



Dave Yost • Auditor of State

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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CHAMPAIGN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Urbana City School District
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Urbana City School District:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 6, 2012

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

The discussion and analysis of the Urbana City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets of governmental activities increased \$66,587 which represents a 0.64% increase from 2010.
- General revenues accounted for \$19,079,957 in revenue or 72.61% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,196,632 or 27.39% of all revenues.
- The District had \$26,210,002 in expenses related to governmental activities; \$7,196,632 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,079,957 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$21,197,796 in revenues and \$22,028,420 in expenditures. During fiscal 2011, the general fund's fund balance decreased \$830,624 from a restated balance of \$4,860,151 to a balance of \$4,029,527.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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 25-57 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for fiscal years 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
Assets:		
Current and other assets	\$17,128,526	\$18,341,132
Capital assets, net	3,791,075	3,512,308
Total assets	20,919,601	21,853,440
Liabilities:		
Current liabilities	7,655,887	8,323,940
Long-term liabilities	2,812,196	3,144,569
Total liabilities	10,468,083	11,468,509
Net Assets:		
Invested in capital assets, net of related debt	3,616,580	3,273,079
Restricted	2,151,423	2,395,863
Unrestricted	4,683,515	4,715,989
Total net assets	\$10,451,518	\$10,384,931

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$10,451,518. Of this total, \$4,683,515 is unrestricted in use.

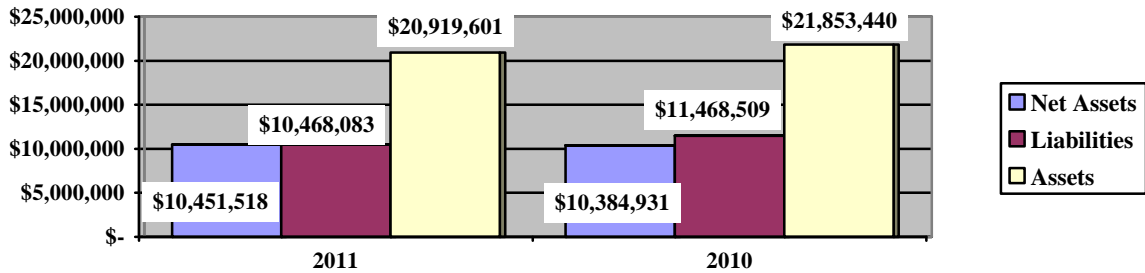
**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

At year-end, capital assets represented 18.12% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,616,580. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,151,423, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,683,515 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



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

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
Revenues:		
Program revenues:		
Charges for services and sales	\$ 1,533,571	\$ 1,609,266
Operating grants and contributions	5,663,061	3,368,721
General revenues:		
Property taxes	7,793,531	9,457,589
Grants and entitlements	11,233,684	11,993,991
Investment earnings	30,786	73,537
Other	21,956	62,157
Total revenues	26,276,589	26,565,261
Expenses:		
Program expenses:		
Instruction:		
Regular	12,358,600	11,460,761
Special	4,365,979	4,208,162
Vocational	351,987	343,511
Other	116,350	41,960

(Continued)

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

	Change in Net Assets (Continued)	
	Governmental Activities 2011	Governmental Activities 2010
Expenses: (Continued)		
Support services:		
Pupil	1,252,885	1,397,747
Instructional staff	473,776	642,177
Board of education	24,135	19,598
Administration	2,002,326	2,003,575
Fiscal	185,842	246,799
Business	352,815	362,119
Operations and maintenance	1,648,117	2,001,522
Pupil transportation	794,722	767,095
Central	283,267	358,548
Operations of non-instructional services:		
Food service operations	991,290	932,121
Other non-instructional services	137,999	106,496
Extracurricular activities	818,874	735,427
Interest and fiscal charges	51,038	80,680
Total expenses	26,210,002	25,708,298
Change in net assets	66,587	856,963
Net assets at beginning of year	10,384,931	9,527,968
Net assets at end of year	\$10,451,518	\$10,384,931

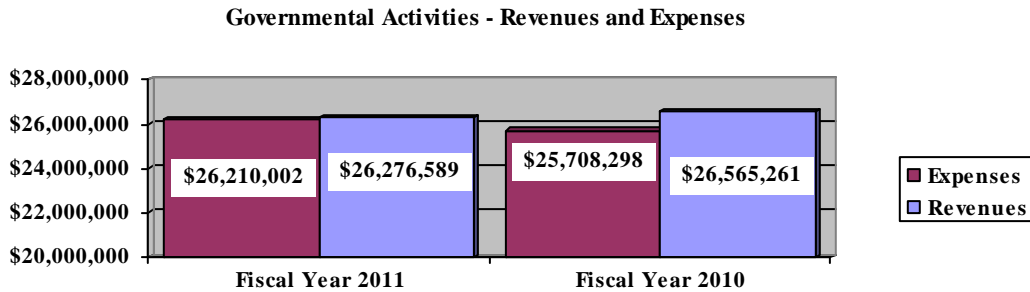
Governmental Activities

Net assets of the District's governmental activities increased \$66,587. Total governmental expenses of \$26,210,002 were offset by program revenues of \$7,196,632 and general revenues of \$19,079,957. Program revenues supported 27.46% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements. These revenue sources represent 72.41% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$17,192,916 or 65.60% of total governmental expenses for fiscal 2011.

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



**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

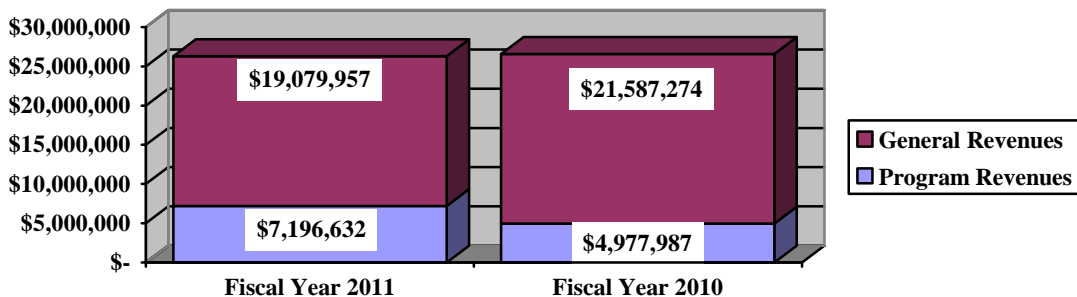
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported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

Governmental Activities				
	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses:				
Instruction:				
Regular	\$12,358,600	\$ 9,537,527	\$11,460,761	\$10,222,556
Special	4,365,979	2,273,948	4,208,162	3,031,267
Vocational	351,987	255,325	343,511	221,940
Other	116,350	116,350	41,960	41,960
Support services:				
Pupil	1,252,885	1,148,931	1,397,747	1,229,138
Instructional staff	473,776	472,520	642,177	626,265
Board of education	24,135	24,135	19,598	(15,464)
Administration	2,002,326	1,969,127	2,003,575	1,970,318
Fiscal	185,842	185,842	246,799	245,802
Business	352,815	217,555	362,119	208,080
Operations and maintenance	1,648,117	1,415,159	2,001,522	1,856,687
Pupil transportation	794,722	672,980	767,095	489,592
Central	283,267	168,667	358,548	39,579
Operations of non-instructional services				
Food service operations	991,290	(68,527)	932,121	(29,448)
Other non-instructional services	137,999	78,700	106,496	102,227
Extracurricular activities	818,874	494,093	735,427	409,132
Interest and fiscal charges	51,038	51,038	80,680	80,680
Total expenses	\$26,210,002	\$19,013,370	\$25,708,298	\$20,730,311

The dependence upon tax and other general revenues for governmental activities is apparent, 70.86% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 72.54%.

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

Governmental Activities - General and Program Revenues



**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

The District's Funds

The District's governmental funds reported a combined fund balance of \$4,875,917, which is lower than last year's total of \$5,684,309. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated fund balances at June 30, 2010 as described in Note 3.B.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase/ (Decrease)	Percentage Change	
General	\$4,029,527	\$4,860,151	(\$830,624)	(17.09)	%
Other Governmental	846,390	824,158	22,232	2.70	%
Total	<u>\$4,875,917</u>	<u>\$5,684,309</u>	<u>(\$808,392)</u>	<u>(14.22)</u>	<u>%</u>

An analysis of the general fund revenues and expenditures is provided in the section below.

General Fund

The District's general fund balance decreased \$830,624. Tax revenues decreased 11.57% due to the phase out of the tangible personal property tax. Earnings on investments decreased 45.00% as a result of a decrease in interest rates. Although operation of non-instructional service expenditures decreased 43.27%, the dollar amount of the decrease is immaterial to the entire expenditures. The debt service expenditures are related to capital lease payments and accrued interest payable on the tax anticipation notes outstanding and are reported as a fund liability of the general fund. The lease was entered into in 2010 which resulted in an increase in capital outlay in 2010. The decrease in support services expenditures was a result of the District receiving Education Jobs Grants and American Recovery and Reinvestment Act grants. Both programs were reported as non-major governmental funds and expenditures that were previously reported in the general fund were accounted for in the non-major governmental funds in 2011.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 Amount	Restated 2010 Amount	Increase/ (Decrease)	Percentage Change	
Revenues:					
Taxes	\$ 7,767,771	\$8,784,362	(\$1,016,591)	(11.57)	%
Tuition	729,197	709,787	19,410	2.73	%
Earnings on investments	38,309	69,654	(31,345)	(45.00)	%
Other revenues	282,527	283,184	(657)	(0.23)	%
Intergovernmental	12,379,992	12,298,827	81,165	0.66	%
Total	<u>21,197,796</u>	<u>22,145,814</u>	<u>(948,018)</u>	<u>(4.28)</u>	<u>%</u>
Expenditures:					
Instruction	14,691,566	14,534,676	156,890	1.08	%
Support services	6,673,736	6,963,267	(289,531)	(4.16)	%
Non-instructional services	56,720	99,982	(43,262)	(43.27)	%
Extracurricular activities	473,363	428,538	44,825	10.46	%
Capital outlay		381,864	(381,864)	100.00	%
Debt service	133,035	158,574	(25,539)	(16.11)	%
Total	<u>\$22,028,420</u>	<u>\$22,566,901</u>	<u>(\$ 538,481)</u>	<u>(2.39)</u>	<u>%</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

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 the general fund, original budgeted revenues and other financing sources were \$21,803,595 and final budgeted revenues and other financing sources were \$21,859,820. Actual revenues and other financing sources for fiscal year 2011 was \$20,918,970. This represents a \$940,850 decrease over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$25,744,445 and \$25,864,534, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$23,182,273, which was \$2,682,261 less than final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the District had \$3,791,075 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities.

The overall increase in capital assets of \$278,767 is due to capital asset additions of \$427,542 exceeding depreciation expense of \$148,775. See Note 8 to the basic financial statements for detail on the District's capital assets.

The following table shows fiscal 2011 balances compared to 2010:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2011	2010
Land	\$1,127,575	\$1,127,575
Land improvements	192,950	145,605
Building and improvements	1,639,278	1,664,770
Furniture and equipment	545,129	237,245
Vehicles	238,308	286,945
Infrastructure	47,835	50,168
Total	<u>\$3,791,075</u>	<u>\$3,512,308</u>

Debt Administration

At June 30, 2011, the District had \$85,000 in energy conservation notes and \$316,195 in capital lease obligations outstanding. Of this total, \$139,613 is due within one year and \$261,582 is due in greater than one year. The following table summarizes the notes and leases outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2011	Governmental Activities 2010
	Energy conservation notes	\$85,000
Capital lease obligation	316,195	433,483
Total	<u>\$401,195</u>	<u>\$543,483</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

At June 30, 2011, the District's overall legal debt margin was \$23,002,277 and an un-voted energy conservation debt margin of \$255,581. See Note 10 to the basic financial statements for detail on the District's debt administration.

Current Related Financial Activities

The education funding structure in Ohio changed in fiscal year 2010. Instead of being funded on a per-pupil basis, schools are now funded via the PASS formula. The PASS funding system has not been fully implemented and, as such, funding is somewhat uncertain until the legislature decides how and when the system will be fully funded. For fiscal year 2010, the funding for the District remained relatively stable, even with the switch to the new funding formula.

The District is facing future challenges in the area of State funding. The biggest challenge facing the future of Urbana City Schools is the effect of HB66 including the complete elimination of all tangible personal property tax. This included the inventory tax which is almost phased out and the \$10,000 exempt personal property tax which had also began a phase-out previous to HB66 and finished in 2010. This loss will be devastating for Urbana City Schools, as this annual \$3,000,000 revenue is 47% of the District's tax base and 25% of the general fund revenue.

The District ranks #52 out of 612 districts in the State in reliance on tangible personal property tax. The District received full reimbursement from the State through 2010 and will phase out at the rate of 14.29% per annum through 2017 at which point the District will permanently lose \$1,200,000 per year in revenue from this tax. (The remaining \$1,900,000 will be picked up by State foundation revenue as the \$60,000,000 value loss will reduce the total value of the District for wealth purposes in the "charge-off").

The District passed an operating levy in March of 2008. This levy was for 9.75 mills and will bring in approximately \$2.6 million dollars per year beginning in January of 2009. To ensure fiscal stability, the Board voted to borrow \$1.3 million (½ of one year's collection) in April of 2008 as a long-term note for five years.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 48% of approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers and at the same time proceed to meet District needs. In 2004, the Board proceeded to put their local share on the ballot through the Expedited Local Partnership Program with Phase I including a new PK-5 building and a 6-8 building. The high school was slated to be Phase II, built with State funds. Phase I failed in 2004 and in 2006. With the tax rate increasing because of deflating property values (complete loss of \$60,000,000 in tangible personal valuation) and community concerns, the Board decided to split Phase I and build a PK-5 with Phase I, build a 6-8 middle school with Phase II and make the high school OSFC project, Phase III. Phase I also failed in November of 2006, with less millage. The project will continue to increase with the increase in construction costs. The local share will continue to increase as the tax base decreases, which will make it more difficult to pass. HB119 passed in June of 2007, with Governor Strickland's emphasis on speeding up the pace of these projects. As a result of the State re-financing other projects, we were offered our State allocation in the spring of 2008, which we deferred as we needed to pass an operating levy. It was offered again to us in the spring of 2009 and the board elected to once again defer.

The District formed a community school during fiscal 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function well in the regular school system or who were not able to achieve academic success in the regular school setting. The Urbana Community School opened its doors July 1, 2004. It remains a conversion community school as a separate autonomy with a Board of Directors, but under the wings of Urbana City Schools' administration and governance. It is our hope that these students who continue to reside in our District will achieve academic success through this type of school.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

The District has committed itself to educational and financial excellence for many years. The District has received an Excellent Rating from the Ohio Department of Education in both fiscal years 2009 and 2010. The District has received unqualified opinions on the financial statements. Each challenge identified in this section is viewed as an opportunity to continue its commitment to excellence. The District is committed to living within its financial means and working with the community it serves in order to maintain adequate resources to support the educational program.

It is very important that the Board and Administration continue to carefully and prudently plan in order to provide the resources necessary to meet the needs of the students in the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Mandy Hildebrand, Treasurer, Urbana City School District, 711 Wood St., Urbana, Ohio 43088.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government	Component Unit
	Governmental Activities	Urbana Community School
Assets:		
Equity in pooled cash and investments	\$ 7,956,597	\$ 833,264
Receivables:		
Taxes	8,151,030	-
Accounts	330	-
Accrued interest	9,487	-
Intergovernmental	889,171	17,915
Prepayments	3,145	-
Materials and supplies inventory	19,710	-
Due from component unit	99,056	-
Capital assets:		
Land	1,127,575	-
Depreciable capital assets, net	2,663,500	-
Capital assets, net	3,791,075	-
 Total assets	 20,919,601	 851,179
Liabilities:		
Accounts payable	321,643	-
Contracts payable	9,367	-
Accrued wages and benefits	1,476,818	-
Pension obligation payable	425,134	-
Intergovernmental payable	207,443	128
Accrued interest payable	26,179	-
Claims payable	456,922	-
Due to primary government	-	99,056
Unearned revenue	4,732,381	-
Long-term liabilities:		
Due within one year	660,131	-
Due in more than one year	2,152,065	-
 Total liabilities	 10,468,083	 99,184
Net Assets:		
Invested in capital assets, net of related debt	3,616,580	-
Restricted for:		
Capital projects	626,142	-
State funded programs	210,924	21,000
Federally funded programs	551,560	-
Student activities	90,109	-
Other purposes	672,688	-
Unrestricted	4,683,515	730,995
 Total net assets	 \$ 10,451,518	 \$ 751,995

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary</u>	<u>Component</u>
				<u>Governmental</u>	<u>Unit</u>
				<u>Urbana Communitiy School</u>	
Governmental activities:					
Instruction:					
Regular	\$ 12,358,600	\$ 686,457	\$ 2,134,616	\$ (9,537,527)	\$ -
Special	4,365,979	90,711	2,001,320	(2,273,948)	-
Vocational	351,987	-	96,662	(255,325)	-
Other	116,350	-	-	(116,350)	-
Support services:					
Pupil	1,252,885	-	103,954	(1,148,931)	-
Instructional staff	473,776	-	1,256	(472,520)	-
Board of education	24,135	-	-	(24,135)	-
Administration	2,002,326	-	33,199	(1,969,127)	-
Fiscal	185,842	-	-	(185,842)	-
Business	352,815	135,260	-	(217,555)	-
Operations and maintenance	1,648,117	9,824	223,134	(1,415,159)	-
Pupil transportation	794,722	-	121,742	(672,980)	-
Central	283,267	-	114,600	(168,667)	-
Operation of non-instructional services:					
Food service operations	991,290	316,631	743,186	68,527	-
Other non-instructional services	137,999	-	59,299	(78,700)	-
Extracurricular activities	818,874	294,688	30,093	(494,093)	-
Interest and fiscal charges	51,038	-	-	(51,038)	-
Total governmental activities	<u>\$ 26,210,002</u>	<u>\$ 1,533,571</u>	<u>\$ 5,663,061</u>	<u>(19,013,370)</u>	<u>-</u>
Component Unit:					
Urbana community school	<u>\$ 307,225</u>	<u>\$ -</u>	<u>\$ 44,533</u>	<u>-</u>	<u>(262,692)</u>
General Revenues:					
Property taxes levied for:					
General purposes				7,449,291	-
Capital projects				344,240	-
Grants and entitlements not restricted					
to specific programs				11,233,684	264,899
Investment earnings				30,786	1,811
Miscellaneous				21,956	-
Total general revenues				<u>19,079,957</u>	<u>266,710</u>
Change in net assets				66,587	4,018
Net assets at beginning of year				<u>10,384,931</u>	<u>747,977</u>
Net assets at end of year				<u>\$ 10,451,518</u>	<u>\$ 751,995</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,133,561	\$ 1,081,560	\$ 4,215,121
Receivables:			
Property taxes.	7,742,940	408,090	8,151,030
Accounts	330	-	330
Accrued interest	9,487	-	9,487
Interfund loans	179,179	-	179,179
Intergovernmental.	31,354	857,817	889,171
Prepayments.	3,145	-	3,145
Materials and supplies inventory.	-	19,710	19,710
Due from other funds	13,139	-	13,139
Loans to other funds.	58,669	-	58,669
Due from component unit	99,056	-	99,056
Restricted assets:			
Equity in pooled cash and cash equivalents	585,714	-	585,714
Total assets	<u>\$ 11,856,574</u>	<u>\$ 2,367,177</u>	<u>\$ 14,223,751</u>
Liabilities:			
Accounts payable	\$ 255,359	\$ 66,284	\$ 321,643
Contracts payable.	-	9,367	9,367
Accrued wages and benefits.	1,379,459	97,359	1,476,818
Compensated absences payable	134,662	-	134,662
Pension obligation payable	401,666	23,468	425,134
Intergovernmental payable	146,793	60,650	207,443
Accrued interest payable	25,493	-	25,493
Interfund loans payable.	-	179,179	179,179
Notes payable.	780,000	-	780,000
Due to other funds	-	13,139	13,139
Loans from other funds	-	58,669	58,669
Deferred revenue	206,900	777,006	983,906
Unearned revenue.	4,496,715	235,666	4,732,381
Total liabilities.	<u>7,827,047</u>	<u>1,520,787</u>	<u>9,347,834</u>
Fund Balances:			
Nonspendable:			
Materials and supplies inventory.	-	19,710	19,710
Prepays.	3,145	-	3,145
Long-term loans.	58,669	-	58,669
Unclaimed monies	8,214	-	8,214
Restricted:			
Capital improvements	-	622,699	622,699
School bus purchases	748	-	748
Food service operations	-	67,264	67,264
Non-public schools	-	120	120
Extracurricular.	-	90,109	90,109
Instructional materials	584,966	-	584,966
Other purposes.	-	259,659	259,659
Committed:			
Student and staff support	22,480	-	22,480
Termination benefits	449,100	-	449,100
Operation of non-instructional services	10,000	-	10,000
Assigned:			
Student instruction	211,497	-	211,497
Student and staff support.	272,993	-	272,993
Operation of non-instructional services	1,216	-	1,216
School supplies	14,472	-	14,472
Unassigned (deficit)	2,392,027	(213,171)	2,178,856
Total fund balances	<u>4,029,527</u>	<u>846,390</u>	<u>4,875,917</u>
Total liabilities and fund balances	<u>\$ 11,856,574</u>	<u>\$ 2,367,177</u>	<u>\$ 14,223,751</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	4,875,917
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,791,075
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	80,273	
Accounts receivable		130,410	
Intergovernmental receivable		772,877	
Accrued interest receivable		346	
Total		983,906	983,906
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			2,698,840
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(686)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		(1,496,339)	
Energy conservation notes payable		(85,000)	
Capital lease obligation payable		(316,195)	
Total		(1,897,534)	(1,897,534)
Net assets of governmental activities		\$	10,451,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 7,767,771	\$ 360,320	\$ 8,128,091
Tuition.	729,197	-	729,197
Transportation fees.	22,211	-	22,211
Earnings on investments	38,309	988	39,297
Charges for services	-	316,631	316,631
Extracurricular.	146,779	294,688	441,467
Classroom materials and fees	53,102	-	53,102
Rental income	9,824	-	9,824
Contributions and donations	16,420	30,093	46,513
Other local revenues	34,191	-	34,191
Intergovernmental - intermediate	138,603	-	138,603
Intergovernmental - state	12,241,389	214,799	12,456,188
Intergovernmental - federal	-	3,868,168	3,868,168
Total revenues	<u>21,197,796</u>	<u>5,085,687</u>	<u>26,283,483</u>
Expenditures:			
Current:			
Instruction:			
Regular.	10,872,675	1,783,099	12,655,774
Special	3,342,203	1,005,900	4,348,103
Vocational	360,338	5,400	365,738
Other	116,350	-	116,350
Support services:			
Pupil	1,197,670	106,215	1,303,885
Instructional staff	509,874	2,081	511,955
Board of education	24,135	-	24,135
Administration	2,005,746	49,122	2,054,868
Fiscal	200,560	-	200,560
Business.	372,944	-	372,944
Operations and maintenance	1,488,711	205,534	1,694,245
Pupil transportation	717,545	47,936	765,481
Central	156,551	126,716	283,267
Operation of non-instructional services:			
Other non-instructional services	56,720	86,036	142,756
Food service operations.	-	976,555	976,555
Extracurricular activities	473,363	318,089	791,452
Facilities acquisition and construction.	-	294,576	294,576
Debt service:			
Principal retirement.	92,288	50,000	142,288
Interest and fiscal charges	40,747	10,522	51,269
Total expenditures	<u>22,028,420</u>	<u>5,067,781</u>	<u>27,096,201</u>
Net change in fund balances	(830,624)	17,906	(812,718)
Fund balances at beginning of year (restated).	4,860,151	824,158	5,684,309
Increase in reserve for inventory	-	4,326	4,326
Fund balances at end of year.	<u>\$ 4,029,527</u>	<u>\$ 846,390</u>	<u>\$ 4,875,917</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ (812,718)

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

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

Capital asset additions	\$ 427,542	
Current year depreciation	(148,775)	
Total		278,767

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.

4,326

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

Taxes	(334,560)	
Tuition revenue	(38,861)	
Other revenue	(12,235)	
Intergovernmental revenue	386,285	
Accrued interest	(8,023)	
Total		(7,394)

Repayment of notes and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

142,288

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.

231

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.

(152,423)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.

613,510

Change in net assets of governmental activities

\$ 66,587

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 8,636,032	\$ 8,012,234	\$ 7,667,386	\$ (344,848)
Tuition	702,287	761,993	729,197	(32,796)
Transportation fees	20,436	22,865	21,881	(984)
Earnings on investments	57,188	22,766	21,786	(980)
Rental income	9,720	10,266	9,824	(442)
Other local revenues	9,346	6,863	6,568	(295)
Intergovernmental - intermediate	108,104	144,837	138,603	(6,234)
Intergovernmental - state	12,185,302	12,760,534	12,211,318	(549,216)
Total revenues	<u>21,728,415</u>	<u>21,742,358</u>	<u>20,806,563</u>	<u>(935,795)</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,098,880	11,992,526	11,404,817	587,709
Special	3,631,056	3,789,078	3,346,516	442,562
Vocational	452,708	424,622	381,704	42,918
Other	70,212	77,298	61,479	15,819
Support services:				
Pupil	1,384,545	1,434,708	1,245,782	188,926
Instructional staff	642,998	598,429	571,074	27,355
Board of education	26,282	25,034	22,936	2,098
Administration	2,192,387	2,266,425	2,019,589	246,836
Fiscal	525,496	462,457	273,323	189,134
Business	250,974	276,775	229,828	46,947
Operations and maintenance	2,115,416	2,105,688	1,629,930	475,758
Pupil transportation	861,560	883,430	810,322	73,108
Central	208,122	224,089	158,146	65,943
Operation of non-instructional services	112,088	100,658	74,052	26,606
Extracurricular activities	649,863	629,395	468,551	160,844
Debt service:				
Principal	350,703	260,000	260,000	-
Interest and fiscal charges	104,023	121,000	45,045	75,955
Total expenditures	<u>25,677,313</u>	<u>25,671,612</u>	<u>23,003,094</u>	<u>2,668,518</u>
Excess of expenditures over revenues	<u>(3,948,898)</u>	<u>(3,929,254)</u>	<u>(2,196,531)</u>	<u>1,732,723</u>
Other financing sources (uses):				
Refund of prior year's expenditures	10,218	45,549	43,589	(1,960)
Advances in	57,405	52,610	50,346	(2,264)
Advances (out)	(67,132)	(192,922)	(179,179)	13,743
Sale of capital assets	7,557	19,303	18,472	(831)
Total other financing sources (uses)	<u>8,048</u>	<u>(75,460)</u>	<u>(66,772)</u>	<u>8,688</u>
Net change in fund balance	(3,940,850)	(4,004,714)	(2,263,303)	1,741,411
Fund balance at beginning of year (restated).	3,868,023	3,868,023	3,868,023	-
Prior year encumbrances appropriated	590,612	590,612	590,612	-
Fund balance at end of year	<u>\$ 517,785</u>	<u>\$ 453,921</u>	<u>\$ 2,195,332</u>	<u>\$ 1,741,411</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash, cash equivalents and investments	\$ 3,155,762
Total assets.	<u>3,155,762</u>
Liabilities:	
Claims payable	<u>456,922</u>
Total liabilities	<u>456,922</u>
Net assets:	
Unrestricted.	<u>2,698,840</u>
Total net assets	<u>\$ 2,698,840</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services.	\$ 2,996,497
Total operating revenues	<u>2,996,497</u>
Operating expenses:	
Claims and administrative services	2,383,487
Total operating expenses.	<u>2,383,487</u>
Operating income	<u>613,010</u>
Nonoperating revenues:	
Interest revenue	500
Total nonoperating revenues.	<u>500</u>
Change in net assets.	613,510
Net assets at beginning of year	<u>2,085,330</u>
Net assets at end of year.	<u>\$ 2,698,840</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 2,996,497
Cash payments for claims and administrative services	<u>(2,396,901)</u>
Net cash provided by operating activities	<u>599,596</u>
Cash flows from investing activities:	
Interest received	<u>500</u>
Net cash provided by investing activities	<u>500</u>
Net increase in cash and cash equivalents	600,096
Cash and cash equivalents at beginning of year	<u>2,555,666</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,155,762</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 613,010
Changes in assets and liabilities: Decrease in claims payable	<u>(13,414)</u>
Net cash provided by operating activities.	<u><u>\$ 599,596</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash, cash equivalents and investments	\$ 127,524	\$ 50,290
Total assets.	127,524	\$ 50,290
Liabilities:		
Accounts payable.	-	\$ 660
Due to students.	-	49,630
Total liabilities	-	\$ 50,290
Net assets:		
Held in trust for scholarships	127,524	
Total net assets	\$ 127,524	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 736
Total additions.	736
Deductions:	
Scholarships awarded	3,000
Change in net assets.	(2,264)
Net assets at beginning of year	129,788
Net assets at end of year.	\$ 127,524

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT

Urbana City School District (the "District") is a political body incorporated and 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 is a city district as defined by Ohio Rev. Code Section 3311.02. The District operates under an elected Board of Education of five members and is responsible for the provision of public education to residents of the District.

The District is the 213th largest in the State of Ohio among 918 public and community schools in terms of enrollment. It currently operates 3 elementary schools, 1 intermediate, 1 junior high and 1 high school. The District is staffed by 81 non-certified and 163 certified personnel to provide services to approximately 2,274 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Discretely Presented Component Unit

The Urbana Community School

The Urbana Community School (the "School") is a legally separate, conversion community school, served by a Board of Directors. The School provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Director of Business Affairs, High School Principal, Curriculum Director, and three additional Board members appointed by the District. The Urbana City School District is the sponsoring District of the School under Ohio Revised Code Chapter 3314. The superintendent of the District serves as the Chief Administrative Officer of the School and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the School, the School's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the School, the School is a component unit of the District. See Note 19 for detail on the School.

The District's services provided to the School are reimbursed from the School to the District. The School also owed \$99,056 for District-incurred expenses on behalf of the School for fiscal year 2011 services. This amount is shown on the government wide statements net assets as due to primary government and from component unit. Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

2. Jointly Governed Organizations

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO 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 districts.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 14 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information is available from Lewis Ivey, Jr., Administrator, 129 East Court Street, Sidney, Ohio 45265.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The Governing Board of MEC consists of one voting representative from each member district. The District paid \$146,798 to MEC during fiscal year 2011. Financial information is available from Ron Miller, Director, 2100 Citygate Dr., Columbus, Ohio 43219.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District (JVS) is a distinct political subdivision of the State of Ohio. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. Financial information is available from Eric Adelsberger, Treasurer, of the Ohio Hi-Point Joint Vocational School District, 2280 State Route 540, Suite A, Bellefontaine, Ohio 43311.

3. Insurance Purchasing Pool

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 (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The GRP'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the plan.

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.

1. Governmental Funds

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

General fund -The general fund is used to account for 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 debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical benefits to employees.

3. Fiduciary Funds

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

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

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

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

2. 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 non-major funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services. Operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange 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.

Non-exchange 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).

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

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 non-exchange 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.

2. Unearned Revenue and Deferred Revenue

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

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

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

3. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2011 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. By no later than January 20, the Board-adopted budget is filed with the Champaign 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 of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds or alter total function appropriations within the general fund or permanent improvement fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash, cash equivalents and investments" on the basic financial statements.

During fiscal year 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable and non-negotiable certificates of deposit, U.S. government money market mutual funds and federal agency 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.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$38,309, which includes \$18,022 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a non-spendable 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 are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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 possesses underground wastewater equipment.

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

Description	Governmental Activities Estimated Lives
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years
Infrastructure	25 - 50 years

I. Interfund Balances

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

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental type activities columns on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave 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. An accrual for sick leave is made to the extent that it is probable that the benefit will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (severance) 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 twenty years of service and all employees age 50 with at least 10 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Notes and capital leases are recognized as a liability on the fund financial statements when due.

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:

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

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

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include monies restricted by State statute for instructional materials, school bus purchases and food service operations.

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

N. 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.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish an instructional materials reserve. This restricted asset is required by State statute. The District has also received State monies that are restricted for school bus purchases. A schedule of statutory set-asides is presented in Note 17.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

R. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2011, the balance in the budget stabilization reserve was \$366,608. This amount is included in unassigned fund balance of the general fund and in unrestricted net assets on the statement of net assets.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

B. Fund Reclassifications

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

	<u>General</u>	<u>Non-major Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$4,229,518	\$1,454,791	\$5,684,309
Fund reclassifications:			
Uniform school supplies fund	40,218	(40,218)	
Public school support fund	76,460	(76,460)	
Other grants fund	6,110	(6,110)	
Termination benefits fund	507,845	(507,845)	
Total fund reclassifications	<u>630,633</u>	<u>(630,633)</u>	
Restated fund balance at July 1, 2010	<u>\$4,860,151</u>	<u>\$ 824,158</u>	<u>\$5,684,309</u>

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

C. Budgetary Prior Period Adjustment

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

<u>Budgetary Basis</u>	<u>General Fund</u>
Balance at June 30, 2010	\$3,876,237
Funds budgeted elsewhere	(8,214)
Restated balance at July 1, 2010	<u>\$3,868,023</u>

D. Deficit Fund Balances

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

<u>Non-major funds</u>	<u>Deficit</u>
IDEA, Part B	\$25,201
Stimulus Title II D	447
Title II, disadvantaged children	167,217
Improving teacher quality	20,306

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

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

A. Cash on Hand

At fiscal year end, the District had \$200 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents and investments."

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$5,446,159. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$5,560,570 of the District's bank balance of \$6,131,477 was exposed to custodial risk as discussed below, while \$570,907 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, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
Negotiable CD's	\$ 600,000		\$600,000			
FNMA	1,300,637					\$1,300,637
Money market mutual fund	762,415	\$762,415				
STAR Ohio	25,000	25,000				
Total	<u>\$2,688,052</u>	<u>\$787,415</u>	<u>\$600,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,300,637</u>

The weighted average maturity of investments is 2.10 years.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

1. 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.

2. Credit Risk

STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investments in federal agency securities were rated AAA 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.

3. 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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

4. Concentration of Credit Risk:

The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CD's	\$ 600,000	22.32
FNMA	1,300,637	48.39
Money market mutual funds	762,415	28.36
STAR Ohio	25,000	0.93
Total	<u>\$2,688,052</u>	<u>100.00</u>

D. Reconciliation of cash and investments to the statement of net assets

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$5,446,159
Investments	2,688,052
Cash on hand	200
Total	<u>\$8,134,411</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$7,956,597
Private-purpose trust funds	127,524
Agency funds	50,290
Total	<u>\$8,134,411</u>

5. INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following interfund loans receivable/payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Non-major governmental funds	<u>\$179,179</u>

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

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

- B. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following long-term loans to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Non-major governmental funds	<u>\$58,669</u>

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

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

- C. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Non-major governmental funds	<u>\$13,139</u>

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

6. PROPERTY TAXES

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

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

Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$3,170,081 in the general fund and \$168,295 in the capital improvement fund (a non-major governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$3,069,696 in the general fund and \$210,400 in the capital improvement fund (a non-major governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

6. PROPERTY TAXES (Continued)

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

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$258,132,650	96.59	\$246,330,990	96.25
Public utility personal	8,836,820	3.30	9,246,860	3.61
Tangible personal property	285,580	0.11	347,600	0.14
Total	<u>\$267,255,050</u>	<u>100.00</u>	<u>\$255,925,450</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$68.05		\$68.05	

7. RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements 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 principal items of receivables reported on the statement of net assets follows:

Governmental activities:	
Taxes	\$8,151,030
Accounts	330
Intergovernmental	889,171
Accrued interest	9,487
Total receivables	<u><u>\$9,050,018</u></u>

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

8. CAPITAL ASSETS

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

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$1,127,575			\$1,127,575
Total capital assets, not being depreciated	<u>1,127,575</u>			<u>1,127,575</u>
Capital assets, being depreciated:				
Land improvements	586,750	\$ 67,300		654,050
Buildings and improvements	4,103,455			4,103,455
Furniture and equipment	1,618,498	360,242		1,978,740
Vehicles	1,222,785		(\$39,350)	1,183,435
Infrastructure	70,000			70,000
Total capital assets, being depreciated	<u>7,601,488</u>	<u>427,542</u>	<u>(39,350)</u>	<u>7,989,680</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

8. CAPITAL ASSETS

	<u>Balance 06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/11</u>
Governmental activities: (Continued)				
Less: accumulated depreciation				
Land improvements	(441,145)	(19,955)		(461,100)
Buildings and improvements	(2,438,685)	(25,492)		(2,464,177)
Furniture and equipment	(1,381,253)	(52,358)		(1,433,611)
Vehicles	(935,840)	(48,637)	39,350	(945,127)
Infrastructure	(19,832)	(2,333)		(22,165)
Total accumulated depreciation	<u>(5,216,755)</u>	<u>(148,775)</u>	<u>39,350</u>	<u>(5,326,180)</u>
Governmental activities capital assets, net	<u>\$3,512,308</u>	<u>\$278,767</u>	<u>\$ 0</u>	<u>\$3,791,075</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 40,766
Special	1,613
Vocational	467
Support services:	
Pupil	223
Instructional staff	689
Administration	592
Fiscal	1,121
Business	57
Operations and maintenance	6,117
Pupil transportation	49,627
Food service operations	19,061
Extracurricular activities	<u>28,442</u>
Total depreciation expense	<u>\$148,775</u>

9. CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for modular classrooms, land, computer equipment and copier equipment. These lease agreements meet the criteria of capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Computer equipment with a net present value of \$304,254 has not been capitalized since the asset does not meet the District's capitalization threshold. Capital assets consisting of buildings and land have been capitalized in the amount of \$574,000 and equipment has been capitalized in the amount of \$65,162. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Accumulated depreciation as of June 30, 2011 was \$261,941, leaving a book value of \$377,221. Principal payments in fiscal year 2011 totaled \$92,288 paid by the General Fund and \$25,000 paid by the Permanent Improvement Fund (a non-major governmental fund).

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

9. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30,	Amount
2012	\$119,992
2013	107,600
2014	<u>107,345</u>
Total minimum lease payments	334,937
Less: amount representing interest	<u>(18,742)</u>
Total	<u>\$316,195</u>

10. LONG-TERM OBLIGATIONS

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

	Balance Outstanding June 30, 2010	Additions	Reductions	Balance Outstanding June 30, 2011	Amounts Due in One Year
Governmental activities:					
Energy conservation notes	\$ 110,000		(\$ 25,000)	\$ 85,000	\$ 25,000
Capital lease obligation	433,483		(117,288)	316,195	114,613
Compensated absences	<u>1,561,086</u>	<u>\$464,968</u>	<u>(395,053)</u>	<u>1,631,001</u>	<u>260,518</u>
Total long-term obligations, governmental activities	<u>\$2,104,569</u>	<u>\$464,968</u>	<u>(\$537,341)</u>	2,032,196	400,131
Tax anticipation notes (see Note 11)				780,000	260,000
Total on statement of net assets				<u>\$2,812,196</u>	<u>\$660,131</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District is primarily the general fund.

B. On December 1, 1999, the District issued energy conservation notes at an interest rate of 5.60%. The energy conservation notes mature on June 1, 2014.

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the statement of net assets. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$25,000	\$4,259	\$29,259
2013	30,000	2,663	32,663
2014	<u>30,000</u>	<u>892</u>	<u>30,892</u>
Total	<u>\$85,000</u>	<u>\$7,814</u>	<u>\$92,814</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

10. LONG-TERM OBLIGATIONS (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that un-voted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that un-voted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$23,002,277 and an un-voted debt margin of \$255,581.

11. NOTES PAYABLE

During fiscal year 2008, the District issued \$1,300,000 in tax anticipation notes to fund operations. The proceeds were deposited in the general fund. These notes carry an interest rate of 4.95% and mature on November 1, 2013. Activity during the fiscal year was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Tax anticipation notes	\$1,040,000	\$0	(\$260,000)	\$780,000	\$260,000

Principal and interest requirements to amortize tax anticipation notes outstanding at June 30, 2011 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$260,000	\$38,610	\$298,610
2013	260,000	25,740	285,740
2014	260,000	12,870	272,870
Total	<u>\$780,000</u>	<u>\$77,220</u>	<u>\$857,220</u>

12. RISK MANAGEMENT

A. Comprehensive and Employee Health

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. The District has obtained risk management by traditional means of insuring through a commercial company.

With the exception of a deductible, the risk of loss transfers entirely from the District to the commercial company. The District has obtained commercial insurance for the following risks:

- Education Liability Policy
- Business Auto Coverage
- Commercial Property Coverage
- Commercial Crime Coverage
- Inland Marine Coverage

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

12. RISK MANAGEMENT (Continued)

The District provides medical/surgical benefits through a self-insurance program. The District maintains a self-insurance internal service fund to account for and finance its required claims/fee payments and reserves for this program to its employees. Monthly premiums are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee per year, and \$1.0 million group aggregate for fiscal year 2011. The premiums are paid by the District at a rate of 90% for all teaching employees and at a rate of either 85%, 65%, or 60% for classified staff.

Administrators' premiums are paid 100% by the District. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

The claims liability of \$456,922 reported in the internal service fund at June 30, 2011, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as updated by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the District's third party administrator.

Changes in the claims liability for the current and prior fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2011	\$470,336	\$2,166,495	(\$2,179,909)	\$456,922
2010	449,543	2,594,859	(2,574,066)	470,336

The District continues to carry commercial insurance for all others risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2010.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

B. Workers' Compensation

For fiscal year 2011, the District participated in the Group Rating Plan through Sheakley. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP. The district did fall out of the group rating program for calendar year 2011, but enrolled into group retrospective rating program to defray some of the increased costs. The group retrospective rating program requires the district to complete various safety plan steps, as well as complete training through BWC.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

13. PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$257,886, \$264,322 and \$184,079, respectively; 66.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

13. PENSION PLANS (Continued)

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,363,347, \$1,326,359 and \$1,286,808, respectively; 83.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$38,430 made by the District and \$27,450 made by the plan members.

C. Social Security System

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

14. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

14. POSTEMPLOYMENT BENEFITS (Continued)

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

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$77,735, \$43,348 and \$118,077, respectively; 66.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$16,596, \$15,719 and \$15,188, respectively; 66.65 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$104,873, \$102,028 and \$98,985, respectively; 83.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

15. BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported as fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance	
	General fund
Budget basis	(\$2,263,303)
Net adjustment for revenue accruals	165,650
Net adjustment for expenditure accruals	528,554
Net adjustment for other sources/uses	66,772
Funds budgeted elsewhere	(77,513)
Adjustment for encumbrances	749,216
GAAP basis	(\$ 830,624)

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 uniform school supplies fund, the unclaimed monies fund, the public school support fund, the other grants fund and the termination benefits fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

16. 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

Litigation - As of June 30, 2011, there was no pending litigation affecting the Urbana City School District. A lawsuit was filed in February of 2012 against the District by Align, Assess, Achieve, LLC, alleging copyright infringement by District personnel. As of the completion date of the audit, the matter is still in the discovery phase and it is too early to tell what, if any, effect this matter will have on the financial statements of the District. The matter is being handled by the law firm of Roetzel and Andress.

17. SET-ASIDES

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

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

	Instructional Materials	Capital Improvements
Set-aside balance June 30, 2010	\$479,414	
Current year set-aside requirement	307,078	\$307,078
Current year qualifying expenditures	(201,526)	
Current year offsets		(473,464)
Total	\$584,966	(\$166,386)
Balance carried forward to fiscal year 2012	0	0
Set-aside balance June 30, 2011	\$584,966	\$ 0

Effective July 1, 2011, the instructional materials set-aside is no longer required and has been removed from existing law. This balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

In addition to the above statutory set-asides, the District also has \$748 in restricted for school bus purchases.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

17. SET-ASIDES (Continued)

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

Amount restricted for instructional materials	\$584,966
Amount restricted for school bus purchases	748
Total restricted cash	\$ 585,714

18. 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:

Fund	Year-End Encumbrances
General fund	\$441,351
Non-major governmental funds	209,386
Total	\$650,737

19. URBANA COMMUNITY SCHOOL

Urbana Community School (the "School") is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 within the Urbana City School District (the "Sponsor"). The School's objective is to use technology to reach a diverse student population. The School is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the School's program. This population may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Sponsor school district that desire a specific course not currently offered but available through online instruction. The program will permit the use of a "blended" approach to the delivery of educational services designed to provide the optimum balance between online and traditional instruction for each individual student. The School offers students the choice of on-line or correspondence schooling. The School, which is part of the state's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School. The School is considered a component unit of the Urbana City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No.39.

The School was initially approved under contract with the Sponsor for the period of five years commencing July 1, 2003. The current contract is for three years and expires June 30, 2012. The School began operations on July 1, 2004.

The School operates under the direction of a Board of Directors of which a majority shall be elected or appointed public officials or employees, or shall be other community leaders as set forth in the School's code of regulations. The Board may also include one or more parents of students enrolled in the School or civic leaders, also as set forth in the School's code of regulations.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

19. URBANA COMMUNITY SCHOOL (Continued)

A. Summary of Significant Accounting Policies

The basic financial statements (BFS) of the School 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 School also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The School has the option to also apply this FASB guidance issued after November 30, 1989, subject to this same limitation. The School has elected not to apply this FASB guidance. The School's significant accounting policies are described below.

Basis of Presentation - Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting - Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires the School to prepare a five-year annual budget detailing revenues and expenses. The five-year projection is also required by Ohio Revised Code Section 5705.391.

Cash and Cash Equivalents - The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented on the statement of net assets as "equity in pooled cash and cash equivalents".

Capital Assets and Depreciation - Capital assets are capitalized at (cost or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market value as of the date donated. The School maintains a capitalization threshold of \$5,000. The School does not have any infrastructure. 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 capitalized. The School does not have any assets over the threshold at June 30, 2011.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

19. URBANA COMMUNITY SCHOOL (Continued)

Intergovernmental Revenues - The School currently participates in the State Foundation Program through the Ohio Department of Education, the State Fiscal Stabilization Fund grant, the Education Jobs grant, and the EMIS State grant. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and Federal grants for the fiscal year 2011 received by the School was \$44,533.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

B. Change in Accounting Principles

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

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of this GASB statement had no effect on the financial statements of the School.

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

C. Equity in Pooled Cash and Investments

At June 30, 2011, the carrying amount of the School's deposits was \$833,264. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$583,264 of the School's bank balance of \$833,264 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School'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 School. The School 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 School to a successful claim by the FDIC.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

19. URBANA COMMUNITY SCHOOL (Continued)

D. Comprehensive Services Agreement with TRECA

The School entered into a one-year contract on September 8, 2010, for fiscal year 2011, with Tri-Rivers Education Computer Association (TRECA). Under the contract, the following terms were agreed upon:

1. TRECA shall provide the School with instructional, supervisory/administrative, and technical services sufficient to effectively implement the School's educational plan and the School's assessment and accountability plan.
2. All personnel providing services to the School on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The technical services provided by TRECA to the School shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the School.
5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. The School shall pay to TRECA \$3,900 per full-time student enrolled in the School per year. Part time students may be enrolled on such terms as are agreed to by the parties.

The School paid \$128,814 to TRECA for fiscal year 2011 services.

To obtain TRECA's audited June 30, 2011 financial statements, please contact Scott Armstrong at scott@treca.org.

E. Agreement with American Correspondence School

In addition to providing students with online technology classes, the School also permits students to enroll in the American Correspondence School (Correspondence School), in which students perform educational duties through mail correspondence. The School incurs the tuition costs for students enrolled in the Correspondence School and the tuition is not reimbursed by the students. The payments are remitted by the Sponsor and the School reimburses the Sponsor for the expenses. The School did not make any payments to the Correspondence School in fiscal year 2011.

F. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2011, the School was named on the Sponsor's policy for property and general liability insurance.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

19. URBANA COMMUNITY SCHOOL (Continued)

G. Contingencies

Grants - The School received financial assistance from federal and State agencies in the form of grants. The expenditure 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2011.

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School has not been reviewed as of June 30, 2011. The School does not anticipate any significant adjustments to State funding for fiscal year 2012, as a result of the reviews which have yet to be completed.

Litigation - As of June 30, 2011 and subsequent to date, there was no pending litigation affecting the Urbana Community School.

H. Fiscal Agent

The School utilizes the services of the Urbana City School District Treasurer as their fiscal officer. The School does not directly pay the Treasurer; however, it does reimburse the District for services provided.

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$181,328		\$181,328	
Non-Cash Assistance (Food Distribution) School Breakfast Program			\$13,566		\$13,566
Total School Breakfast Program		181,328	13,566	181,328	13,566
National School Lunch Program	10.555	447,272		447,272	
Non-Cash Assistance (Food Distribution) National School Lunch Program			36,680		36,680
Total National School Lunch Program		447,272	36,680	447,272	36,680
Summer Food Service Program for Children	10.559	28,987		28,987	
Child Nutrition Discretionary Grants Limited Availability	10.579	15,300		15,300	
Total Child Nutrition Cluster - United States Department of Agriculture		672,887	50,246	672,887	50,246
U.S. Department of Education					
<i>Passed through Ohio Department of Education</i>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	84.010	530,498		554,896	
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389	171,931		210,920	
Total Title, Part A Cluster		702,429		765,816	
Special Education Cluster:					
Special Education Grants to States	84.027	477,579		449,341	
ARRA Special Education Grants to States, Recovery Act	84.391	312,513		328,293	
Total Special Education Grants to States		790,092		777,634	
Safe and Drug-Free Schools and Communities State Grants	84.186	1,492		1,567	
Education Technology State Grants					
Education Technology State Grants	84.318	3,421		3,421	
ARRA Education Technology State Grants, Recovery Act	84.386	380,455		419,616	
Total Education Technology State Grants		383,876		423,037	
English Language Acquisition Grants	84.365	1,747		1,060	
Improving Teacher Quality State Grants	84.367	131,090		135,123	
School Improvement Grants	84.377	291,855		325,594	
ARRA State Fiscal Stabilization Fund (SFSF), Education State Grants, Recovery Act	84.394	751,712		827,470	
ARRA State Fiscal Stabilization Fund (SFSF) - Race to the Top, Incentive Grants, Recovery Act	84.395	244		2,945	
Total U. S. Department of Education		3,054,537		3,260,246	
U. S. Department of Health and Human Services					
<i>(Passed Through Ohio Department of Developmental Disabilities)</i>					
Medical Assistance Program (CAFS)	93.778	17,468		17,468	
Total U.S. Dept. of Health and Human Services		17,468		17,468	
Total Federal Financial Assistance		\$3,744,892	\$50,246	\$3,950,601	\$50,246

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Urbana City School District (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.



Dave Yost • Auditor of State

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

Urbana City School District
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2012, wherein we noted the District adopted the provision of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 6, 2012.

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

Dave Yost
Auditor of State

March 6, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Urbana City School District
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Board of Education:

Compliance

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

The District's basic financial statements include the operations of Urbana Community School, which received \$23,618 in federal awards which is not included in the District's Federal Awards Expenditure Schedule for the year ended June 30, 2011. Our audit of Federal awards, described below, did not include the operations of Urbana Community School because the component unit is legally separate from the primary government which this report addresses, and because it expended less than \$500,000 of Federal awards for the year ended June 30, 2011, it was not subject to OMB Circular A-133 audit requirements.

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

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011

Internal Control Over Compliance

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

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

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 6, 2012.

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



Dave Yost
Auditor of State

March 6, 2012

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title 1 Grants to Local Educational Agencies (and Recovery Act), CFDA # 84.010 & 84.389 Special Education Grants to States (and Recovery Act), CFDA # 84.027 & 84.391 State Fiscal Stabilization Fund (SFSF), Education State Grants, Recovery Act, CFDA # 84.394 Child Nutrition Cluster, CFDA # 10.553, 10.555, 10.559 School Improvement Grants, CFDA #84.377 Education Technology State Grants Cluster, CFDA # 84.318, 84.386
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 135.13 – Certificates of deposit held had maturities of more than one year	Yes	

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Independent Accountants' Report on Applying Agreed-Upon Procedure

Urbana City School District
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Urbana City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on November 15, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

March 6, 2012

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Dave Yost • Auditor of State

URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2012