



Dave Yost • Auditor of State

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the Urbana City School District, Champaign County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2.D describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the Urbana City School District, Champaign County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.D.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2.D of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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, 2016. 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 2016 are as follows:

- In total, the net position of governmental activities increased \$3,149,264, which represents a 6.97% increase from 2015.
- General receipts accounted for \$27,229,455 in receipts or 83.13% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,525,121 or 16.87% of all receipts.
- The District had \$29,605,312 in cash disbursements related to governmental activities; \$5,525,121 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$27,229,455 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, the building fund and the classroom facilities fund. The general fund had \$24,370,298 in receipts and other financing sources and \$22,022,643 in disbursements and other financing uses. During fiscal year 2016, the general fund's fund balance increased \$2,347,655 from a balance of \$7,386,871 to a balance of \$9,734,526.
- The building fund had \$6,576 in receipts and \$186,759 in disbursements. During fiscal year 2016, the building fund's fund balance decreased \$180,183 from a balance of \$7,489,863 to a balance of \$7,309,680.
- The classroom facilities fund had \$3,029,750 in receipts and \$1,721,216 in disbursements. During fiscal year 2016, the classroom facilities fund's fund balance increased \$1,308,534 from a balance of \$24,677,273 to a balance of \$25,985,807.

Using the Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net position – cash basis and statement of activities – cash basis provide information about the activities of the District as a whole, presenting an aggregate view of the District's cash-basis 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, there are three major funds. The general fund is the largest major fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Reporting the District as a Whole

Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis

The statement of net position – cash basis and the statement of activities – cash basis answer the question, “How did the District perform financially during 2016?” These statements include only the District’s net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

These two statements report the District’s net position and changes in net position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis 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.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, the governmental activities include the District’s programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District’s statement of net position – cash basis and statement of activities – cash basis can be found on pages 15-16 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 10. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds. The District’s major governmental funds are the general fund, the building fund and the classroom facilities 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 the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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 22-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 24 and 25. 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 27-60 of this report.

The District as a Whole

The table below provides a summary of the District's net position – cash basis at June 30, 2016 and June 30, 2015.

	Net Position - Cash Basis	
	Governmental Activities 2016	Governmental Activities 2015
	<u> </u>	<u> </u>
<u>Assets</u>		
Equity in pooled cash and investments	\$ 48,359,141	\$ 45,209,877
<u>Net Cash Position</u>		
Restricted	35,630,581	34,440,075
Unrestricted	<u>12,728,560</u>	<u>10,769,802</u>
Total net cash position	<u>\$ 48,359,141</u>	<u>\$ 45,209,877</u>

Total net position of the District increased \$3,149,264, which represents a 6.97% increase from the District's net position at June 30, 2015. A portion of the District's net position, \$35,630,581, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$12,728,560 may be used to meet the District's ongoing obligations to the students and creditors.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The table below shows the change in cash basis net position for fiscal years 2016 and 2015.

	Change in Net Position - Cash Basis	
	Governmental Activities 2016	Governmental Activities 2015
	<u>2016</u>	<u>2015</u>
<u>Receipts:</u>		
Program revenues:		
Charges for services and sales	\$ 1,696,525	\$ 1,739,860
Operating grants and contributions	3,828,596	3,861,287
General revenues:		
Property taxes	11,381,095	9,973,292
Grants and entitlements	15,645,828	13,793,296
Proceeds of bonds	-	31,355,000
Premium on bonds	-	407,636
Investment earnings	68,236	26,883
Other	134,296	111,250
Total receipts	<u>32,754,576</u>	<u>61,268,504</u>
<u>Disbursements:</u>		
Program disbursements:		
Instruction:		
Regular	10,640,923	10,477,686
Special	4,941,674	4,744,745
Vocational	370,483	357,709
Other	40,330	30,127
Support services:		
Pupil	1,943,151	1,753,077
Instructional staff	674,141	646,243
Board of education	22,454	22,706
Administration	1,587,490	1,462,608
Fiscal	615,920	572,528
Business	351,506	358,454
Operations and maintenance	1,384,216	1,400,843
Pupil transportation	665,779	687,255
Central	131,324	123,251
Operations of non-instructional services:		
Food service operations	1,023,708	981,986
Other non-instructional services	110,352	85,219
Extracurricular activities	681,171	632,549
Facilities acquisition and construction	2,143,420	695,043
Debt service:		
Principal retirement	951,024	-
Interest and fiscal charges	1,326,246	-
Bond issuance costs	-	354,166
Total disbursements	<u>29,605,312</u>	<u>25,386,195</u>
Change in net position	3,149,264	35,882,309
Net cash position at beginning of year	<u>45,209,877</u>	<u>9,327,568</u>
Net cash position at end of year	<u>\$ 48,359,141</u>	<u>\$ 45,209,877</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Governmental Activities

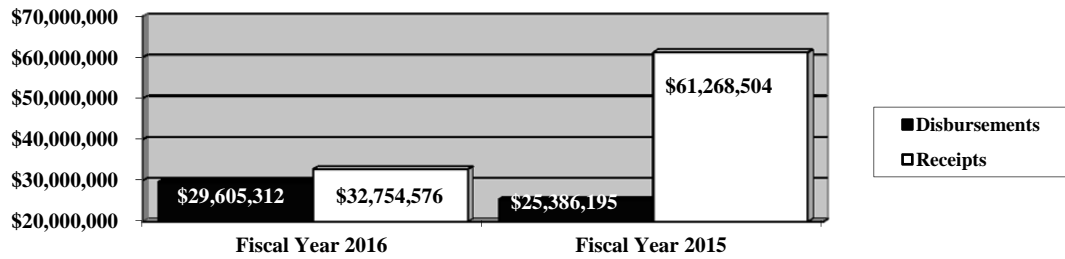
The net position of the District's governmental activities increased \$3,149,264. Total governmental disbursements of \$29,605,312 were offset by program receipts of \$5,525,121 and general receipts of \$27,229,455. Program receipts supported 18.66% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes, unrestricted grants and entitlements and grants restricted by the Ohio Facilities Construction Commission. These receipts represent 82.51% of total governmental receipts.

The largest category of the District's disbursements is for instructional programs. Instruction disbursements totaled \$15,993,410 or 54.02% of total governmental disbursements for fiscal 2016.

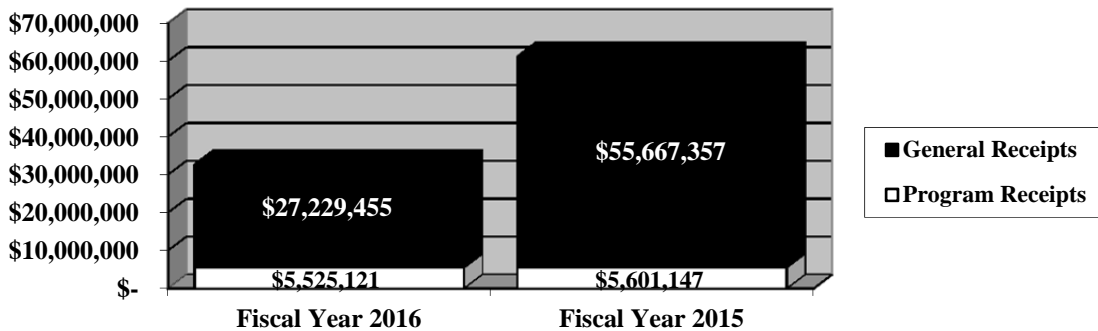
The graph below presents the District's governmental activities receipts and disbursements for fiscal years 2016 and 2015.

Governmental Activities - Receipts and Disbursements



The graph below presents the District's governmental activities receipts for fiscal years 2016 and 2015.

Governmental Activities - General and Program Receipts



The statement of activities – cash basis 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 receipts and unrestricted State grants and entitlements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

	Governmental Activities			
	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
<u>Program disbursements:</u>				
Instruction:				
Regular	\$ 10,640,923	\$ 9,422,331	\$ 10,477,686	\$ 9,390,121
Special	4,941,674	2,430,845	4,744,745	2,013,106
Vocational	370,483	288,971	357,709	273,948
Other	40,330	40,330	30,127	30,127
Support services:				
Pupil	1,943,151	1,943,151	1,753,077	1,725,231
Instructional staff	674,141	665,141	646,243	623,767
Board of education	22,454	22,454	22,706	22,706
Administration	1,587,490	1,587,490	1,462,608	1,422,561
Fiscal	615,920	615,920	572,528	572,528
Business	351,506	212,358	358,454	207,471
Operations and maintenance	1,384,216	1,356,977	1,400,843	1,358,846
Pupil transportation	665,779	552,936	687,255	581,603
Central	131,324	131,324	123,251	123,251
Operations of non-instructional services				
Food service operations	1,023,708	(28,051)	981,986	(5,366)
Other non-instructional services	110,352	109,435	85,219	83,467
Extracurricular activities	681,171	307,889	632,549	312,472
Facilities acquisition and construction	2,143,420	2,143,420	695,043	695,043
Debt service:				
Principal retirement	951,024	951,024	-	-
Interest and fiscal charges	1,326,246	1,326,246	-	-
Bond issuance costs	-	-	354,166	354,166
Total disbursements	<u>\$ 29,605,312</u>	<u>\$ 24,080,191</u>	<u>\$ 25,386,195</u>	<u>\$ 19,785,048</u>

The dependence upon tax and other general receipts for governmental activities is apparent, 76.17% of instruction activities are supported through taxes and other general receipts. For all governmental activities, general receipt support is 81.34%.

The District's Funds

The District's governmental funds reported a combined fund balance of \$45,364,359, which is higher than last year's total of \$41,826,198.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance June 30, 2016</u>	<u>Fund Balance June 30, 2015</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
General	\$ 9,734,526	\$ 7,386,871	\$ 2,347,655	31.78 %
Building	7,309,680	7,489,863	(180,183)	(2.41) %
Classroom Facilities	25,985,807	24,677,273	1,308,534	5.30 %
Other Governmental	<u>2,334,346</u>	<u>2,272,191</u>	<u>62,155</u>	<u>2.74</u> %
Total	<u>\$ 45,364,359</u>	<u>\$ 41,826,198</u>	<u>\$ 3,538,161</u>	<u>8.46</u> %

An analysis of the receipts and disbursements of the general fund is provided in the section below.

General Fund

The District's general fund balance increased \$2,347,655. Tax receipts increased 6.5% or \$552,894 during 2016. The District received a \$10,333 increase in interest payments during 2016 compared to 2015. A 4.53% decrease in tuition receipts during 2016 resulted from decreases in tuition payments received for open enrollment and services provided by the District to the Urbana Community School, a component unit of the District. A 1.58% or \$224,663 decrease in intergovernmental receipts during 2016 resulted from decreased in state reimbursements received during the fiscal year.

During fiscal year 2016, a \$411,251 increase in disbursements for instruction resulted from higher wages and benefits paid from the general fund during the year. Support services disbursements increased 6.29% due primarily to higher disbursements for administration, pupil, and instructional staff services. Facilities acquisition and construction disbursements increased \$28,447 from fiscal year 2015 to 2016, because the District purchased capital assets from the general fund during the current fiscal year.

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

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Receipts</u>				
Taxes	\$ 9,059,189	\$ 8,506,295	\$ 552,894	6.50 %
Tuition	850,007	890,331	(40,324)	(4.53) %
Earnings on investments	36,456	26,123	10,333	39.56 %
Other revenues	393,248	417,414	(24,166)	(5.79) %
Intergovernmental	<u>13,996,784</u>	<u>14,221,447</u>	<u>(224,663)</u>	<u>(1.58)</u> %
Total	<u>\$ 24,335,684</u>	<u>\$ 24,061,610</u>	<u>\$ 274,074</u>	<u>1.14</u> %
<u>Disbursements</u>				
Instruction	\$ 14,320,331	\$ 13,909,080	\$ 411,251	2.96 %
Support services	7,146,547	6,723,414	423,133	6.29 %
Non-instructional services	106,186	80,531	25,655	31.86 %
Extracurricular activities	379,013	345,802	33,211	9.60 %
Facilities acquisition and construction	<u>28,447</u>	<u>-</u>	<u>28,447</u>	<u>100.00</u> %
Total	<u>\$ 21,980,524</u>	<u>\$ 21,058,827</u>	<u>\$ 921,697</u>	<u>4.38</u> %

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Building Fund

The building fund had \$6,576 in receipts and \$186,759 in disbursements. During fiscal year 2016, the building fund's fund balance decreased \$180,183 from a balance of \$7,489,863 to a balance of \$7,309,680.

Classroom Facilities Fund

The classroom facilities fund had \$3,029,750 in receipts and \$1,721,216 in disbursements. During fiscal year 2016, the classroom facilities fund's fund balance increased \$1,308,534 from a balance of \$24,677,273 to a balance of \$25,985,807.

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 and final budgeted receipts and other financing sources were \$22,400,000. Actual revenues and other financing sources for fiscal year 2016 totaled \$24,176,073. This represents a \$1,776,073 increase from final budgeted revenues for 2016.

General fund original appropriations and final appropriations (appropriated disbursements including other financing uses) totaled \$24,665,346 and \$25,965,346, respectively. The actual budget basis disbursements and other financing uses for fiscal year 2016 totaled \$22,395,478, which represents a \$3,569,868 decrease from the final budget.

Capital Assets and Debt Administration

Capital Assets

The District does not report capital assets in the accompanying cash basis financial statements, but records payments for capital assets as disbursements when purchased. The District had facilities acquisition and construction disbursements of \$2,143,420 during the fiscal year.

Debt Administration

At June 30, 2016, the District had \$30,555,000 in general obligation bonds and \$122,232 in lease purchase agreements outstanding. The following table summarizes the bonds and leases outstanding at 2016 and 2015. Of this total, \$730,258 is due within one year and \$29,946,974 is due within greater than one year. The following table summarizes the liabilities outstanding.

	Outstanding Debt, Year-End	
	Governmental Activities 2016	Governmental Activities 2015
General obligation bonds	\$ 30,555,000	\$ 31,355,000
Lease purchase agreements	<u>122,232</u>	<u>-</u>
Total	<u>\$ 30,677,232</u>	<u>\$ 31,355,000</u>

See Note 7 to the basic financial statements for detail on the District's debt administration.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Current Related Financial Activities

For many, many years, the District has had the need to update its facilities to streamline operations and to enhance learning space design for students. The Board of Education and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. In September of 2013, the District learned OSFC funding would comprise approximately 61% of approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers while continuing to meet the needs of students. In 2004, the Board proceeded to put its local share of the project on the ballot through the Expedited Local Partnership Program. Phase I of the project consists of a new PK-5 building and a building for grades 6 through 8. The high school is intended to comprise Phase II, to be built with State funds. Phase I failed to receive a favorable response from taxpayers 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 building with Phase I, build a 6-8 middle school with Phase II and delay the high school OSFC project to Phase III. Phase I failed again in November of 2006, with less millage. The District estimates costs related to the proposed project will continue to increase as costs associated with new construction become higher over time. Additionally, the local share to be funded by the District will continue to increase as the tax base decreases, thus making a levy 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 refinancing other projects, the District was offered its State allocation in the spring of 2008, which the District deferred, recognizing the need to pass an operating levy and has declined in subsequent years for similar reasons. As a result of the 61% figure shown in September of 2013, the board voted to move forward with a community engagement process to determine the need and desire for new facilities. A Facility Steering Committee was convened and met over several months and presented a Master Plan to build a PK – 8 building and a new 9 – 12 building. The Board approved this master plan in June of 2014 and in July of 2014, voted to place a 7.15 mill bond issue on the ballot for November of 2014. This bond issued passed and the District began the process of securing funding for the project. A \$31,355,000 bond sale was held in March of 2015 to provide the local portion of the project, plus locally funding initiatives not included in the funding provided by OFCC. As a part of this process, the District secured a credit rating of A+ from Standard and Poor's. Debt repayments began in December of 2015. Throughout fiscal year 2016, the district worked through the building design process and construction work schedules for the new facilities.

Facing a looming in deficit in 2014, the District made \$1,000,000 in cuts in 2013. Since that time, the District was fortunate to receive increases in state funding in both fiscal years 2014 and 2015. The increases in those years, combined with the budget reductions made in 2013, have resulted in a very favorable outlook for the District over the next five years. The carryover balances for each year have been strengthened and the District has made a concerted effort to keep expenditures below revenue sources. The District renewed a 5.9 mill operating renewal levy in November 2015 for five years and will renewed the 14.8 mill operating levy in calendar year 2016 for a continuing period of time. This leaves two operating levies that will need to be renewed on five-year cycles; the 5.9 mill levy and the 9.75 mill levy.

The District formed a community school during fiscal year 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function or achieve academic success in the regular school system. 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 will achieve academic success through the Community School.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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 and once again in 2012 and unmodified opinions on its financial statement audits. Each challenge identified in this section is viewed as an opportunity for the District 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 its educational programs. 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 43078.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	Primary Government	Component Unit
	Governmental Activities	Urbana Community School
Assets:		
Equity in pooled cash and investments	\$ 48,359,141	\$ 684,760
Total assets	48,359,141	684,760
Net cash position:		
Restricted for:		
Capital projects	34,117,721	-
Classroom facilities maintenance	263,498	-
Debt service.	866,684	-
State funded programs.	119,744	-
Federally funded programs	23,685	-
Student activities	163,580	-
Other purposes	75,669	-
Unrestricted	12,728,560	684,760
Total net cash position	\$ 48,359,141	\$ 684,760

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position	
	Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Primary Governmental Activities	Component Unit Urbana Community School
Governmental activities:					
Instruction:					
Regular	\$ 10,640,923	\$ 860,019	\$ 358,573	\$ (9,422,331)	\$ -
Special	4,941,674	41,696	2,469,133	(2,430,845)	-
Vocational	370,483	-	81,512	(288,971)	-
Other	40,330	-	-	(40,330)	-
Support services:					
Pupil	1,943,151	-	-	(1,943,151)	-
Instructional staff	674,141	-	9,000	(665,141)	-
Board of education	22,454	-	-	(22,454)	-
Administration	1,587,490	-	-	(1,587,490)	-
Fiscal	615,920	-	-	(615,920)	-
Business	351,506	129,134	10,014	(212,358)	-
Operations and maintenance	1,384,216	27,239	-	(1,356,977)	-
Pupil transportation	665,779	-	112,843	(552,936)	-
Central	131,324	-	-	(131,324)	-
Operation of non-instructional services:					
Food service operations	1,023,708	284,362	767,397	28,051	-
Other non-instructional services	110,352	-	917	(109,435)	-
Extracurricular activities	681,171	354,075	19,207	(307,889)	-
Facilities acquisition and construction					
	2,143,420	-	-	(2,143,420)	-
Debt service:					
Principal retirement	951,024	-	-	(951,024)	-
Interest and fiscal charges	1,326,246	-	-	(1,326,246)	-
Total governmental activities	29,605,312	1,696,525	3,828,596	(24,080,191)	-
Component Unit:					
Urbana Community School	\$ 304,814	\$ -	\$ -	-	(304,814)
General receipts:					
Property taxes levied for:					
General purposes				9,059,189	-
Debt service				1,842,614	-
Capital projects				479,292	-
Grants and entitlements not restricted to specific programs					
				12,638,443	288,742
Grants and entitlements restricted for Ohio Facilities Construction Commission					
				3,007,385	-
Investment earnings				68,236	3,918
Miscellaneous				134,296	-
Total general receipts				27,229,455	292,660
Change in net position				3,149,264	(12,154)
Net cash position at beginning of year				45,209,877	696,914
Net cash position at end of year				\$ 48,359,141	\$ 684,760

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 9,733,778	\$ 7,309,680	\$ 25,985,807	\$ 2,334,346	\$ 45,363,611
Restricted assets:					
Equity in pooled cash and investments	748	-	-	-	748
Total assets	<u>9,734,526</u>	<u>7,309,680</u>	<u>25,985,807</u>	<u>2,334,346</u>	<u>45,364,359</u>
Fund balances:					
Nonspendable:					
Unclaimed monies	32,797	-	-	-	32,797
Restricted:					
Debt service	-	-	-	866,684	866,684
Capital improvements	-	7,309,680	25,985,807	822,234	34,117,721
Classroom facilities maintenance	-	-	-	263,498	263,498
Food service operations	-	-	-	74,921	74,921
Non-public schools	-	-	-	120	120
Special education	-	-	-	113	113
Targeted academic assistance	-	-	-	20,317	20,317
Other purposes	-	-	-	122,879	122,879
Extracurricular	-	-	-	163,580	163,580
School bus purchase	748	-	-	-	748
Committed:					
Termination benefits	458,845	-	-	-	458,845
Assigned:					
Student instruction	369,453	-	-	-	369,453
Student and staff support	281,578	-	-	-	281,578
Extracurricular activities	390	-	-	-	390
Facilities acquisition and construction	3,953	-	-	-	3,953
Subsequent year's appropriations	3,132,000	-	-	-	3,132,000
School supplies	566	-	-	-	566
Other purposes	11,886	-	-	-	11,886
Unassigned	5,442,310	-	-	-	5,442,310
Total fund balances	<u>\$ 9,734,526</u>	<u>\$ 7,309,680</u>	<u>\$ 25,985,807</u>	<u>\$ 2,334,346</u>	<u>\$ 45,364,359</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2016

Total governmental fund balances	\$ 45,364,359
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position - cash basis.	<u>2,994,782</u>
Net cash position of governmental activities	<u><u>\$ 48,359,141</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:					
From local sources:					
Property taxes	\$ 9,059,189	\$ -	\$ -	\$ 2,321,906	\$ 11,381,095
Tuition	850,007	-	-	-	850,007
Earnings on investments	36,456	6,576	22,365	3,836	69,233
Charges for services	-	-	-	284,362	284,362
Extracurricular	179,769	-	-	316,154	495,923
Classroom materials and fees	38,994	-	-	-	38,994
Rental income	27,239	-	-	-	27,239
Contributions and donations	12,950	-	-	17,257	30,207
Other local revenues	134,296	-	-	-	134,296
Intergovernmental - intermediate	846,465	-	-	-	846,465
Intergovernmental - state	13,150,319	-	3,007,385	485,348	16,643,052
Intergovernmental - federal	-	-	-	1,953,513	1,953,513
Total receipts	<u>24,335,684</u>	<u>6,576</u>	<u>3,029,750</u>	<u>5,382,376</u>	<u>32,754,386</u>
Disbursements:					
Current:					
Instruction:					
Regular	10,338,103	-	-	84,854	10,422,957
Special	3,586,887	-	-	1,320,399	4,907,286
Vocational	355,011	-	-	8,760	363,771
Other	40,330	-	-	-	40,330
Support services:					
Pupil	1,908,263	-	-	-	1,908,263
Instructional staff	659,842	-	-	9,000	668,842
Board of education	22,454	-	-	-	22,454
Administration	1,557,263	-	-	-	1,557,263
Fiscal	549,761	-	-	59,122	608,883
Business	345,450	-	-	-	345,450
Operations and maintenance	1,349,042	-	-	-	1,349,042
Pupil transportation	623,148	-	-	36,665	659,813
Central	131,324	-	-	-	131,324
Operation of non-instructional services:					
Food service operations	-	-	-	1,023,708	1,023,708
Other operation of non-instructional	106,186	-	-	1,040	107,226
Extracurricular activities	379,013	-	-	299,910	678,923
Facilities acquisition and construction	28,447	186,759	1,721,216	206,998	2,143,420
Debt service:					
Principal retirement	-	-	-	951,024	951,024
Interest and fiscal charges	-	-	-	1,326,246	1,326,246
Total disbursements	<u>21,980,524</u>	<u>186,759</u>	<u>1,721,216</u>	<u>5,327,726</u>	<u>29,216,225</u>
Excess (deficiency) of receipts over (under) disbursements	<u>2,355,160</u>	<u>(180,183)</u>	<u>1,308,534</u>	<u>54,650</u>	<u>3,538,161</u>
Other financing sources (uses):					
Transfers in	-	-	-	182,556	182,556
Transfers (out)	-	-	-	(182,556)	(182,556)
Advances in	34,614	-	-	42,119	76,733
Advances (out)	(42,119)	-	-	(34,614)	(76,733)
Total other financing sources (uses)	<u>(7,505)</u>	<u>-</u>	<u>-</u>	<u>7,505</u>	<u>-</u>
Net change in fund balances	2,347,655	(180,183)	1,308,534	62,155	3,538,161
Fund balances at beginning of year	<u>7,386,871</u>	<u>7,489,863</u>	<u>24,677,273</u>	<u>2,272,191</u>	<u>41,826,198</u>
Fund balances at end of year	<u>\$ 9,734,526</u>	<u>\$ 7,309,680</u>	<u>\$ 25,985,807</u>	<u>\$ 2,334,346</u>	<u>\$ 45,364,359</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS -
CASH BASIS TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds	\$	3,538,161
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*Amounts reported for governmental activities in the
statement of activities are different because:*

An 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 disbursements and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

(388,897)

Change in net cash position of governmental activities	\$	<u>3,149,264</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts:				
From local sources:				
Property taxes	\$ 8,355,083	\$ 8,355,083	\$ 9,059,189	\$ 704,106
Tuition	645,691	645,691	700,105	54,414
Earnings on investments	33,978	33,978	36,456	2,478
Extracurricular	32,450	32,450	35,185	2,735
Rental income	25,122	25,122	27,239	2,117
Other local revenues	240,004	240,004	260,230	20,226
Intergovernmental - intermediate	780,675	780,675	846,465	65,790
Intergovernmental - state	12,128,238	12,128,238	13,150,319	1,022,081
Total receipts	22,241,241	22,241,241	24,115,188	1,873,947
Disbursements:				
Current:				
Instruction:				
Regular	10,646,007	11,215,774	10,605,634	610,140
Special	3,811,426	4,015,410	3,588,977	426,433
Vocational	441,820	465,466	398,155	67,311
Other	48,870	51,485	50,261	1,224
Support services:				
Pupil	1,989,859	2,096,355	1,913,421	182,934
Instructional staff	790,007	832,288	661,874	170,414
Board of education	39,229	41,328	26,618	14,710
Administration	1,622,240	1,709,061	1,577,003	132,058
Fiscal	576,357	607,203	561,903	45,300
Business	258,885	272,740	221,046	51,694
Operations and maintenance	1,547,982	1,630,829	1,433,086	197,743
Pupil transportation	695,015	732,212	654,681	77,531
Central	145,807	153,610	135,450	18,160
Other operation of non-instructional services	252,676	266,199	112,280	153,919
Extracurricular activities	474,966	500,386	373,381	127,005
Facilities acquisition and construction	949,200	1,000,000	32,400	967,600
Total disbursements	24,290,346	25,590,346	22,346,170	3,244,176
Excess (deficiency) of receipts over (under) disbursements	(2,049,105)	(3,349,105)	1,769,018	5,118,123
Other financing sources (uses):				
Refund of prior year's expenditures	92,726	92,726	16,481	(76,245)
Refund of prior year's receipts	(46,587)	(46,587)	-	46,587
Transfers (out)	(80,994)	(80,994)	(7,075)	73,919
Advances in	66,033	66,033	41,225	(24,808)
Advances (out)	(247,419)	(247,419)	(42,233)	205,186
Sale of capital assets	-	-	3,179	3,179
Total other financing sources (uses)	(216,241)	(216,241)	11,577	227,818
Net change in fund balance	(2,265,346)	(3,565,346)	1,780,595	5,345,941
Fund balance at beginning of year	6,359,453	6,359,453	6,359,453	-
Prior year encumbrances appropriated	433,346	433,346	433,346	-
Fund balance at end of year	\$ 4,527,453	\$ 3,227,453	\$ 8,573,394	\$ 5,345,941

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2016

	Governmental Activities - Internal Service Funds
Assets:	
Equity in pooled cash and investments.	<u>\$ 2,994,782</u>
Net cash position:	
Unrestricted	<u>\$ 2,994,782</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGE IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Governmental Activities - Internal Service Funds</u>
Operating receipts:	
Charges for services	\$ 2,490,480
Total operating receipts	<u>2,490,480</u>
Operating disbursements:	
Claims and administrative services	<u>2,879,567</u>
Total operating disbursements.	<u>2,879,567</u>
Operating loss.	<u>(389,087)</u>
Nonoperating receipts:	
Interest receipts	<u>190</u>
Total nonoperating receipts	<u>190</u>
Change in net cash position	(388,897)
Net cash position at beginning of year	<u>3,383,679</u>
Net cash position at end of year.	<u>\$ 2,994,782</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2016

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 116,756	\$ 62,363
Net cash position:		
Held in trust for scholarships	116,756	-
Held for student activities.	-	62,363
Total net cash position	\$ 116,756	\$ 62,363

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 136
Deductions:	
Scholarships awarded	3,000
Change in net cash position	(2,864)
Net cash position at beginning of year . . .	119,620
Net cash position at end of year.	\$ 116,756

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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 currently operates 3 elementary schools (grades K - 5), 1 junior high (grades 6 - 8) and 1 high school (grades 9 - 12). The District is staffed by 80 non-certified and 154 certified personnel to provide services to approximately 2,100 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus". 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 when the District's relationship with the organization further results in a financial benefit or burden of the District. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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 is comprised of five members. 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 15 for detail on the School.

Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of governments within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby Counties. The organization 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 governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member Districts within each county plus a representative from the fiscal agent District. During fiscal year 2016, the District paid \$170,079 to WOCO for various services. Financial information is available from Marcia Wierwille, Fiscal Officer, 129 East Court Street, Sidney, Ohio 45365.

META Solutions

The District is a participant in Meta Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC). Meta Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. Meta Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. During fiscal year 2016, the District paid Meta Solutions \$1,349 for services. Financial information can be obtained from Adam Collier, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Plan

The District participates in the Better Business Bureau of Central Ohio group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio is governed by a Board of Directors, consisting of four officers and twenty-three directors from area businesses and organizations.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Building fund - The building fund is used to account for and report resources that are restricted to expenditures related to all special bonds fund in the District and to account for receipts and expenditures involved in the replacement or updating of equipment essential for the instruction of students. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Classroom facilities fund - A capital projects fund that is used to account for and report monies received that are restricted for expenditures in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for specific revenue sources whose use is restricted, committed or assigned to a particular purpose.

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

The government-wide statement of activities presents a comparison between direct disbursements and program receipts for each function or program of the governmental activities of the District. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts 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. Receipts not classified as program receipts are presented as general receipts of the District.

All assets and net position associated with the operation of the District are included on the statement of net position.

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

D. Basis of Accounting

Although Ohio Administrative Code §117-2-03(B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a financial reporting framework other than generally accepted accounting principles in the United States of America. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

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 2016 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the 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 2016.
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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund 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 reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

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 and investments" on the basic financial statements.

During fiscal year 2016, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposit and U.S. government money market mutual funds. With the exception of STAR Ohio, investments are reported at cost.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 2016 amounted to \$36,456, which includes \$12,217 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 and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Interfund Balances

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for post-employment health care benefits.

L. Long-Term Obligations

Loans and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

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

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 disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net cash position restricted for other purposes includes monies restricted by State statute for 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 position is available.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents received from the State and are restricted for school bus purchases. A schedule of statutory set-asides is presented in Note 13.

P. Interfund Activity

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

Q. 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, 2016, 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 cash position on the statement of net position.

R. Pensions

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Administrative Code, §117-2-03(B), requires that the District prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

4. DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

At fiscal year end, the District had \$3,100 in undeposited 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, 2016, the carrying amount of all District deposits was \$14,404,073. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2016, \$7,962,949 of the District's bank balance of \$14,446,158 was exposed to custodial risk as discussed below, while \$6,483,209 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, 2016, the District had the following investments and maturities:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

4. DEPOSITS AND INVESTMENTS - (Continued)

Investment Type	Carrying Value	Fair Value	Investment Maturities at Fair Value		
			6 Months or Less	7 to 12 Months	13 to 18 Months
Negotiable certificates of deposit	\$ 1,002,095	\$ 1,002,095	\$ 250,030	\$ 500,970	\$ 251,095
U.S. Government money market mutual fund	33,103,992	33,103,992	33,103,992	-	-
STAR Ohio	25,000	25,000	25,000	-	-
Total	<u>\$ 34,131,087</u>	<u>\$ 34,131,087</u>	<u>\$ 33,379,022</u>	<u>\$ 500,970</u>	<u>\$ 251,095</u>

The weighted average maturity of investments is 0.02 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: 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 investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its 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.

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, 2016:

Investment Type	Carrying Value	% of Total
Negotiable certificates of deposit	\$ 1,002,095	2.94
U.S. Government money market mutual fund	33,103,992	96.99
STAR Ohio	25,000	0.07
Total	<u>\$ 34,131,087</u>	<u>100.00</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

4. DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note:</u>	
Carrying amount of deposits	\$ 14,404,073
Investments	34,131,087
Cash on hand	<u>3,100</u>
Total	<u>\$ 48,538,260</u>

<u>Cash per statement of net position:</u>	
Governmental activities	\$ 48,359,141
Private-purpose trust	116,756
Agency fund	<u>62,363</u>
Total	<u>\$ 48,538,260</u>

5. INTERFUND TRANSACTIONS

- A. Transfers for the fiscal year ended June 30, 2016, as reported on the fund financial statements, consist of the following:

<u>Transfers to nonmajor governmental funds from:</u>	
Nonmajor governmental funds	<u>\$ 182,556</u>

The primary purpose of this transfer is to fund the District's classroom facilities maintenance fund (a nonmajor governmental fund) in accordance with the Ohio Facilities Construction Commission project agreement.

- B. Advances for the fiscal year ended June 30, 2016, as reported on the fund statements, consist of the following:

<u>Advances to the general fund from:</u>	
Nonmajor governmental funds	\$ 34,614
<u>Advances to nonmajor governmental funds from:</u>	
General fund	<u>42,119</u>
Total	<u>\$ 76,733</u>

These advances will be repaid once the anticipated funds are received. Interfund advances 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, 2016
(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 and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, 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 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, 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.

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, 2016, are available to finance fiscal year 2016 operations. 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.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 252,158,410	95.55	\$ 252,424,460	95.38
Public utility personal	<u>11,731,400</u>	<u>4.45</u>	<u>12,229,930</u>	<u>4.62</u>
Total	<u>\$ 263,889,810</u>	<u>100.00</u>	<u>\$ 264,654,390</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$75.20		\$75.20	

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

7. LONG-TERM OBLIGATIONS

- A. During the fiscal year 2016, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding June 30, 2015	Additions	Reductions	Balance Outstanding June 30, 2016	Amounts Due in One Year
Governmental activities:					
General obligation bonds:					
Series 2015					
Current interest bonds	\$ 31,355,000	\$ -	\$ (800,000)	\$ 30,555,000	\$ 640,000
Lease-purchase agreement	-	273,256	(151,024)	122,232	90,258
Total long-term obligations, governmental activities	<u>\$ 31,355,000</u>	<u>\$ 273,256</u>	<u>\$ (951,024)</u>	<u>\$ 30,677,232</u>	<u>\$ 730,258</u>

- B. Series 2015 School Improvement General Obligation Bonds - On March 4, 2015, the District issued \$31,355,000 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the bond retirement fund.

The issue is comprised of current interest serial bonds. The interest rates on the bonds range from 2.0% - 5.0%.

Interest payments on the current interest serial bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2042.

The following is a summary of the District's future annual debt service requirements to maturity for the Series 2015 Bonds:

Fiscal Year	Current Interest - Series 2015		
	Principal	Interest	Total
2017	\$ 640,000	\$ 1,079,119	\$ 1,719,119
2018	690,000	1,045,869	1,735,869
2019	725,000	1,021,369	1,746,369
2020	735,000	1,006,769	1,741,769
2021	770,000	991,719	1,761,719
2022 - 2026	4,160,000	4,672,119	8,832,119
2027 - 2031	5,125,000	3,827,995	8,952,995
2032 - 2036	6,350,000	2,735,029	9,085,029
2037 - 2041	7,775,000	1,424,908	9,199,908
2042 - 2043	<u>3,585,000</u>	<u>135,651</u>	<u>3,720,651</u>
Total	<u>\$ 30,555,000</u>	<u>\$ 17,940,547</u>	<u>\$ 48,495,547</u>

- C. Lease-Purchase Agreement

During fiscal year 2016, the District entered into two lease-purchase agreements with DeLage Landen Public Finance, LLC. for the purpose of purchasing three new school buses. The \$273,256 in proceeds are to be repaid over three years with a final maturity of August 1, 2017. Principal and interest payments related to this lease-purchase agreement are made from the permanent improvement fund (a nonmajor governmental fund).

**URBANA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

7. LONG-TERM OBLIGATIONS – (Continued)

Principal and interest requirements to retire the lease-purchase obligation at June 30, 2016 follows:

Fiscal Year Ending June 30,	Lease-Purchase Agreement		
	Principal	Interest	Total
2017	\$ 90,258	\$ 3,166	\$ 93,424
2018	31,974	828	32,802
Total	<u>\$ 122,232</u>	<u>\$ 3,994</u>	<u>\$ 126,226</u>

D. Legal Debt Margin

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

Revised Code Section 133.06(l) permits school districts to incur net indebtedness in excess of the 9% limitation, without obtaining the consent of the State Superintendent and the Tax Commissioner, when bond proceeds will be used exclusively to fund a school district's Commission-required local effort. Accordingly, the proceeds of the bonds will be used exclusively to fund the District's Commission-required local effort, and, as a result, are not subject to State consents/special needs approval.

8. 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

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CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

8. 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 two types of medical insurance plans for its employees. The traditional PPO plan has a \$500 family and \$250 single deductible. The board also offers a high deductible health plan with a family deductible of \$5,000 and a single deductible of \$2,500. A third party administrator, Anthem, reviews all claims, which are then paid by the District. The District purchased stop-loss coverage of \$75,000 per employee per year, and \$1.0 million group aggregate for fiscal year 2016. The premiums are paid by the District at a rate of 87.5% for all teaching employees and at a rate of either 85%, 65%, or 60% for classified staff. Administrators' premiums are paid 85% by the District. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

On January 1, 2013, the District began offering a High Deductible Health Care Plan (HDHP) and a Health Savings Account (HSA) in addition to the traditional preferred provider organization insurance option to qualifying administrative and non-bargaining employees. The District's contributions to the HAS for administrators were \$1,500 for individuals and \$3,000 for families, and the District's contributions to the HAS for all other staff enrolled were \$1,250 for individuals and \$2,500 for families.

Claims of \$141,601 are due to be paid from the internal service fund at June 30, 2016. The claims liability is based on an estimate supplied by the District's third party administrator, and includes estimates of costs relating to incurred but not reported claims.

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

	Balance at Beginning of Year	Current Year Claims & Changes in Estimates	Claim Payments	Balance at End of Year
2016	\$ 102,384	\$ 2,918,784	\$ (2,879,567)	\$ 141,601
2015	363,686	2,611,041	(2,872,343)	102,384

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 2012.

Post-employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 10. As such, no funding provisions are required by the District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

8. RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2016, the District participated in the Better Business Bureau of Central Ohio Group Retrospective Rating Plan (the "GRP") 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 retrospective plan provides the possibility of increased refund amounts based on look-back performance of the group.

9. PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$283,028 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. 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 includes financial statements, required supplementary information and detailed information about STRS Ohio’s fiduciary net position. That report can 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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

The District's contractually required contribution to STRS Ohio was \$1,279,618 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportionate share of the net pension liability	\$4,567,251	\$23,207,018	\$27,774,269
Proportion of the net pension liability	0.08004160%	0.08397060%	

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
 Total	 <u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$6,333,136	\$4,567,251	\$3,080,230

**URBANA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

Changes Between Measurement Date and Report Date - In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District’s net pension liability is expected to be significant.

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**URBANA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

9. PENSION PLANS – (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$32,236,298	\$23,207,018	\$15,571,415

10. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

**URBANA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

10. POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$40,434, \$57,611, and \$40,412, respectively. 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

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 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$93,460, respectively; 100 percent has been contributed for fiscal year 2014.

11. BUDGETARY BASIS OF ACCOUNTING

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

The statement of receipts, disbursements and changes in fund balance - budget and actual (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 cash basis are that:

- (a) 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 (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

11. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ 1,780,595
Funds budgeted elsewhere	33,191
Adjustment for encumbrances	<u>533,869</u>
Cash basis	<u>\$ 2,347,655</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash 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.

12. CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to legal proceedings that would have a material effect, if any, on the financial condition of the District.

C. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

13. SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	345,157
Current year offsets	<u>(567,115)</u>
Total	<u>\$ (221,958)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

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-aside, the District also has \$748 in monies restricted for school bus purchases. This amount is shown as a restricted asset and restricted fund balance in the general fund since allowable expenditures are restricted by State statute.

14. OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 565,232
Building fund	329,540
Classroom facilities fund	3,284,555
Nonmajor governmental funds	<u>126,828</u>
Total	<u>\$ 4,306,155</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

15. 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, 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 Statements No. 39 and GASB Statement No. 61.

The School was initially approved under contract with the Sponsor for the period of five years commencing July 1, 2003. A new four-year agreement was approved in September of 2013 to run through June 30, 2017. 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.

A. Summary of Significant Accounting Policies

As discussed further in Note 15.A, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School's accounting policies.

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 (disbursements) related to 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 receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

15. URBANA COMMUNITY SCHOOL - (Continued)

Basis of Accounting - Although Ohio Administrative Code §117-2-03 (B) requires the School's financial report to follow generally accepted accounting principles, the School chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a financial reporting framework other than generally accepted accounting principles in the United States of America. The School recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

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 §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 §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 position - cash basis as "equity in pooled cash and investments".

Capital Assets and Depreciation - Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation has not been reported for any capital assets.

Operating Receipts and Disbursements - Operating receipts are those receipts that are generated directly from the primary activity of the School. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the School. All receipts and disbursements not meeting this definition are reported as non-operating.

Intergovernmental Receipts - The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation program receipts for the fiscal year 2016 amounted to \$286,960.

Grants and entitlements are recognized as non-operating receipts in the accounting period in which they are received. During 2016, the School received \$1,782 in unrestricted grants from the State of Ohio.

Net Position - Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

15. URBANA COMMUNITY SCHOOL - (Continued)

B. Accountability and Compliance

Change in Accounting Principles

For fiscal year 2016, the School has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

Compliance

Ohio Administrative Code §117-2-03(B) requires that the School prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on a cash basis, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

Ohio Rev. Code § 3314.08(H) in part requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. Section C describes documentation requirements. The School did not have all required documentation for FTEs.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

15. URBANA COMMUNITY SCHOOL - (Continued)

Ohio Rev. Code § 3314.03(A)(23) requires, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the description of the learning opportunities that will be offered to students. **Ohio Rev. Code § 3314.02(A)(7)** describes “internet- or computer-based community school” definitions. There were inconsistencies regarding the School’s classification. The School and its Sponsor shall mutually amend their contract to reflect the actual educational curriculum delivery method that is being utilized and shall be proactive to communicate such future amendments to the Ohio Department of Education.

C. Equity in Pooled Cash and Investments

At June 30, 2016, the carrying amount of the School’s deposits was \$684,760. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosures*”, as of June 30, 2016, \$453,325 of the School’s bank balance of \$703,325 was exposed to custodial credit risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

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.

D. Comprehensive Services Agreement with Meta Solutions

The School contracted with META Solutions (META) for the period July 1, 2015 through June 30, 2016. Under the contract, the following terms were agreed upon:

1. META shall provide the School with instructional, supervisory/administrative, and technical services sufficient to substantially 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 META under the agreement shall be employees of META and META 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 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.
4. Curricular services provided by META shall be limited to the standardized curriculum developed by META.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

15. URBANA COMMUNITY SCHOOL - (Continued)

5. The School shall pay to META \$3,000 per full-time student enrolled in the School per year for comprehensive services. Additional service packages may be provided on such terms as are agreed to by the parties.

During fiscal year 2016, the School paid \$146,639 to META for services.

To obtain META's audited June 30, 2016 financial statements; please contact David Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

E. 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 2016, the School was named on the Sponsor's policy for property and general liability insurance. For the upcoming fiscal year 2017, the School will be purchasing its own general liability insurance.

F. Purchased Services

For fiscal year ended June 30, 2016, disbursements for purchased services were as follows:

META services	\$ 146,639
Sponsor services	149,902
Other services	<u>8,260</u>
Total	<u>\$ 304,801</u>

G. Contingencies

Grants - The School received financial assistance from 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, 2016.

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 anticipates a material adjustment to its State funding, as a result of the Ohio Department of Education (ODE)'s reclassification of the School from a brick and mortar school to an e-school. As of the date of this report, ODE has not finalized the amount of this adjustment, so the impact on the financial statements is indeterminable; however, ODE and management believes this will result in a material liability for the School.

Litigation - The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

15. URBANA COMMUNITY SCHOOL - (Continued)

H. Fiscal Agent

The School utilizes the services of the Sponsor's Treasurer as its fiscal officer. The School does not directly pay the Treasurer; however, it does reimburse the Sponsor for services provided.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 208,800
Noncash Assistance (Food Distribution)		
National School Lunch Program	10.555	66,900
Cash Assistance		
National School Lunch Program	10.555	482,754
Total National School Lunch Program		<u>549,654</u>
Summer Food Service Program for Children	10.559	<u>62,316</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>820,770</u>
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	604,588
Special Education Cluster:		
Special Education_Grants to States	84.027	474,854
Total Special Education Cluster		<u>474,854</u>
Rural Education	84.358	43,751
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	82,913
Total U.S. Department of Education		<u>1,206,106</u>
Total Expenditures of Federal Awards		<u><u>\$ 2,026,876</u></u>

The accompanying notes are an integral part of this schedule.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Urbana City School District (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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 D – FOOD DONATION PROGRAM

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

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the Urbana City School District, Champaign County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

District's Response to Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Urbana City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Urbana City School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Urbana City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control 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)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control 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	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 C.F.R. § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 C.F.R. §200.520?	No

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

FINDING NUMBER 2016-001

Noncompliance

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code § 117-2-03(B) requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). As a cost saving measure, the District decided to prepare the 2016 financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District should prepare its financial statements according to generally accepted accounting principles to provide users with more meaningful financial statements.

Officials' Response:

See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B) – Failure to report on GAAP	Not Corrected. Repeated as Finding 2016-001.	See Corrective Action Plan.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	<p>In response to Finding Number 2016-001 Noncompliance Citation ORC 117.38; the Urbana City School District Board of Education understands that the Ohio Revised Code requires the District's financial statements to be prepared in accordance with GAAP; however, an exception has been implemented by the State Auditor for issuance of an unmodified opinion if GAAP look-alike financial statements have been prepared by the District. Due to cost of the conversion, increased audit cost, and cost of employee resources, the Board feels money that would otherwise be spent on conversion to GAAP is better used to educate the students of Urbana City School District. In addition, federal security laws do not require GAAP financial statements, and specifically, SEC Rule 15c2-12 relating to continuing disclosure on outstanding debt (which applies to the District) does not require GAAP financial statements.</p>	Reassess annually	Amanda Hildebrand, Treasurer



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 4, 2017