

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2011***

JERI WIRES, INTERIM TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Lucas Local School District, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 23, 2012

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

TABLE OF CONTENTS

Independent Accountants' Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund.....	22
Statement of Fiduciary Net Assets - Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	24
Notes to the Basic Financial Statements.....	25 - 53
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	54
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55 - 56
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	57 - 58
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	59 - 62
Schedule of Prior Audit Findings <i>OMB Circular A-133 § .505 & .315(b)</i>	63

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report

Lucas Local School District
84 Lucas North Road
Lucas, Ohio 44843

To the Board of Education:

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, as of and for the year ended June 30, 2011, which collectively comprise the Lucas Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lucas Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the fiscal year ended June 30, 2011, the Lucas Local School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012, on our consideration of the Lucas Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Lucas Local School District's basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of Federal Awards provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
February 29, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$748,512 which represents a 16.79% increase from 2010.
- General revenues accounted for \$5,238,044 in revenue or 80.27% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,287,124 or 19.73% of total revenues of \$6,525,168.
- The District had \$5,776,656 in expenses related to governmental activities; \$1,287,124 of these expenses were 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 \$5,238,044 were adequate to provide for these programs.
- The District's only major governmental funds is the general fund. The general fund had \$5,590,857 in revenues and \$4,877,337 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance increased \$713,520 from a restated balance of \$2,879,704 to \$3,593,224.

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.

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 2011?" 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

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

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 25-53 of this report.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 6,632,176	\$ 5,732,138
Capital assets, net	<u>1,628,311</u>	<u>1,146,460</u>
Total assets	<u>8,260,487</u>	<u>6,878,598</u>
<u>Liabilities</u>		
Current liabilities	2,302,893	2,231,953
Long-term liabilities	<u>751,842</u>	<u>189,405</u>
Total liabilities	<u>3,054,735</u>	<u>2,421,358</u>
<u>Net Assets</u>		
Invested in capital assets	1,075,256	1,146,460
Restricted	789,032	757,613
Unrestricted	<u>3,341,464</u>	<u>2,553,167</u>
Total net assets	<u>\$ 5,205,752</u>	<u>\$ 4,457,240</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$5,205,752. Of this total, \$3,341,464 is unrestricted in use.

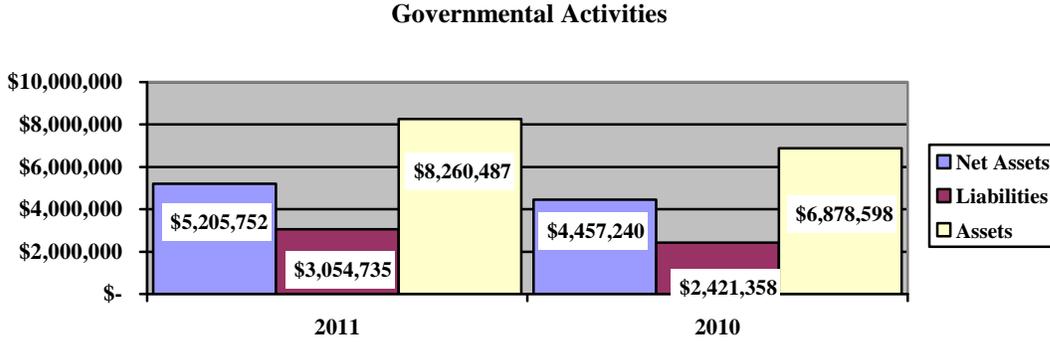
At fiscal year-end, capital assets represented 19.71% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of accumulated depreciation, at June 30, 2011, were \$1,628,311. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$789,032 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,341,464 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the District's governmental activities assets, liabilities and net assets at June 30, 2011 and 2010:



The table below shows the change in net assets for fiscal year 2011 and 2010.

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 349,071	\$ 386,289
Operating grants and contributions	926,553	553,146
Capital grants and contributions	11,500	-
General revenues:		
Property taxes	2,984,047	2,544,274
Grants and entitlements	2,241,306	2,418,730
Investment earnings	766	23,034
Other	11,925	21,615
Total revenues	6,525,168	5,947,088

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,354,581	\$ 2,155,350
Special	593,507	640,346
Vocational	1,782	327
Other	384,441	448,573
Support services:		
Pupil	74,339	85,586
Instructional staff	305,179	240,987
Board of education	35,376	20,523
Administration	406,295	568,715
Fiscal	216,951	227,527
Operations and maintenance	572,673	588,617
Pupil transportation	349,722	249,547
Central	41,692	82,890
Operations of non-instructional services:		
Food service operations	236,713	187,502
Other non-instructional services	1,547	1,544
Extracurricular activities	182,610	192,339
Interest and fiscal charges	<u>19,248</u>	<u>-</u>
Total expenses	<u>5,776,656</u>	<u>5,690,373</u>
Change in net assets	748,512	256,715
Net assets at beginning of year	<u>4,457,240</u>	<u>4,200,525</u>
Net assets at end of year	<u>\$ 5,205,752</u>	<u>\$ 4,457,240</u>

Governmental Activities

Net assets of the District's governmental activities increased \$748,512. Total governmental expenses of \$5,776,656 were offset by program revenues of \$1,287,124 and general revenues of \$5,238,044. Program revenues supported 22.28% 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 80.08% of total governmental revenue.

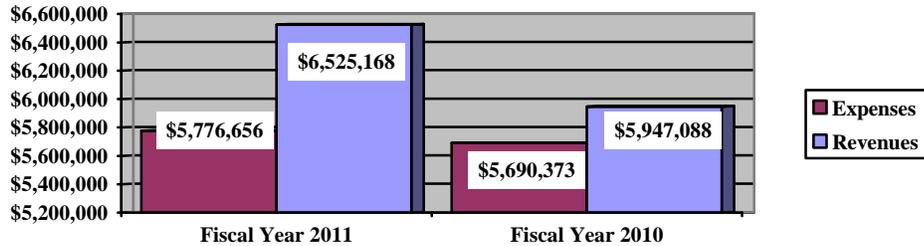
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,334,311 or 57.72% of total governmental expenses for fiscal year 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 2,354,581	\$ 2,066,319	\$ 2,155,350	\$ 1,938,696
Special	593,507	320,958	640,346	387,648
Vocational	1,782	(285)	327	(1,725)
Other	384,441	377,531	448,573	435,394
Support services:				
Pupil	74,339	74,312	85,586	85,586
Instructional staff	305,179	87,421	240,987	238,437
Board of education	35,376	35,376	20,523	20,523
Administration	406,295	330,084	568,715	423,785
Fiscal	216,951	198,744	227,527	224,807
Operations and maintenance	572,673	465,430	588,617	573,663
Pupil transportation	349,722	349,722	249,547	238,698
Central	41,692	41,692	82,890	80,200
Operations of non-instructional services:				
Food service operations	236,713	4,989	187,502	(19,077)
Other non-instructional services	1,547	1,547	1,544	1,544
Extracurricular activities	182,610	116,444	192,339	122,759
Interest and fiscal charges	19,248	19,248	-	-
Total expenses	<u>\$ 5,776,656</u>	<u>\$ 4,489,532</u>	<u>\$ 5,690,373</u>	<u>\$ 4,750,938</u>

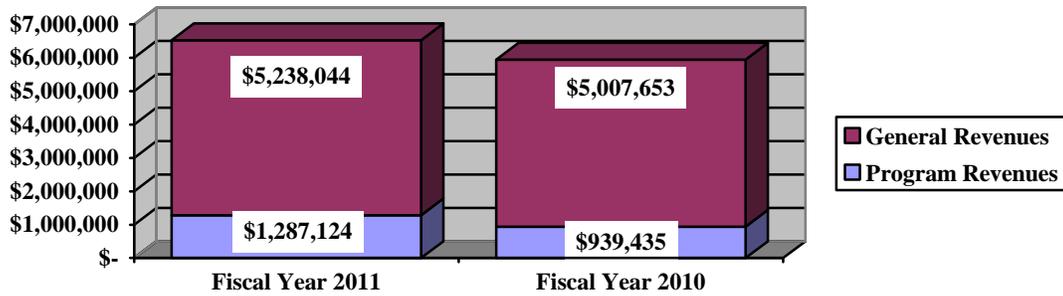
The dependence upon tax and other general revenues for governmental activities is apparent, 82.91% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.72%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio 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, 2011

The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,909,849 which is higher than last year's total of \$3,183,292. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase/ Decrease	Percentage Change
General	\$ 3,593,224	\$ 2,879,704	\$ 713,520	24.78%
Other governmental	316,625	303,588	13,037	4.29%
Total	\$ 3,909,849	\$ 3,183,292	\$ 726,557	22.82%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

General Fund

The District's general fund balance increased \$738,520. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,060,986	\$ 2,493,429	\$ 567,557	22.76 %
Tuition	118,402	135,413	(17,011)	(12.56) %
Earnings on investments	919	22,672	(21,753)	(95.95) %
Intergovernmental	2,358,046	2,431,631	(73,585)	(3.03) %
Other revenues	<u>52,504</u>	<u>79,139</u>	<u>(26,635)</u>	<u>(33.66) %</u>
Total	<u>\$ 5,590,857</u>	<u>\$ 5,162,284</u>	<u>\$ 428,573</u>	8.30 %
<u>Expenditures</u>				
Instruction	\$ 3,112,218	\$ 2,876,785	\$ 235,433	8.18 %
Support services	1,604,595	1,953,847	(349,252)	(17.88) %
Non-instructional services	1,547	1,544	3	0.19 %
Extracurricular activities	98,665	106,122	(7,457)	(7.03) %
Debt service	<u>35,312</u>	<u>-</u>	<u>35,312</u>	100.00 %
Total	<u>\$ 4,852,337</u>	<u>\$ 4,938,298</u>	<u>\$ (85,961)</u>	(1.74) %

Overall revenues of the general fund increased \$428,573 or 8.30%. This increase is due to the increase in tax revenue of \$567,557 or 22.76% from the prior year. This increase was attributable to the amount of taxes collected and available to the District as an advance at fiscal year end. The amount of tax advances available from the county auditor can vary depending upon when tax bills are mailed. The decrease in earnings on investments of \$21,753 or 95.95% can be attributed to the decrease in investments during the fiscal year as well as the decrease in interest rates.

Overall, expenditures of the general fund decreased \$85,961 or 1.74%. The District's expenditures remained consistent with prior year due to cost containment measures implemented by the District. The increase in debt service expenditures is due to the interest expense payments and bond issuance costs related to the bonds issued by the District during the fiscal year.

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 2011, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,561,230 and final budgeted revenues and other financing sources were \$5,268,158. Actual revenues for fiscal 2011 were \$5,277,213. This represents a \$9,055 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,400,000 were increased to \$5,700,000 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$4,497,572, which was \$1,202,428 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, the District had \$1,628,311 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 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 328,875	\$ 328,875
Land improvements	4,694	5,117
Building and improvements	928,011	444,219
Furniture and equipment	191,861	141,534
Vehicles	174,870	226,715
Total	\$ 1,628,311	\$ 1,146,460

The overall increase in capital assets of \$481,851 is due to capital outlays of \$622,499 exceeding depreciation expense of \$140,648 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, 2011 the District had \$553,055 in qualified school construction bonds outstanding. Of this total, \$36,000 is due within one year and \$517,055 is due within greater than one year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Qualified School Construction Bonds	\$ 553,055	\$ -
Total	<u>\$ 553,055</u>	<u>\$ -</u>

See Note 9 to the basic financial statements for detail.

Current Financial Related Activities

The Board's five-year forecast indicates the District will require no new additional operating money for fiscal year 2012 through fiscal year 2014 based on current assumptions and conditions. With careful management, additional reductions in spending, and the passage of a renewal levy in May 2010, the District will not require additional operating money until 2015. The District will be entering a contract year with employees that expired June 30, 2010. At this time, the District does not have a new negotiated contract with teachers and is in the process of negotiating. Also, the District will require the renewal of one levy in fiscal year 2012. This levy amounts to \$292,000 per year. It will be vital that this levy be renewed.

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 the District, as well as the levy that expires in 2012. The committee is also researching alternative funding for the District.

The District faces several challenges: the aging facilities, the future of state funding and no additions in enrollment. The District currently loses in excess of \$200,000 per year to open enrollment and community schools. In May 2008, the District decided to allow incoming open enrollment students from surrounding Districts to help increase funding. This was done for a one-year trial period subject to annual approval. Due to the positive experience with allowing incoming open-enrollment students in fiscal year 2009, the Board approved renewal of the open enrollment policy for fiscal year 2010 and again in fiscal year 2011. 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 citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mrs. Jeri Wires, Lucas Local School District, 84 Lucas North Road, Lucas, Ohio 44843-9532.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 3,980,132
Receivables:	
Property taxes	2,430,582
Accounts.	217
Accrued interest	6,427
Intergovernmental	173,657
Loans	9,969
Prepayments	1,741
Materials and supplies inventory.	11,182
Unamortized bond issuance costs	18,269
Capital assets:	
Land.	328,875
Depreciable capital assets, net.	1,299,436
Capital assets, net	1,628,311
 Total assets.	 8,260,487
 Liabilities:	
Accounts payable.	22,237
Accrued wages and benefits	386,699
Pension obligation payable	142,388
Intergovernmental payable	15,773
Unearned revenue	1,693,362
Accrued interest payable	2,205
Claims payable.	40,229
Long-term liabilities:	
Due within one year.	57,906
Due in more than one year.	693,936
 Total liabilities	 3,054,735
 Net Assets:	
Invested in capital assets, net of related debt.	1,075,256
Restricted for:	
Locally funded programs	587
State funded programs.	29,588
Federally funded programs	234,649
Student activities	39,857
Other purposes	484,351
Unrestricted.	3,341,464
 Total net assets	 \$ 5,205,752

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, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction:					
Regular	\$ 2,354,581	\$ 134,469	\$ 153,793	\$ -	\$ (2,066,319)
Special	593,507	-	272,549	-	(320,958)
Vocational	1,782	-	2,067	-	285
Other	384,441	-	6,910	-	(377,531)
Support services:					
Pupil	74,339	-	27	-	(74,312)
Instructional staff	305,179	-	217,758	-	(87,421)
Board of education	35,376	-	-	-	(35,376)
Administration	406,295	22,904	53,307	-	(330,084)
Fiscal	216,951	-	18,207	-	(198,744)
Operations and maintenance	572,673	1,558	94,185	11,500	(465,430)
Pupil transportation	349,722	-	-	-	(349,722)
Central	41,692	-	-	-	(41,692)
Operation of non-instructional services:					
Food service operations	236,713	125,893	105,831	-	(4,989)
Other non-instructional services	1,547	-	-	-	(1,547)
Extracurricular activities	182,610	64,247	1,919	-	(116,444)
Interest and fiscal charges	19,248	-	-	-	(19,248)
Total governmental activities	\$ 5,776,656	\$ 349,071	\$ 926,553	\$ 11,500	(4,489,532)

General Revenues:

Property taxes levied for:	
General purposes	2,984,047
Grants and entitlements not restricted to specific programs	2,241,306
Investment earnings	766
Miscellaneous	11,925
Total general revenues	5,238,044
Change in net assets	748,512
Net assets at beginning of year	4,457,240
Net assets at end of year	\$ 5,205,752

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled			
cash and investments	\$ 3,091,180	\$ 327,757	\$ 3,418,937
Receivables:			
Property taxes.	2,430,582	-	2,430,582
Accounts	35	182	217
Accrued interest	6,427	-	6,427
Interfund loans	3,341	-	3,341
Intergovernmental.	-	173,657	173,657
Prepayments.	1,741	-	1,741
Materials and supplies inventory.	-	11,182	11,182
Loans receivable.	9,969	-	9,969
Restricted assets:			
Equity in pooled cash and cash equivalents	386,921	-	386,921
Total assets	\$ 5,930,196	\$ 512,778	\$ 6,442,974
Liabilities:			
Accounts payable	\$ 20,464	\$ 1,773	\$ 22,237
Accrued wages and benefits.	364,555	22,144	386,699
Pension obligation payable	137,202	5,186	142,388
Compensated absences payable.	5,866	-	5,866
Intergovernmental payable	14,266	1,507	15,773
Interfund loans payable.	-	3,341	3,341
Deferred revenue	101,257	162,202	263,459
Unearned revenue.	1,693,362	-	1,693,362
Total liabilities.	2,336,972	196,153	2,533,125
Fund Balances:			
Nonspendable:			
Materials and supplies inventory.	-	11,182	11,182
Prepays.	1,741	-	1,741
Restricted:			
Food service operations	-	86,091	86,091
Special education	-	12,886	12,886
Targeted academic assistance	-	17,141	17,141
Other purposes.	-	113,504	113,504
Extracurricular.	-	39,857	39,857
Textbooks	386,921	-	386,921
Committed:			
Capital improvements	-	36,027	36,027
Assigned:			
Student instruction	43,801	-	43,801
Student and staff support	210,205	-	210,205
Extracurricular activities	218	-	218
Operation of non-instructional	34	-	34
Future appropriations	938,770	-	938,770
Unassigned (deficit)	2,011,534	(63)	2,011,471
Total fund balances	3,593,224	316,625	3,909,849
Total liabilities and fund balances	\$ 5,930,196	\$ 512,778	\$ 6,442,974

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, 2011

Total governmental fund balances		\$ 3,909,849
<i>Amounts reported for governmental activities on 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.		1,628,311
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds		
Property taxes receivable	\$ 98,832	
Intergovernmental receivable	162,202	
Accrued interest receivable	2,425	
Total		263,459
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		134,045
Unamortized bond issuance costs are not recognized in the funds.		18,269
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(2,205)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds		(553,055)
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(192,921)
		(192,921)
Net assets of governmental activities		\$ 5,205,752

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, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 3,060,986	\$ -	\$ 3,060,986
Tuition	118,402	-	118,402
Earnings on investments	919	50	969
Charges for services	-	122,299	122,299
Extracurricular	22,904	67,841	90,745
Classroom materials and fees	16,067	-	16,067
Rental income	1,558	-	1,558
Contributions and donations	5,936	13,419	19,355
Other local revenues	6,039	450	6,489
Intergovernmental - intermediate	-	10,912	10,912
Intergovernmental - state	2,358,046	24,704	2,382,750
Intergovernmental - federal	-	726,797	726,797
Total revenues	<u>5,590,857</u>	<u>966,472</u>	<u>6,557,329</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,432,916	20,369	2,453,285
Special	301,512	285,433	586,945
Other	377,790	6,651	384,441
Support services:			
Pupil	71,310	3,029	74,339
Instructional staff	136,933	173,253	310,186
Board of education	35,376	-	35,376
Administration	367,753	49,133	416,886
Fiscal	214,371	9,859	224,230
Operations and maintenance	442,957	669,288	1,112,245
Pupil transportation	297,358	-	297,358
Central	38,537	-	38,537
Operation of non-instructional services:			
Food service operations	-	235,294	235,294
Other non-instructional services	1,547	-	1,547
Extracurricular activities	98,665	79,181	177,846
Debt service:			
Interest and fiscal charges	16,198	-	16,198
Bond issuance costs	19,114	-	19,114
Total expenditures	<u>4,852,337</u>	<u>1,531,490</u>	<u>6,383,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>738,520</u>	<u>(565,018)</u>	<u>173,502</u>
Other financing sources (uses):			
Sale of bonds	-	553,055	553,055
Transfers in	-	25,000	25,000
Transfers (out)	(25,000)	-	(25,000)
Total other financing sources (uses)	<u>(25,000)</u>	<u>578,055</u>	<u>553,055</u>
Net change in fund balances	713,520	13,037	726,557
Fund balances at beginning of year (restated).	<u>2,879,704</u>	<u>303,588</u>	<u>3,183,292</u>
Fund balances at end of year.	<u>\$ 3,593,224</u>	<u>\$ 316,625</u>	<u>\$ 3,909,849</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, 2011

Net change in fund balances - total governmental funds \$ 726,557

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

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

Capital asset additions	\$	622,499	
Current year depreciation		(140,648)	
Total			481,851

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

Taxes		(76,939)	
Intergovernmental		44,981	
Earnings on investments		(205)	
Total			(32,163)

Proceeds of bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets

(553,055)

Bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:

19,114

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

Increase in accrued interest payable		(2,205)	
Amortization of bond issuance costs		(845)	
Total			(3,050)

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.

(3,516)

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 revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities

112,774

Change in net assets of governmental activities **\$ 748,512**

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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 2,205,466	\$ 2,572,843	\$ 2,701,596	\$ 128,753
Tuition	129,889	145,990	118,402	(27,588)
Earnings on investments	18,996	20,134	8,365	(11,769)
Classroom materials and fees	10,107	10,269	1,193	(9,076)
Rental income	1,313	1,525	1,558	33
Contributions and donations	1,000	1,000	-	(1,000)
Other local revenues	10,871	12,150	9,407	(2,743)
Intergovernmental - state	2,108,338	2,428,997	2,358,046	(70,951)
Total revenues	<u>4,485,980</u>	<u>5,192,908</u>	<u>5,198,567</u>	<u>5,659</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,101,788	2,296,322	1,898,392	397,930
Special	428,919	462,072	307,362	154,710
Other	564,032	602,531	381,067	221,464
Support services:				
Pupil	81,606	89,334	76,493	12,841
Instructional staff	267,619	280,772	130,185	150,587
Board of education	18,866	23,952	48,480	(24,528)
Administration	558,169	529,191	366,444	162,747
Fiscal	192,403	206,167	241,163	(34,996)
Operations and maintenance	602,729	655,267	520,031	135,236
Pupil transportation	441,999	463,879	315,554	148,325
Central	47,668	52,904	51,818	1,086
Operation of non-instructional services	137	5,297	1,581	3,716
Extracurricular activities	-	9,720	98,690	(88,970)
Debt service:				
Interest and fiscal charges	-	1,595	16,198	(14,603)
Bond issuance costs	19,065	20,997	19,114	1,883
Total expenditures	<u>5,325,000</u>	<u>5,700,000</u>	<u>4,472,572</u>	<u>1,227,428</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(839,020)</u>	<u>(507,092)</u>	<u>725,995</u>	<u>1,233,087</u>
Other financing sources (uses):				
Transfers (out)	-	-	(25,000)	(25,000)
Advances in	75,000	75,000	78,646	3,646
Advances (out)	(75,000)	-	-	-
Sale of capital assets	250	250	-	(250)
Total other financing sources (uses)	<u>250</u>	<u>75,250</u>	<u>53,646</u>	<u>(21,604)</u>
Net change in fund balance	(838,770)	(431,842)	779,641	1,211,483
Fund balance at beginning of year (restated).	2,785,801	2,785,801	2,785,801	-
Prior year encumbrances appropriated	116,034	116,034	116,034	-
Fund balance at end of year	<u>\$ 2,063,065</u>	<u>\$ 2,469,993</u>	<u>\$ 3,681,476</u>	<u>\$ 1,211,483</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 174,274
Total assets.	<u>174,274</u>
Liabilities:	
Claims payable	<u>40,229</u>
Total liabilities	<u>40,229</u>
Net assets:	
Unrestricted.	<u>134,045</u>
Total net assets	<u><u>\$ 134,045</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, 2011

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 413,788
Total operating revenues	<u>413,788</u>
Operating expenses:	
Claims	<u>301,016</u>
Total operating expenses.	<u>301,016</u>
Operating income.	<u>112,772</u>
Nonoperating revenues:	
Interest revenue	<u>2</u>
Total nonoperating revenues.	<u>2</u>
Change in net assets.	112,774
Net assets at beginning of year	<u>21,271</u>
Net assets at end of year.	<u>\$ 134,045</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, 2011

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 413,788
Cash payments for claims	<u>(276,771)</u>
Net cash provided by operating activities	<u>137,017</u>
Cash flows from investing activities:	
Interest received	<u>2</u>
Net cash provided by investing activities	<u>2</u>
Net increase in cash and cash equivalents	137,019
Cash and cash equivalents at beginning of year . . .	<u>37,255</u>
Cash and cash equivalents at end of year	<u><u>\$ 174,274</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 112,772
Changes in assets and liabilities: Increase in claims payable	<u>24,245</u>
Net cash provided by operating activities.	<u><u>\$ 137,017</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 80,476	\$ 15,689
Total assets.	80,476	\$ 15,689
Liabilities:		
Accounts payable.	-	\$ 351
Due to students.	-	5,369
Loans payable	-	9,969
Total liabilities	-	\$ 15,689
Net assets:		
Held in trust for scholarships	80,476	
Total net assets	\$ 80,476	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 21,069
Total additions.	21,069
 Deductions:	
Scholarships awarded	2,370
Change in net assets.	18,699
Net assets at beginning of year	61,777
Net assets at end of year.	\$ 80,476

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 600th largest by total enrollment among the 918 public school districts and community schools in the State of Ohio. 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 45 non-certified and 43 certificated full-time employees to provide services to 591 students.

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) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does 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 and component units. 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, food 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 organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2011, the District paid \$20,400 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Metropolitan Education Council Purchasing Group

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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 and dental insurance to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the claims and purchased services. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2011, are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities 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 on the governmental fund financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of 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 2011 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, 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. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2011.
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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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, 2011. 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 is pooled. Monies for all 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 investments" on the financial statements.

During fiscal year 2011, investments were limited to STAR Ohio, Federal Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities and non-negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$919 which includes \$85 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

G. Inventory

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

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 disposals 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	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 long-term interfund loans are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net assets.

Receivables resulting from loans to the agency fund are reported as loans receivable on the governmental fund financial statements.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (sick leave) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with 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 sick leave payments has been calculated using pay rates in effect at June 30, 2011 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.

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

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include monies restricted by State statute for the purchase of textbook and instructional materials, food service operations and special enterprise.

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

N. Unamortized Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item 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, 2011

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

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.

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 textbook reserve. This reserve is required by State statute. A schedule of statutory reserves and detail on the District's restricted assets 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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 2,847,740	\$ 335,552	\$ 3,183,292
Fund reclassifications:			
Special trust fund	1,207	(1,207)	-
Uniform school supplies fund	(3,318)	3,318	-
Public school support fund	34,075	(34,075)	-
Total fund reclassifications	31,964	(31,964)	-
Restated fund balance at July 1, 2010	\$ 2,879,704	\$ 303,588	\$ 3,183,292

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

Budgetary Basis

	General Fund
Balance at June 30, 2010	\$ 2,747,360
Funds budgeted elsewhere	38,441
Restated balance at July 1, 2010	\$ 2,785,801

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
SchoolNet professional development	\$ 32
Student intervention	31

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 resulted from adjustments for accrued liabilities.

E. Noncompliance

- i.* The District had appropriations greater than actual resources at June 30, 2011 in noncompliance with Ohio Revised Code Section 5705.36(A)(4).
- ii.* The District had expenditures during the fiscal year in which the invoice was dated prior to the purchase order in noncompliance with Ohio Revised Code Section 5705.41(D).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 and 2 above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At June 30, 2011, the District had \$50 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$1,783,904. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$1,436,873 of the District's bank balance of \$2,257,780 was exposed to custodial risk as discussed below, while \$820,907 was covered by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2011, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 601,508	\$ -	\$ -	\$ 50,587	\$ 51,343	\$ 499,578
FNMA	800,404	-	-	-	-	800,404
FFCB	353,782	-	-	-	101,621	252,161
FHLMC	50,129	-	-	-	-	50,129
STAR Ohio	486,520	486,520	-	-	-	-
Total	<u>\$ 2,292,343</u>	<u>\$ 486,520</u>	<u>\$ -</u>	<u>\$ 50,587</u>	<u>\$ 152,964</u>	<u>\$ 1,602,272</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: The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial risk in that they are uninsured, unregistered and held by the counter party's trust department or agent but not in the District's name. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 601,508	26.24
FNMA	800,404	34.92
FFCB	353,782	15.43
FHLMC	50,129	2.19
STAR Ohio	486,520	21.22
Total	<u>\$ 2,292,343</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>		
Carrying amount of deposits	\$ 1,783,904	
Investments	2,292,343	
Cash on hand	<u>50</u>	
Total	<u>\$ 4,076,297</u>	
 <u>Cash and investments per statement of net assets</u>		
Governmental activities	\$ 3,980,132	
Private-purpose trust fund	80,476	
Agency fund	<u>15,689</u>	
Total	<u>\$ 4,076,297</u>	

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2011 as reported on the fund financial 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	<u>\$ 3,341</u>

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The District had the following loan outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	<u>\$ 9,969</u>

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

- C.** Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Permanent improvement fund	<u>\$ 25,000</u>

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

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$638,388 in the general fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$278,998 in the general fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 58,895,930	78.65	\$ 58,910,960	77.57
Public utility personal	15,814,460	21.12	17,034,230	22.42
Tangible personal property	<u>177,530</u>	<u>0.23</u>	<u>1,090</u>	<u>0.01</u>
Total	<u>\$ 74,887,920</u>	<u>100.00</u>	<u>\$ 75,946,280</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.30		\$49.20	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, intergovernmental grants and entitlements, accounts, and accrued interest. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - RECEIVABLES - (Continued)

A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes	\$ 2,430,582
Intergovernmental	173,657
Accounts	217
Accrued interest	<u>6,427</u>
Total	<u>\$ 2,610,883</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
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	216,939	-	-	216,939
Buildings and improvements	2,871,422	542,210	-	3,413,632
Furniture and equipment	1,468,966	80,289	-	1,549,255
Vehicles	<u>747,300</u>	<u>-</u>	<u>-</u>	<u>747,300</u>
Total capital assets, being depreciated	<u>5,304,627</u>	<u>622,499</u>	<u>-</u>	<u>5,927,126</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(211,822)	(423)	-	(212,245)
Buildings and improvements	(2,427,203)	(58,418)	-	(2,485,621)
Furniture and equipment	(1,327,432)	(29,962)	-	(1,357,394)
Vehicles	<u>(520,585)</u>	<u>(51,845)</u>	<u>-</u>	<u>(572,430)</u>
Total accumulated depreciation	<u>(4,487,042)</u>	<u>(140,648)</u>	<u>-</u>	<u>(4,627,690)</u>
Governmental activities capital assets, net	<u>\$ 1,146,460</u>	<u>\$ 481,851</u>	<u>\$ -</u>	<u>\$ 1,628,311</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 32,518
Special	4,876
Vocational	1,782
<u>Support services:</u>	
Instructional staff	9,197
Administration	1,215
Fiscal	457
Operations and maintenance	14,142
Pupil transportation	50,494
Central	3,926
Extracurricular activities	6,186
Food service operations	<u>15,855</u>
Total depreciation expense	<u>\$ 140,648</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance 06/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/11</u>	<u>Amount Due in One Year</u>
Qualified school construction bonds	2011	2026	4.95%	\$ -	\$ 553,055	\$ -	\$ 553,055	\$ 36,000
Compensated absences				<u>189,405</u>	<u>26,417</u>	<u>(17,035)</u>	<u>198,787</u>	<u>21,906</u>
Total governmental activities				<u>\$ 189,405</u>	<u>\$ 579,472</u>	<u>\$ (17,035)</u>	<u>\$ 751,842</u>	<u>\$ 57,906</u>

Compensated Absences

Compensated absences will be paid primarily from the general fund.

Qualified School Construction Bonds

The Qualified School Construction Bonds were issued on October 28, 2010 at the interest rate of 4.95%. The bonds mature on December 1, 2025. The bonds were issued for the purpose of constructing additions to existing school buildings and structures. Future principal and interest and bond issuance costs are paid out of the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements for the qualified school construction bonds outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	Qualified School Construction Bonds		
	Principal	Interest	Total
2012	\$ 36,000	\$ 26,485	\$ 62,485
2013	36,055	24,702	60,757
2014	37,000	22,894	59,894
2015	37,000	21,062	58,062
2016	37,000	19,231	56,231
2017 - 2021	185,000	68,683	253,683
2022 - 2026	<u>185,000</u>	<u>22,892</u>	<u>207,892</u>
Total	<u>\$ 553,055</u>	<u>\$ 205,949</u>	<u>\$ 759,004</u>

B. Legal Debt Margin

The Ohio Revised Code (ORC) provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The ORC further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The ORC additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$6,282,012 and an unvoted debt margin of \$75,945.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 Ohio) or School Employees Retirement System of Ohio (SERS). This exit bonus applies only to part-time employees who have not previously retired from STRS Ohio or SERS. Upon retirement, the exit bonus will be calculated on a formula of 25% of the first 120 days of accrued sick leave. This bonus is included as a component of “compensated absences payable” on the basic financial statements. 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 - 159 days	3 additional days	33
160 - 169 days	4 additional days	34
170 - 179 days	5 additional days	35
180 - 189 days	6 additional days	36
190 - 199 days	7 additional days	37
200 - 209 days	8 additional days	38
210 - 219 days	9 additional days	39
> = 240 days	10 additional days	40

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

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 2011, the District retained property insurance coverage in the blanket amount of \$20,000,000 with 100% coinsurance, replacement cost endorsement and a \$1,000 deductible. The District also has inland marine floaters in the amount of \$520,620 with a \$500 deductible for coverage of audio visual equipment, two-way radios, tractors, musical instruments and uniforms.

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

Indiana 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, 2011

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 \$100,000. 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. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Plan.

D. Employee Group Medical and Dental Insurance

Medical and dental 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 \$40,229 reported in the internal service fund at June 30, 2011, 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>
2011	\$ 15,984	\$ 301,016	\$ (276,771)	\$ 40,229
2010	27,827	384,887	(396,730)	15,984

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$109,886, \$121,389 and \$83,290, respectively; 43.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$287,799, \$273,526 and \$264,733, respectively; 83.34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$11,904 made by the District and \$8,503 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$35,567, \$17,625 and \$53,938, respectively; 43.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,071, \$7,219 and \$6,872, respectively; 43.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$22,138, \$21,040 and \$20,364, respectively; 83.34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget 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	\$ 779,641
Net adjustment for revenue accruals	345,170
Net adjustment for expenditure accruals	(580,550)
Net adjustment for other sources/uses	(78,646)
Funds budgeted elsewhere	12,289
Adjustment for encumbrances	235,616
GAAP basis	<u>\$ 713,520</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, uniform school supplies fund and the public school fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 16 - SET-ASIDES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 366,719	\$ -
Current year set-aside requirement	84,996	84,996
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(64,794)	(221,712)
Excess qualified expenditures from prior years	-	-
Current year offsets	-	-
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ 386,921</u>	<u>\$ (136,716)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ 386,921</u>	<u>\$ -</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 16 - SET-ASIDES - (Continued)

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not presented as being carried forward to the future fiscal year.

Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

A schedule of the restricted assets at June 30, 2011 follows:

Amounts restricted for textbooks	<u>\$ 386,921</u>
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NOTE 17 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 221,350
Nonmajor governmental funds	<u>37,022</u>
 Total	 <u>\$ 258,372</u>

NOTE 18 - SUBSEQUENT EVENT

Effective November 18, 2011, Scott Osborne resigned as Treasurer and Jeri Wires became Interim Treasurer.

SUPPLEMENTARY DATA

LUCAS LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(G) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
<i>Nutrition Grant Cluster:</i>				
(C)(D) School Breakfast Program	10.553	2011	\$ 7,446	\$ 7,446
(B)(D) National School Lunch Program - Food Donation	10.555	2011	16,319	16,319
(C)(D) National School Lunch Program	10.555	2011	69,115	69,115
Total National School Lunch Program			<u>85,434</u>	<u>85,434</u>
Total U.S. Department of Agriculture and Nutrition Grant Cluster			<u>92,880</u>	<u>92,880</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
<i>Title I Grant Cluster</i>				
(E) Title I Grants to Local Educational Agencies	84.010	2010	24,252	28,112
(E) Title I Grants to Local Educational Agencies	84.010	2011	55,765	45,190
Total Title I Grants to Local Educational Agencies			<u>80,017</u>	<u>73,302</u>
(E) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2010	7,651	7,652
Total Title I Grant Cluster			<u>87,668</u>	<u>80,954</u>
<i>Special Education Grant Cluster</i>				
(F) Special Education Grants to States	84.027	2010	59,095	76,479
(F) Special Education Grants to States	84.027	2011	123,035	123,035
Total Special Education Grants to States			<u>182,130</u>	<u>199,514</u>
(F) ARRA - Special Education Grants to States, Recovery Act	84.391	2010	28,996	15,410
Total Special Education Grant Cluster			<u>211,126</u>	<u>214,924</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2010	-	1,551
Total Safe and Drug-Free Schools and Communities State Grants			<u>-</u>	<u>1,551</u>
Educational Technology State Grant	84.318	2010	-	76
Educational Technology State Grant	84.318	2011	207	155
Total Educational Technology State Grants			<u>207</u>	<u>231</u>
(H) Rural Education	84.358	N/A	49,849	16,391
Total Rural Education			<u>49,849</u>	<u>16,391</u>
Improving Teacher Quality State Grants	84.367	2010	-	10,296
Improving Teacher Quality State Grants	84.367	2011	18,476	18,476
Total Improving Teacher Quality State Grants			<u>18,476</u>	<u>28,772</u>
ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act	84.394	2010	-	72,905
ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act	84.394	2011	170,255	86,416
Total ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act			<u>170,255</u>	<u>159,321</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	2011	12,966	11,749
Education Jobs Fund	84.410	2011	21,490	17,855
Total U.S. Department of Education			<u>572,037</u>	<u>531,748</u>
Total of all Federal			<u>\$ 664,917</u>	<u>\$ 624,628</u>

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS:

- (A) This schedule was prepared on the cash basis of accounting.
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at entitlement value.
- (C) Commingled with state and local revenue from sales of breakfasts and lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (E) Included as part of "Title I Grant Cluster" in determining major programs.
- (F) Included as part of "Special Education Grant Cluster" in determining major programs.
- (G) OAKS did not assign pass-through numbers for fiscal year 2011.
- (H) This grant was direct from the U.S. Department of Education.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Lucas Local School District
84 Lucas North Road
Lucas, Ohio 44843

To the Board of Education:

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, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Government's basic financial statements and have issued our report thereon dated February 29, 2012. We noted the Lucas Local School District adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Lucas Local School District's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-LLSD-001 described in the accompanying schedule of findings and responses to be a material weakness.

Board of Education
Lucas Local School District

Compliance and Other Matters

As part of reasonably assuring whether the Lucas Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed two instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2011-LLSD-002 and 2011-LLSD-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Lucas Local School District's management in a separate letter dated February 29, 2012.

The Lucas Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Lucas Local School District's responses and, accordingly, we express no opinion on them.

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

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

Julian & Grube, Inc.
February 29, 2012



Julian & Grube, Inc. *Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by *OMB Circular A-133*

Lucas Local School District
84 Lucas North Road
Lucas, Ohio 44843

To the Board of Education:

Compliance

We have audited the compliance of the Lucas Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Lucas Local School District's major federal programs for the fiscal year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the Lucas Local School District's major federal programs. The Lucas Local School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Lucas Local School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Lucas Local School District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lucas Local School District's compliance with these requirements.

In our opinion, the Lucas Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, *OMB Circular A-133* requires us to report. The accompanying schedule of findings and responses lists this instance as finding 2011-LLSD-004.

Internal Control Over Compliance

The Lucas Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lucas Local School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Lucas Local School District's internal control over compliance.

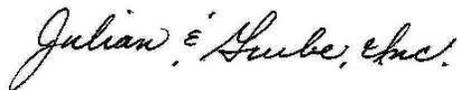
Board of Education
Lucas Local School District

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

The Lucas Local School District's response to the finding we identified is described in the accompanying schedule of findings and responses. We did not audit the Lucas Local School District's response and, accordingly, we express no opinion on it.

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



Julian & Grube, Inc.
February 29, 2012

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	Yes
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Special Education Grant Cluster: Special Education_Grants to States - CFDA #84.027 and ARRA-Special Education Grants to States, Recovery Act - CFDA #84.391; ARRA-State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act - CFDA #84.394
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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Finding Number	2011-LLSD-001
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Material Weakness - Bank Reconciliations

The District's bank statements should be reconciled on a monthly basis, shortly after month end. Further, these bank reconciliations along with supporting documentation should be submitted to the Board of Education for review and approval at the meeting date following month end.

An accurate reconciliation of the District's bank statements for the fiscal year ended June 30, 2011 was not performed and completed until several months after fiscal year end. Upon completion of the reconciliation, cash adjustments decreasing the General Fund by \$494,251 and increasing the Internal Service Fund by \$105,278 were required as a result of reconciling accounts in an untimely manner. These adjustments were included in the financial statements and posted on the District's system.

Not providing the Board of Education with timely monthly reconciliations results in the Board of Education relying on misrepresented financial information in which they base their decisions.

We recommend the District Treasurer timely reconcile its bank statements and provide the reconciliation and supporting documentation to the Board of Education. A Board of Education representative should review the bank reconciliations for any unusual items and document their approval by initialing the reconciliation. This may significantly improve the system of checks and balances necessary for strong cash control.

Client's Response: The Treasurer will ensure and provide monthly reconciliation of all bank statements, shortly after month end, along with supporting documentation to the Board of Education for review and approval by the Board.

Finding Number	2011-LLSD-002
----------------	---------------

Ohio Revised Code Section 5705.36 (A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At June 30, 2011, the District had appropriations greater than actual resources, in the following funds:

<u>Nonmajor Governmental Funds</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Permanent Improvement	\$ 594,290	\$ 597,500	\$ 3,210
Self-Insurance	57,642	537,641	479,999
Education Stabilization	170,255	190,289	20,034

By appropriating more funds than actual resources, the District is at risk of spending more money than is available; this may result in negative fund balances.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2011-LLSD-002 - (Continued)

We recommend the District monitor appropriations in comparison to actual resources and obtain decreased amended appropriations as needed. Further guidance may be found in Auditor of State Bulletin 97-010.

Client Response: The District will attempt to monitor appropriations closer throughout the fiscal year to address the related issues.

Finding Number	2011-LLSD-003
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Ohio Revised Code Section 5705.41(D) requires in part no subdivision is to expend monies unless it has been appropriated.

The District made several expenditures during the fiscal year ended June 30, 2011 in which the invoice was dated prior to the purchase order by the Treasurer, thus causing those expenditures not to be certified in a timely manner. Of the expenditures tested, 20% had purchase orders that were not dated prior to the invoice date.

Without timely certification, the District may expend more funds than available in the treasury, in the process of collection, or than funds appropriated. Thus, a fund deficit could occur.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The District should consider using "Then" and "Now" certificates where applicable.

Client Response: The District is attempting to utilize blanket purchase orders more often and working towards more timely issuance of purchase orders.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2011-LLSD-004
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund (SFSF) - Educational States Grants, Recovery Act (CFDA #84.394)
Federal Award Number/Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

34 CFR 80.20(b)(7) requires procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and sub-grantees must be followed whenever advance payment procedures are used.

At fiscal year end, the District had \$83,839 of State Fiscal Stabilization Funds (SFSF) grants monies on hand. This amount exceeds their last advance from the Ohio Department of Education through the foundation settlement.

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - (Continued)

The District is not using effective cash management practices which could result in reduction of grant funding, return of grant funding, and/or payment of imputed interest of approximately \$150 to the United States Department of Education.

We recommend that the District review Office of Management and Budget Circular A-133 regarding cash management requirements. We also recommend the District consult with Ohio Department of Education regarding the preferred method of disposition of the unspent grant funds. This will help to ensure compliance with cash management of Federal award programs and that proper action is taken.

Client Response: Compliance with all regulations and grant agreements is highly important to the District. As the SFSF program got close to the end of the program, the Treasurer received conflicting information and guidance which caused the noncompliance. Since the program no longer exists, the District shouldn't have any further issues.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505& .315(b)
JUNE 30, 2011**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid:</u>
2010-LLSD-001	<u>Material Weakness - Bank Reconciliations</u> - An accurate reconciliation of the District's bank statements for fiscal year ended June 30, 2010 was not performed and completed until several months after fiscal year end.	No	Finding repeated as 2011-LLSD-001
2010-LLSD-002	<u>Material Weakness - Financial Statement Presentation</u> - Misstatements in the financial statements for fiscal year ending June 30, 2010 were not initially identified by the District's internal control procedures.	Yes	N/A



Dave Yost • 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
MAY 3, 2012**