2,226
2013			2013	9,001	1,799
2014-2018			2014-2018	29,784	2,796
Total	<u>\$64,874</u>	<u>\$8,319</u>	Total	<u>\$70,717</u>	<u>\$15,863</u>

Year ending December 31:	<u>Water-Loop Note</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$5,372	\$2,595
2010	5,643	2,374
2011	5,928	2,039
2012	6,227	1,739
2013	6,542	1,425
2014-2018	22,124	2,225
Total	<u>\$51,836</u>	<u>\$12,397</u>

6. RETIREMENT SYSTEM

The Village's employees belong to the Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2008 and 2007, members contributed 10% and 9.5% of their gross salaries, respectively. The Village contributed an amount equal to 14% (2008) and 13.75% (2007) of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

7. RISK MANAGEMENT

The Government is exposed to various risks of property and casualty losses, and injuries to employees.

The government insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims after January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop-loss is reached by payment of losses between \$100,000 and \$250,000 in 2006 or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

7. RISK MANAGEMENT (continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

	2007	2006
Assets	\$37,560,071	\$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, casualty coverage liabilities noted above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$5.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on the discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. JOINT VENTURE

The Village of Lucas is a Financing Participant and an Owner Participant with percentages of liability and ownership of .15% and .12% respectively and shares participation with thirty-five other subdivisions with the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement (Agreement), the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

8. JOINT VENTURE (continued)

such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110 % of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2008 the Village of Lucas has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participants entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net obligation for these bonds at December 31, 2008 was \$44,065 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected.) The Village's net investment in OMEGA JV2 was \$44,311 at December 31, 2008. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

8. JOINT VENTURE (continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2008 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Perrysville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	95.20%	127,640		4.80%	6,441
			Grand Total	100.00%	134,081

The Village's liability for the bonds are disclosed below:

Years	Principal	Interest	Total Debt Service
2009	3,409	2,724	6,133
2010	3,577	2,554	6,131
2011	3,769	2,366	6,135
2012	3,968	2,168	6,136
2013	4,175	1,960	6,135
2014-2020	35,750	7,177	42,927
Total Gross Liability	54,648	18,950	\$73,598
Less: Amounts Held in Reserve	(10,583)		
Net Obligation	\$44,065		

The Village of Lucas is a Financing Participant with an ownership percentage of .13%, and share participation with forty-one other subdivisions with the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of participation in the OMEGA JV5 Project.

VILLAGE OF LUCAS
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

8. JOINT VENTURE (continued)

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the Acquisition, construction and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquire, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operation to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basks. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2008 Lucas has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 WAS \$11,647 at December 31, 2008. Compete financial statements OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us

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KNOX & KNOX

Accountants and Consultants

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

Village of Lucas
Richland County
P.O. Box 366
Lucas, Ohio 44843

We have audited the accompanying financial statements of the Village of Lucas, Richland County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated July 24, 2009, wherein we noted the Village followed accounting practices the Auditor of State permits rather than accounting principles generally accepted in the United States of America. 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 audits, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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

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

We did note other matters that we reported to the Village's management in a separate letter dated July 24, 2009

Compliance and Other Matters

As part of obtaining reasonable assurance whether the Village of Lucas' financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, and the Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Knox & Knox

Orrville, Ohio
July 24, 2009



Mary Taylor, CPA
Auditor of State

VILLAGE OF LUCAS

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
SEPTEMBER 22, 2009**