



Dave Yost • Auditor of State

**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
JUNE 30, 2017**

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LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
JUNE 30, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lucas Local School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Lucas Local School District, Richland County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

January 23, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management's discussion and analysis of the Lucas Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. 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 2017 are as follows:

- Net position of governmental activities increased \$666,490 which represents a 293.50% increase from 2016.
- General revenues accounted for \$5,978,336 in revenue or 80.59% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,439,798 or 19.41% of total revenues of \$7,418,134.
- The District had \$6,751,644 in expenses related to governmental activities; \$1,439,798 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 \$5,978,336 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$6,738,176 in revenues and \$5,961,002 in expenditures and other financing uses. During fiscal year 2017, the general fund's fund balance increased \$777,174 from a balance of \$6,182,245 to \$6,959,419.

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 position* 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 Position 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 2017?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2017
(UNAUDITED)

These two statements report the District's *net position* and changes in that position. This change in net position 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 position 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 position and statement of activities can be found on pages 16-17 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 12. 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 position 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 18-22 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 position and changes in fiduciary net position on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-59 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 62 through 68 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2017 and June 30, 2016.

	Net Position	
	Governmental Activities 2017	Governmental Activities 2016
<u>Assets</u>		
Current and other assets	\$ 10,583,760	\$ 9,498,117
Capital assets, net	<u>1,880,606</u>	<u>1,860,315</u>
Total assets	<u>12,464,366</u>	<u>11,358,432</u>
<u>Deferred Outflows of Resources</u>		
Pensions	<u>1,818,710</u>	<u>895,391</u>
Total deferred outflows of resources	<u>1,818,710</u>	<u>895,391</u>
<u>Liabilities</u>		
Current liabilities	605,271	597,703
Long-term liabilities:		
Due within one year	47,785	62,367
Due in more than one year:		
Net pension liability	9,384,586	8,001,489
Other amounts	<u>486,139</u>	<u>491,976</u>
Total liabilities	<u>10,523,781</u>	<u>9,153,535</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	2,587,012	2,387,263
Pensions	<u>278,713</u>	<u>485,945</u>
Total deferred inflows of resources	<u>2,865,725</u>	<u>2,873,208</u>
<u>Net Position</u>		
Net investment in capital assets	1,547,606	1,490,315
Restricted	152,709	115,388
Unrestricted (deficit)	<u>(806,745)</u>	<u>(1,378,623)</u>
Total net position (deficit)	<u>\$ 893,570</u>	<u>\$ 227,080</u>

The District has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the District's liabilities plus deferred inflows exceeded assets plus deferred outflows of resources by \$893,570.

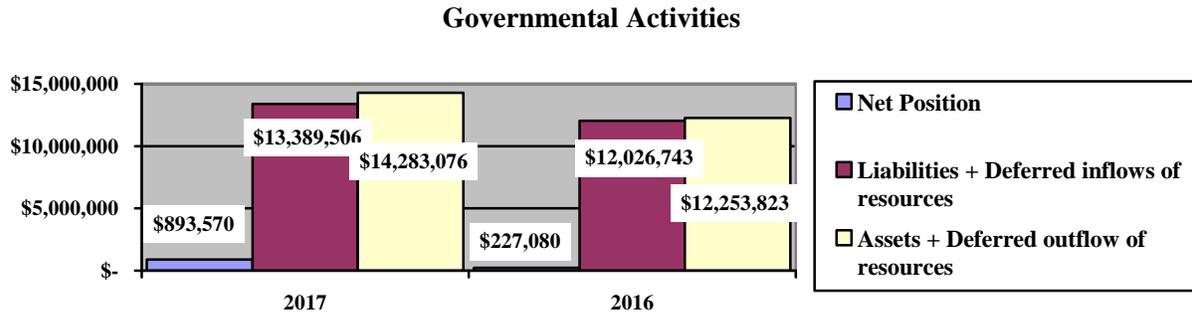
**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

At fiscal year-end, capital assets represented 15.09% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2017 was \$1,547,606. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$152,709 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$806,745.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2017 and June 30, 2016.



The table below shows the change in net position for fiscal years 2017 and 2016.

	Change in Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 831,666	\$ 811,513
Operating grants and contributions	608,132	460,984
General revenues:		
Property taxes	2,906,943	2,662,562
Grants and entitlements	3,052,969	3,023,941
Investment earnings	13,668	52,116
Other	<u>4,756</u>	<u>7,452</u>
Total revenues	<u>7,418,134</u>	<u>7,018,568</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Change in Net Position

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,821,553	\$ 2,542,917
Special	734,033	606,931
Vocational	4,849	3,196
Other	409,432	352,167
Support services:		
Pupil	192,152	160,415
Instructional staff	214,091	131,805
Board of education	32,535	29,182
Administration	581,940	543,648
Fiscal	173,217	189,680
Operations and maintenance	540,830	697,923
Pupil transportation	412,800	310,540
Central	26,088	16,025
Operations of non-instructional services:		
Food service operations	274,868	285,182
Other non-instructional services	1,431	1,522
Extracurricular activities	330,771	315,595
Interest and fiscal charges	<u>1,054</u>	<u>1,160</u>
Total expenses	<u>6,751,644</u>	<u>6,187,888</u>
Change in net position	666,490	830,680
Net position (deficit) at beginning of year	<u>227,080</u>	<u>(603,600)</u>
Net position (deficit) at end of year	<u>\$ 893,570</u>	<u>\$ 227,080</u>

Governmental Activities

Net position of the District's governmental activities increased \$666,490. Total governmental expenses of \$6,751,644 were offset by program revenues of \$1,439,798 and general revenues of \$5,978,336. Program revenues supported 21.33% 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 80.34% of total governmental revenue.

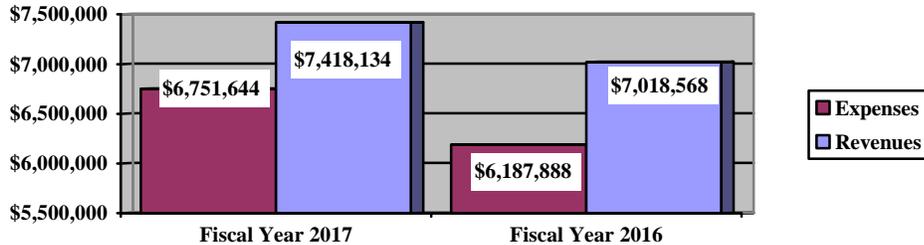
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,969,867 or 58.80% of total governmental expenses for fiscal year 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2017 and 2016.

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 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program expenses				
Instruction:				
Regular	\$ 2,821,553	\$ 2,318,700	\$ 2,542,917	\$ 2,065,176
Special	734,033	420,750	606,931	304,648
Vocational	4,849	(4,564)	3,196	(2,847)
Other	409,432	409,432	352,167	352,167
Support services:				
Pupil	192,152	155,469	160,415	160,415
Instructional staff	214,091	114,115	131,805	113,167
Board of education	32,535	32,535	29,182	29,182
Administration	581,940	514,142	543,648	506,372
Fiscal	173,217	173,217	189,680	189,680
Operations and maintenance	540,830	537,170	697,923	696,909
Pupil transportation	412,800	394,566	310,540	286,751
Central	26,088	26,088	16,025	16,025
Operations of non-instructional services:				
Food service operations	274,868	41,594	285,182	29,128
Other non-instructional services	1,431	1,431	1,522	1,522
Extracurricular activities	330,771	176,147	315,595	165,936
Interest and fiscal charges	1,054	1,054	1,160	1,160
Total expenses	<u>\$ 6,751,644</u>	<u>\$ 5,311,846</u>	<u>\$ 6,187,888</u>	<u>\$ 4,915,391</u>

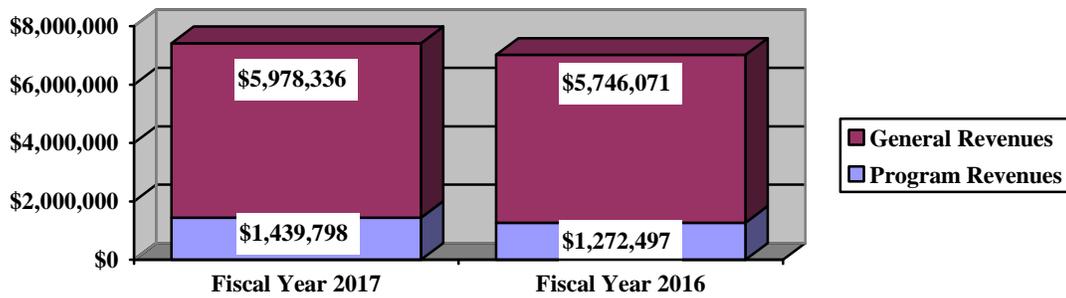
**LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 79.21% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.67%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2017 and 2016.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$7,273,341 which is higher than last year's total of \$6,366,841. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance <u>June 30, 2017</u>	Fund Balance <u>June 30, 2016</u>	<u>Change</u>	Percentage <u>Change</u>
General	\$ 6,959,419	\$ 6,182,245	\$ 777,174	12.57%
Other governmental	<u>313,922</u>	<u>184,596</u>	<u>129,326</u>	70.06%
Total	<u>\$ 7,273,341</u>	<u>\$ 6,366,841</u>	<u>\$ 906,500</u>	14.24%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

General Fund

The District's general fund balance increased \$777,174. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Property taxes	\$ 2,925,538	\$ 2,664,667	\$ 260,871	9.79 %
Tuition	548,319	507,527	40,792	8.04 %
Earnings on investments	18,855	43,393	(24,538)	(56.55) %
Intergovernmental	3,201,028	3,141,367	59,661	1.90 %
Other revenues	<u>44,436</u>	<u>45,542</u>	<u>(1,106)</u>	<u>(2.43) %</u>
Total	<u>\$ 6,738,176</u>	<u>\$ 6,402,496</u>	<u>\$ 335,680</u>	<u>5.24 %</u>
<u>Expenditures</u>				
Instruction	\$ 3,636,700	\$ 3,281,660	\$ 355,040	10.82 %
Support services	1,880,837	2,041,206	(160,369)	(7.86) %
Non-instructional services	1,431	1,522	(91)	(5.98) %
Extracurricular activities	179,585	177,959	1,626	0.91 %
Facilities acquisition and construction	113,041	131,832	(18,791)	(14.25) %
Debt service	<u>38,201</u>	<u>38,308</u>	<u>(107)</u>	<u>(0.28) %</u>
Total	<u>\$ 5,849,795</u>	<u>\$ 5,672,487</u>	<u>\$ 177,308</u>	<u>3.13 %</u>

Overall revenues of the general fund increased \$335,680 or 5.24%. This increase can be attributed, in part, to the increase in intergovernmental revenues, which is due to an increase in State Foundation funding revenues. The increase in property tax can be attributed to an increase in the amount of tax advances available at year end. The decrease in earnings on investments is due to a change in recording of the investments held by the District. The District now records interest on a tax basis.

Overall, expenditures of the general fund increased \$177,308 or 3.13%. The District's decrease in support services expenditures is a result of a decrease in fiscal, operations and maintenance and pupil transportation related expenditures. The District's increase in instruction expenditures can be attributed to an increase in regular and special expenditures.

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.

For fiscal year 2017, the general fund original budgeted revenues and other financing sources were \$6,918,030 and decreased to \$6,843,030 for final budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2017 were \$6,825,234. This represents a \$17,796 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,560,109 were the same as final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2017 totaled \$6,195,164, which was \$364,945 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, 2017
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the District had \$1,880,606 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal year 2017 balances compared to 2016:

Capital Assets at June 30 (Net of Depreciation)		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 328,875	\$ 328,875
Land improvements	69,668	75,332
Building and improvements	716,764	631,529
Furniture and equipment	365,390	311,530
Vehicles	357,951	425,677
Construction in Progress	<u>41,958</u>	<u>87,372</u>
Total	<u>\$ 1,880,606</u>	<u>\$ 1,860,315</u>

Total additions to capital assets for 2017 were \$220,409. Disposals to capital assets for 2017 were \$7,913 (net of accumulated depreciation). Depreciation expense for the fiscal year was \$192,205. Overall, capital assets of the District increased \$20,291.

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

Debt Administration

At June 30, 2017 the District had \$333,000 in qualified school construction bonds outstanding. Of this total, \$37,000 is due within one year and \$296,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End		
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
Qualified School Construction Bonds	\$ 333,000	\$ 370,000
Total	<u>\$ 333,000</u>	<u>\$ 370,000</u>

See Note 9 to the basic financial statements for detail.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Current Financial Related Activities

The Board's five-year forecast indicates the District will require no new additional operating money for fiscal year 2017 through fiscal year 2021 based on current assumptions and conditions. With careful management, additional reductions in spending, and the successful passage of a renewal levy in November 2016, the District will not require additional operating money until after fiscal year 2021. The District's certified agreement is valid through June 30, 2020.

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, please contact Mr. Larry Lifer, Lucas Local School District, 84 Lucas North Road, Lucas, Ohio 44843-9532, 419-892-2338 extension 213.

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

STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments.	\$ 7,489,747
Receivables:	
Property taxes	2,929,936
Accounts	14,316
Accrued interest	9,734
Intergovernmental	64,129
Loans	1,072
Prepayments	55,015
Materials and supplies inventory.	1,258
Inventory held for resale.	18,553
Capital assets:	
Nondepreciable capital assets	370,833
Depreciable capital assets, net.	1,509,773
Capital assets, net	<u>1,880,606</u>
Total assets.	<u>12,464,366</u>
Deferred outflows of resources:	
Pension - STRS	1,285,546
Pension - SERS	<u>533,164</u>
Total deferred outflows of resources	<u>1,818,710</u>
Total assets and deferred outflows of resources	<u>14,283,076</u>
Liabilities:	
Accounts payable.	51,848
Contracts payable.	41,958
Accrued wages and benefits payable	421,836
Intergovernmental payable	5,660
Pension and postemployment payable.	82,641
Accrued interest payable	1,328
Long-term liabilities:	
Due within one year.	47,785
Due in more than one year:	
Net pension liability (See Note 12)	9,384,586
Other amounts due in more than one year	486,139
Total liabilities	<u>10,523,781</u>
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	2,587,012
Pension - STRS.	264,522
Pension - SERS.	<u>14,191</u>
Total deferred inflows of resources	<u>2,865,725</u>
Total liabilities and deferred inflows of resources	<u>13,389,506</u>
Net position:	
Net investment in capital assets	1,547,606
Restricted for:	
Locally funded programs	23,715
Federally funded programs	29,070
Student activities	51,432
Other purposes	48,492
Unrestricted (deficit)	<u>(806,745)</u>
Total net position.	<u>\$ 893,570</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,821,553	\$ 483,362	\$ 19,491	\$ (2,318,700)
Special	734,033	79,286	233,997	(420,750)
Vocational	4,849	-	9,413	4,564
Other	409,432	-	-	(409,432)
Support services:				
Pupil	192,152	-	36,683	(155,469)
Instructional staff	214,091	-	99,976	(114,115)
Board of education	32,535	-	-	(32,535)
Administration	581,940	24,579	43,219	(514,142)
Fiscal	173,217	-	-	(173,217)
Operations and maintenance	540,830	2,096	1,564	(537,170)
Pupil transportation	412,800	360	17,874	(394,566)
Central	26,088	-	-	(26,088)
Operation of non-instructional services:				
Other non-instructional services	1,431	-	-	(1,431)
Food service operations	274,868	117,515	115,759	(41,594)
Extracurricular activities	330,771	124,468	30,156	(176,147)
Interest and fiscal charges	1,054	-	-	(1,054)
Total governmental activities	\$ 6,751,644	\$ 831,666	\$ 608,132	(5,311,846)
General revenues:				
Property taxes levied for:				
General purposes				2,906,943
Grants and entitlements not restricted to specific programs				3,052,969
Investment earnings				13,668
Miscellaneous				4,756
Total general revenues				5,978,336
Change in net position				666,490
Net position at beginning of year				227,080
Net position at end of year				\$ 893,570

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments.	\$ 7,157,782	\$ 331,965	\$ 7,489,747
Receivables:			
Property taxes.	2,929,936	-	2,929,936
Accounts	14,316	-	14,316
Accrued interest	9,734	-	9,734
Intergovernmental.	31,182	32,947	64,129
Loans	1,072	-	1,072
Prepayments.	54,075	940	55,015
Materials and supplies inventory.	-	1,258	1,258
Inventory held for resale.	-	18,553	18,553
Total assets	<u>\$ 10,198,097</u>	<u>\$ 385,663</u>	<u>\$ 10,583,760</u>
Liabilities:			
Accounts payable	\$ 50,912	\$ 936	\$ 51,848
Contracts payable.	41,958	-	41,958
Accrued wages and benefits payable	386,134	35,702	421,836
Intergovernmental payable	5,186	474	5,660
Pension and postemployment payable	76,832	5,809	82,641
Total liabilities.	<u>561,022</u>	<u>42,921</u>	<u>603,943</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	2,587,012	-	2,587,012
Delinquent property tax revenue not available.	83,788	-	83,788
Intergovernmental revenue not available.	-	28,820	28,820
Accrued interest not available.	6,856	-	6,856
Total deferred inflows of resources	<u>2,677,656</u>	<u>28,820</u>	<u>2,706,476</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	-	1,258	1,258
Prepays.	54,075	940	55,015
Restricted:			
Food service operations	-	59,992	59,992
Special education	-	2,411	2,411
Other purposes.	-	23,715	23,715
Extracurricular activities.	-	51,432	51,432
Committed:			
Capital improvements	-	190,693	190,693
Facilities acquisition and construction	191,142	-	191,142
Assigned:			
Student instruction	367	-	367
Student and staff support.	42,370	-	42,370
Extracurricular activities	118	-	118
Unassigned (deficit)	6,671,347	(16,519)	6,654,828
Total fund balances	<u>6,959,419</u>	<u>313,922</u>	<u>7,273,341</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 10,198,097</u>	<u>\$ 385,663</u>	<u>\$ 10,583,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund balances		\$	7,273,341
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,880,606
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	83,788	
Accrued interest receivable		6,856	
Intergovernmental receivable		28,820	
Total		119,464	119,464
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(1,328)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		1,818,710	
Deferred inflows of resources - pension		(278,713)	
Net pension liability		(9,384,586)	
Total		(7,844,589)	(7,844,589)
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		(333,000)	
Compensated absences		(200,924)	
Total		(533,924)	(533,924)
Net position of governmental activities		\$	893,570

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, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 2,925,538	\$ -	\$ 2,925,538
Tuition	548,319	-	548,319
Transportation fees	360	-	360
Earnings on investments	18,855	281	19,136
Charges for services	-	119,103	119,103
Extracurricular	24,579	124,468	149,047
Classroom materials and fees	14,329	-	14,329
Rental income	508	-	508
Contributions and donations	2,029	5,590	7,619
Other local revenues	2,631	96	2,727
Intergovernmental - intermediate	-	80,743	80,743
Intergovernmental - state	3,201,028	7,115	3,208,143
Intergovernmental - federal	-	356,370	356,370
Total revenues	<u>6,738,176</u>	<u>693,766</u>	<u>7,431,942</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,644,886	13,821	2,658,707
Special	577,771	123,237	701,008
Vocational	4,611	-	4,611
Other	409,432	-	409,432
Support services:			
Pupil	165,936	25,200	191,136
Instructional staff	119,130	96,791	215,921
Board of education	32,174	-	32,174
Administration	524,601	28,912	553,513
Fiscal	168,808	-	168,808
Operations and maintenance	508,569	16,020	524,589
Pupil transportation	337,005	-	337,005
Central	24,614	-	24,614
Operation of non-instructional services:			
Other operation of non-instructional	1,431	-	1,431
Food service operations	-	230,742	230,742
Extracurricular activities	179,585	140,924	320,509
Facilities acquisition and construction	113,041	-	113,041
Debt service:			
Principal retirement	37,000	-	37,000
Interest and fiscal charges	1,201	-	1,201
Total expenditures	<u>5,849,795</u>	<u>675,647</u>	<u>6,525,442</u>
Excess of revenues over expenditures	<u>888,381</u>	<u>18,119</u>	<u>906,500</u>
Other financing sources (uses):			
Transfers in	-	111,207	111,207
Transfers (out)	(111,207)	-	(111,207)
Total other financing sources (uses)	<u>(111,207)</u>	<u>111,207</u>	<u>-</u>
Net change in fund balances	777,174	129,326	906,500
Fund balances at beginning of year	<u>6,182,245</u>	<u>184,596</u>	<u>6,366,841</u>
Fund balances at end of year	<u>\$ 6,959,419</u>	<u>\$ 313,922</u>	<u>\$ 7,273,341</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, 2017

Net change in fund balances - total governmental funds	\$	906,500
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 220,409	
Current year depreciation	<u>(192,205)</u>	
Total		28,204
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(7,913)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(18,595)	
Earnings on investments	(5,468)	
Intergovernmental	<u>10,255</u>	
Total		(13,808)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Bonds		37,000
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 less interest being reported in the statement of activities:		
Decrease in accrued interest payable		147
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		480,623
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(733,169)
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.		
		<u>(31,094)</u>
Change in net position of governmental activities	\$	<u>666,490</u>

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)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<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	\$ 3,021,080	\$ 3,010,436	\$ 2,999,839	\$ (10,597)
Tuition	484,000	550,255	548,318	(1,937)
Transportation fees	4,500	361	360	(1)
Earnings on investments	25,000	54,210	60,311	6,101
Classroom materials and fees	13,650	14,380	14,329	(51)
Rental income	800	510	508	(2)
Other local revenues	1,000	1,761	1,755	(6)
Intergovernmental - state	3,352,000	3,202,373	3,191,101	(11,272)
Total revenues	6,902,030	6,834,286	6,816,521	(17,765)
Expenditures:				
Current:				
Instruction:				
Regular	2,886,274	2,724,824	2,573,239	151,585
Special	500,777	609,829	575,904	33,925
Vocational	7,022	4,928	4,654	274
Other	410,368	433,551	409,432	24,119
Support services:				
Pupil	215,086	176,824	166,987	9,837
Instructional staff	145,288	125,536	118,552	6,984
Board of education	55,541	34,103	32,206	1,897
Administration	577,838	551,010	520,357	30,653
Fiscal	209,598	178,973	169,017	9,956
Operations and maintenance	580,026	573,642	541,730	31,912
Pupil transportation	355,547	354,426	334,709	19,717
Central	28,816	26,514	25,039	1,475
Other operation of non-instructional services	2,194	1,515	1,431	84
Extracurricular activities	201,950	191,603	180,944	10,659
Facilities acquisition and construction	195,902	414,621	391,555	23,066
Debt service:				
Principal	40,598	39,180	37,000	2,180
Interest and fiscal charges	21,101	1,272	1,201	71
Total expenditures	6,433,926	6,442,351	6,083,957	358,394
Excess of revenues over expenditures	468,104	391,935	732,564	340,629
Other financing sources (uses):				
Refund of prior year's expenditures	16,000	5,858	5,837	(21)
Transfers (out)	(126,183)	(117,758)	(111,207)	6,551
Advances in	-	2,007	2,000	(7)
Sale of capital assets	-	879	876	(3)
Total other financing sources (uses)	(110,183)	(109,014)	(102,494)	6,520
Net change in fund balance	357,921	282,921	630,070	347,149
Fund balance at beginning of year	6,064,907	6,064,907	6,064,907	-
Prior year encumbrances appropriated	210,109	210,109	210,109	-
Fund balance at end of year	\$ 6,632,937	\$ 6,557,937	\$ 6,905,086	\$ 347,149

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 44,756	\$ 50,569
Total assets.	44,756	\$ 50,569
Liabilities:		
Due to students.	-	\$ 49,497
Loans	-	1,072
Total liabilities	-	\$ 50,569
Net position:		
Held in trust for scholarships	44,756	
Total net position.	\$ 44,756	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 207
Gifts and contributions	6,000
Total additions	6,207
 Deductions:	
Scholarships awarded	6,003
Change in net position	204
Net position at beginning of year	44,552
Net position at end of year	\$ 44,756

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 operates under a locally-elected five-member Board form of government and provides educational services as authorized and further mandated by State and/or federal agencies. This Board controls the district's 4 instructional/support facilities staffed by 42 non-certified, 43 certified and 6 administrative full-time employees to provide services to 546 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". 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 government's 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, 2017

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 2017, the District paid \$101,591 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 Educational Technology Association (META) Solutions

The District is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Valley Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. During fiscal year 2017, the District paid META Solutions \$300 for services. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance.

The following is the District's only major governmental fund:

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 (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than 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 proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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 position 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

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. 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, current deferred outflows of resources, current liabilities and current deferred inflows of resources 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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 12 for deferred outflows of resources related the District's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 12 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 2017 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 2017.
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 statutory provisions.
7. Appropriations amounts, at a fund level, 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, 2017. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 2017, investments were limited to negotiable certificates of deposit (CDs), Federal Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, and Federal Home Loan Mortgage Corporation (FHLMC) securities. 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.

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 2017 amounted to \$18,855 which includes \$699 assigned from other District funds.

For presentation on the statement of net position, 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.

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.

On the fund financial statements, reported materials and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital 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 position, but are not reported in the fund financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 \$3,000. 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 and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

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

Receivables resulting from loans to the agency fund are reported as loans receivable on the governmental fund financial statements and as loans payable on the statement of fiduciary net position.

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.

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, 2017 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, 2017 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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.

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.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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 Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service operations and special enterprise operations.

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

N. Bond Issuance Costs

On government-wide and fund financial statements, bond issuance costs are expensed in the year they occurred.

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.

On the fund financial statements, reported prepayments is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Q. 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 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.

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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 2017.

T. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, *“Tax Abatement Disclosures”*, GASB Statement No. 78, *“Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”*, GASB Statement No. 80, *“Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14”* and GASB Statement No. 82, *“Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73”*.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The District did not have any material tax abatements to disclose.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2017 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Title I	\$ 8,692
Miscellaneous federal grants	7,704

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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;
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At June 30, 2017, 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, 2017, the carrying amount of all District deposits was \$3,858,588. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$406,085 of the District’s bank balance of \$3,668,651 was exposed to custodial risk as discussed below, while \$3,262,566 was covered by the FDIC.

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, 2017, the District had the following investments and maturities:

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	<u>Investment Maturities</u>				
		6 months or <u>less</u>	7 to 12 <u>months</u>	13 to 18 <u>months</u>	19 to 24 <u>months</u>	Greater than <u>24 months</u>
Fair Value:						
FFCB	\$ 646,708	\$ 49,964	\$ -	\$ 99,910	\$ 248,752	\$ 248,082
FHLB	199,865	199,865	-	-	-	-
FHLMC	199,007	50,036	-	-	-	148,971
FNMA	198,374	-	-	-	-	198,374
Negotiable CDs	<u>2,482,480</u>	<u>199,922</u>	<u>199,955</u>	<u>399,020</u>	<u>199,833</u>	<u>1,483,750</u>
Total	<u>\$ 3,726,434</u>	<u>\$ 499,787</u>	<u>\$ 199,955</u>	<u>\$ 498,930</u>	<u>\$ 448,585</u>	<u>\$ 2,079,177</u>

The District’s investments in federal agency securities (FHLB, FNMA, FFCB, FHLMC) and negotiable certificates of deposit are valued using quoted market prices that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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 AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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, 2017:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
FFCB	\$ 646,708	17.35
FLB	199,865	5.36
FHLMC	199,007	5.34
FNMA	198,374	5.32
Negotiable CD's	<u>2,482,480</u>	<u>66.63</u>
Total	<u>\$ 3,726,434</u>	<u>100.00</u>

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

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 position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,858,588
Investments	3,726,434
Cash on hand	<u>50</u>
Total	<u>\$ 7,585,072</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 7,489,747
Private-purpose trust fund	44,756
Agency fund	<u>50,569</u>
Total	<u>\$ 7,585,072</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 111,207</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 for reporting purposes in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- 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 fund	Agency fund	<u>\$ 1,072</u>

The loan results from advances from the General fund to the Student Managed Activity Agency fund to provide resources for yearbooks.

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

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 and public utility property. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, 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 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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, 2017

NOTE 6 - PROPERTY TAXES (Continued)

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, 2017, are available to finance fiscal year 2017 operations. The amount available as an advance at June 30, 2017 was \$259,136 in the general fund. This amount is recorded as revenue. The amount available for advance at June 30, 2016 was \$333,437 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, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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 reported as a deferred inflow.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 64,798,640	73.77	\$ 65,156,950	72.96
Public utility personal	<u>23,041,230</u>	<u>26.23</u>	<u>24,150,970</u>	<u>27.04</u>
Total	<u>\$ 87,839,870</u>	<u>100.00</u>	<u>\$ 89,307,920</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$47.10		\$47.10	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - RECEIVABLES

Receivables at June 30, 2017 consisted of property taxes, intergovernmental grants and entitlements, accounts, loans 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.

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

Governmental activities:

Property taxes	\$ 2,929,936
Intergovernmental	64,129
Accounts	14,316
Loans	1,072
Accrued interest	<u>9,734</u>
Total	<u>\$ 3,019,187</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, 2017, was as follows:

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 328,875	\$ -	\$ -	\$ 328,875
Construction in progress	<u>87,372</u>	<u>119,504</u>	<u>(164,918)</u>	<u>41,958</u>
Total capital assets, not being depreciated	<u>416,247</u>	<u>119,504</u>	<u>(164,918)</u>	<u>370,833</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	369,884	-	-	369,884
Buildings and improvements	3,522,025	164,918	-	3,686,943
Furniture and equipment	1,351,450	100,905	(64,508)	1,387,847
Vehicles	<u>884,283</u>	<u>-</u>	<u>(56,099)</u>	<u>828,184</u>
Total capital assets, being depreciated	<u>6,127,642</u>	<u>265,823</u>	<u>(120,607)</u>	<u>6,272,858</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(294,552)	(5,664)	-	(300,216)
Buildings and improvements	(2,890,496)	(79,683)	-	(2,970,179)
Furniture and equipment	(1,039,920)	(44,742)	62,205	(1,022,457)
Vehicles	<u>(458,606)</u>	<u>(62,116)</u>	<u>50,489</u>	<u>(470,233)</u>
Total accumulated depreciation	<u>(4,683,574)</u>	<u>(192,205)</u>	<u>112,694</u>	<u>(4,763,085)</u>
Governmental activities capital assets, net	<u>\$ 1,860,315</u>	<u>\$ 193,122</u>	<u>\$ (172,831)</u>	<u>\$ 1,880,606</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 30,523
<u>Support services:</u>	
Pupil	240
Instructional staff	17,489
Administration	3,568
Fiscal	967
Operations and maintenance	16,617
Pupil transportation	62,877
Extracurricular activities	29,097
Food service operations	<u>30,827</u>
Total depreciation expense	<u>\$ 192,205</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2017, the following activity occurred in governmental activities long-term obligations.

	Fiscal Year <u>Issued</u>	Fiscal Year <u>Maturity</u>	Interest <u>Rate</u>	Balance <u>06/30/16</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/17</u>	Amount Due in <u>One Year</u>
Qualified school construction bonds	2011	2026	4.95%	\$ 370,000	\$ -	\$ (37,000)	\$ 333,000	\$ 37,000
Net pension liability				8,001,489	1,383,097	-	9,384,586	-
Compensated absences				<u>184,343</u>	<u>42,343</u>	<u>(25,762)</u>	<u>200,924</u>	<u>10,785</u>
Total governmental activities				<u>\$ 8,555,832</u>	<u>\$ 1,425,440</u>	<u>\$ (62,762)</u>	<u>\$ 9,918,510</u>	<u>\$ 47,785</u>

Compensated Absences

Compensated absences will be paid primarily from the general fund.

Net Pension Liability

See Note 12 for details.

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 improvements to existing school buildings and structures heating systems and lighting. Principal and interest payments are paid out of the general fund

Principal and interest requirements for the qualified school construction bonds outstanding at June 30, 2017, are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Qualified School Construction Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 37,000	\$ 15,568	\$ 52,568
2019	37,000	13,736	50,736
2020	37,000	11,905	48,905
2021	37,000	10,074	47,074
2022	37,000	8,242	45,242
2023 - 2026	<u>148,000</u>	<u>14,650</u>	<u>162,650</u>
Total	<u>\$ 333,000</u>	<u>\$ 74,175</u>	<u>\$ 407,175</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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, 2017, are a voted debt margin of \$7,704,713 and an unvoted debt margin of \$89,308.

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 and Treasurer who can carry over up to 10 days at the end of their contracts. 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 248 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 62 days payment.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - COMPENSATED ABSENCES - (Continued)

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 2017, the District retained property insurance coverage in the blanket amount of \$21,975,201, no coinsurance, replacement cost, and a \$1,000 deductible.

Vehicles are covered by a policy through Ohio School Plan, which provides for a \$1,000 deductible on buses for both comprehensive and collision. It also includes replacement costs on buses that are ten years old and newer. Vehicle liability has a \$3,000,000 bodily injury and property damage limit.

Ohio School Plan also provides general liability coverage of \$3,000,000 each occurrence and \$5,000,000 aggregate with no deductible.

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

B. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer in the amount of \$100,000 and the Superintendent and Board President each in the amount of \$74,000. Also, an employee blanket dishonesty bond in the amount of \$100,000 is provided to cover all other employees of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Plan

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. 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

The District has contracted with the Stark County Schools Council of Governments Health Benefits Plan (a shared risk pool) (See Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays a portion of the monthly premium.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

**LUCAS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**LUCAS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$143,511 for fiscal year 2017. Of this amount, \$13,810 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**LUCAS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$337,112 for fiscal year 2017. Of this amount, \$51,540 is reported as pension and postemployment benefits payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.0329034%	0.0221586%	
Proportion of the net pension liability current measurement date	0.0325308%	0.020923220%	
Change in proportionate share	-0.0003726%	-0.00123538%	
Proportionate share of the net pension liability	\$ 2,380,954	\$ 7,003,632	\$ 9,384,586
Pension expense	\$ 243,436	\$ 489,733	\$ 733,169

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 32,115	\$ 282,981	\$ 315,096
Net difference between projected and actual earnings on pension plan investments	196,393	581,490	777,883
Changes of assumptions	158,942	-	158,942
Difference between District contributions and proportionate share of contributions/change in proportionate share	2,203	83,963	86,166
District contributions subsequent to the measurement date	<u>143,511</u>	<u>337,112</u>	<u>480,623</u>
Total deferred outflows of resources	<u><u>\$ 533,164</u></u>	<u><u>\$ 1,285,546</u></u>	<u><u>\$ 1,818,710</u></u>
Deferred inflows of resources			
Difference between District contributions and proportionate share of contributions/change in proportionate share	<u>14,191</u>	<u>264,522</u>	<u>278,713</u>
Total deferred inflows of resources	<u><u>\$ 14,191</u></u>	<u><u>\$ 264,522</u></u>	<u><u>\$ 278,713</u></u>

\$480,623 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 92,770	\$ 98,729	\$ 191,499
2019	92,631	98,729	191,360
2020	133,605	321,862	455,467
2021	<u>56,456</u>	<u>164,592</u>	<u>221,048</u>
Total	<u><u>\$ 375,462</u></u>	<u><u>\$ 683,912</u></u>	<u><u>\$ 1,059,374</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 3,152,235	\$ 2,380,954	\$ 1,735,360

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	 <u>7.61 %</u>

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 9,307,258	\$ 7,003,632	\$ 5,060,388

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to District's NPL is expected to be significant.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$15,370.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$15,370, \$15,495, and \$24,151, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

Plan Description – The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org 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 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) 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	\$ 630,070
Net adjustment for revenue accruals	(104,958)
Net adjustment for expenditure accruals	(11,376)
Net adjustment for other sources/uses	(8,713)
Funds budgeted elsewhere	1,555
Adjustment for encumbrances	270,596
GAAP basis	\$ 777,174

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 and the public school fund.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 15 - CONTINGENCIES - (Continued)

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2017, traditional school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As a result of the fiscal year 2017 reviews, the School District owes ODE \$2,584.34. This amount has not been included in the financial statements.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2016	\$ -
Current year set-aside requirement	104,950
Current year qualifying expenditures	<u>(388,193)</u>
Total	<u>\$ (283,243)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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	\$ 228,638
Nonmajor governmental funds	<u>30,338</u>
Total	<u>\$ 258,976</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03253080%	0.03290340%	0.03281900%	0.03281900%
District's proportionate share of the net pension liability	\$ 2,380,954	\$ 1,877,500	\$ 1,660,951	\$ 1,951,641
District's covered-employee payroll	\$ 1,026,114	\$ 990,561	\$ 953,658	\$ 932,514
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	232.04%	189.54%	174.17%	209.29%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.02092322%	0.02215860%	0.02167936%	0.02167936%
District's proportionate share of the net pension liability	\$ 7,003,632	\$ 6,123,989	\$ 5,273,171	\$ 6,281,366
District's covered-employee payroll	\$ 2,342,671	\$ 2,332,793	\$ 2,215,031	\$ 2,274,492
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	298.96%	262.52%	238.06%	276.17%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 143,511	\$ 143,656	\$ 130,556	\$ 132,177
Contributions in relation to the contractually required contribution	<u>(143,511)</u>	<u>(143,656)</u>	<u>(130,556)</u>	<u>(132,177)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,025,079	\$ 1,026,114	\$ 990,561	\$ 953,658
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 129,060	\$ 130,806	\$ 116,957	\$ 128,608	\$ 90,162	\$ 80,087
<u>(129,060)</u>	<u>(130,806)</u>	<u>(116,957)</u>	<u>(128,608)</u>	<u>(90,162)</u>	<u>(80,087)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 932,514	\$ 972,535	\$ 930,446	\$ 949,838	\$ 916,280	\$ 815,550
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 337,112	\$ 327,974	\$ 326,591	\$ 287,954
Contributions in relation to the contractually required contribution	<u>(337,112)</u>	<u>(327,974)</u>	<u>(326,591)</u>	<u>(287,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,407,943	\$ 2,342,671	\$ 2,332,793	\$ 2,215,031
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 295,684	\$ 290,452	\$ 287,799	\$ 273,526	\$ 264,733	\$ 261,548
<u>(295,684)</u>	<u>(290,452)</u>	<u>(287,799)</u>	<u>(273,526)</u>	<u>(264,733)</u>	<u>(261,548)</u>
<u>\$ -</u>					
\$ 2,274,492	\$ 2,234,246	\$ 2,213,838	\$ 2,104,046	\$ 2,036,408	\$ 2,011,908
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Lucas Local School District, Richland County, Ohio (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

January 23, 2018



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
FEBRUARY 15, 2018