



**Auditor of State
Betty Montgomery**

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet – All Fund Types and Account Groups – June 30, 2002	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Fund For the Fiscal Year Ended June 30 2002	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP Basis)All Governmental Fund Types For the Fiscal Year Ended June 30 2002	8
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – Proprietary Fund Type and Non-Expendable Trust Funds - For the Fiscal Year Ended June 30 2002.....	10
Combined Statement of Cash Flows - All Proprietary Fund Type an Non-Expendable Trust Fund - For the Fiscal Year Ended June 30, 2002.....	11
Notes to the General Purpose Financial Statements.....	13
Schedule of Federal Awards Expenditures	49
Notes to Schedule of Federal Awards Expenditures	50
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings.....	55

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Urbana City School District (the District), Champaign County, as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Urbana City School District, Champaign County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 14, 2003

This page intentionally left blank.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents	\$ 3,221,191	\$ 1,151,082	\$ 69,312	\$ 610,899
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	8,534,187	-	-	588,922
Accounts	706	-	-	-
Accrued interest	5,671	52	-	-
Interfund loan receivable	15,185	-	-	-
Due from other governments	5,615	7,716	-	-
Materials and supplies inventory	-	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	601,320	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
OTHER DEBITS:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	\$ 12,383,875	\$ 1,158,850	\$ 69,312	\$ 1,199,821
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 67,306	\$ 17,564	\$ -	\$ -
Contracts payable.	-	-	-	75,600
Accrued wages and benefits.	1,416,863	51,770	-	-
Compensated absences payable.	23,524	-	-	-
Pension obligation payable	232,946	80	-	-
Interfund loan payable	-	185	-	-
Deferred revenue	8,126,557	5,378	-	548,790
Due to other governments.	53,432	13,058	-	-
Due to students	-	-	-	-
Claims payable	-	-	-	-
General obligation bonds payable.	-	-	-	-
Energy conservation notes payable	-	-	-	-
Obligation under capital lease.	-	-	-	-
Total liabilities	9,920,628	88,035	-	624,390
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Retained earnings: unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	198,506	93,539	-	211,789
Reserved for debt service	-	-	69,312	-
Reserved for tax revenue unavailable for appropriation.	407,630	-	-	40,132
Reserved for principal endowment	-	-	-	-
Reserved for instructional materials.	339,194	-	-	-
Reserved for budget stabilization	113,449	-	-	-
Reserved for bus purchase allowance	148,677	-	-	-
Designated for budget stabilization	236,822	-	-	-
Designated for bus purchase allowance	22,468	-	-	-
Unreserved-undesignated	996,501	977,276	-	323,510
Total equity and other credits	2,463,247	1,070,815	69,312	575,431
Total liabilities, equity and other credits.	\$ 12,383,875	\$ 1,158,850	\$ 69,312	\$ 1,199,821

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 76,036	\$ 829,244	\$ 112,274	\$ -	\$ -	\$ 6,070,038
-	-	67,179	-	-	67,179
-	-	-	-	-	9,123,109
-	-	-	-	-	706
-	-	117	-	-	5,840
-	-	-	-	-	15,185
28,137	-	-	-	-	41,468
13,294	-	-	-	-	13,294
-	-	-	-	-	601,320
44,203	-	-	12,979,084	-	13,023,287
-	-	-	-	69,312	69,312
-	-	-	-	2,277,445	2,277,445
<u>\$ 161,670</u>	<u>\$ 829,244</u>	<u>\$ 179,570</u>	<u>\$ 12,979,084</u>	<u>\$ 2,346,757</u>	<u>\$ 31,308,183</u>
\$ 106	\$ -	\$ 70	\$ -	\$ -	\$ 85,046
-	-	-	-	-	75,600
15,307	-	-	-	-	1,483,940
16,783	-	-	-	1,438,390	1,478,697
25,644	-	-	-	101,692	360,362
15,000	-	-	-	-	15,185
-	-	-	-	-	8,680,725
400	-	9,154	-	-	76,044
-	-	37,250	-	-	37,250
-	185,394	-	-	-	185,394
-	-	-	-	110,000	110,000
-	-	-	-	265,000	265,000
-	-	-	-	431,675	431,675
<u>73,240</u>	<u>185,394</u>	<u>46,474</u>	<u>-</u>	<u>2,346,757</u>	<u>13,284,918</u>
-	-	-	12,979,084	-	12,979,084
88,430	643,850	-	-	-	732,280
-	-	7,048	-	-	510,882
-	-	-	-	-	69,312
-	-	-	-	-	447,762
-	-	42,562	-	-	42,562
-	-	-	-	-	339,194
-	-	-	-	-	113,449
-	-	-	-	-	148,677
-	-	-	-	-	236,822
-	-	-	-	-	22,468
-	-	83,486	-	-	2,380,773
<u>88,430</u>	<u>643,850</u>	<u>133,096</u>	<u>12,979,084</u>	<u>-</u>	<u>18,023,265</u>
<u>\$ 161,670</u>	<u>\$ 829,244</u>	<u>\$ 179,570</u>	<u>\$ 12,979,084</u>	<u>\$ 2,346,757</u>	<u>\$ 31,308,183</u>

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$ 7,787,919	\$ -	\$ -	\$ 538,732	\$ -	\$ 8,326,651
Tuition	52,811	-	-	-	-	52,811
Earnings on investments	128,342	514	-	-	2,041	130,897
Extracurricular activities	-	424,133	-	-	-	424,133
Other local revenues	49,985	18,175	-	23,700	28,976	120,836
Other revenue	73,334	78,471	-	-	25,000	176,805
Intergovernmental - State	7,800,124	200,721	-	91,651	-	8,092,496
Intergovernmental - Federal	-	792,036	-	-	-	792,036
Total revenue	<u>15,892,515</u>	<u>1,514,050</u>	<u>-</u>	<u>654,083</u>	<u>56,017</u>	<u>18,116,665</u>
Expenditures:						
Current:						
Instruction:						
Regular	6,836,343	260,140	-	1,003	-	7,097,486
Special	1,518,068	326,608	-	-	14,653	1,859,329
Vocational	270,063	-	-	-	-	270,063
Other	99,343	-	-	-	-	99,343
Support services:						
Pupil	1,123,799	166,538	-	-	6,751	1,297,088
Instructional staff	342,416	12,228	-	-	1,652	356,296
Board of Education	21,679	-	-	-	-	21,679
Administration	1,555,500	3,772	-	14,987	-	1,574,259
Fiscal	198,951	1,069	-	-	-	200,020
Business	141,215	169,949	-	-	-	311,164
Operations and maintenance	1,250,936	-	-	-	-	1,250,936
Pupil transportation	567,504	5,896	-	-	-	573,400
Central	169,054	1,969	-	-	-	171,023
Community services	168	74,440	-	-	-	74,608
Extracurricular activities	331,209	283,961	-	-	-	615,170
Facilities acquisition and construction	-	100,000	-	975,863	8,193	1,084,056
Capital outlay	213,771	-	-	-	-	213,771
Debt service:						
Principal retirement	75,001	-	78,115	-	-	153,116
Interest and fiscal charges	-	-	33,712	-	-	33,712
Total expenditures	<u>14,715,020</u>	<u>1,406,570</u>	<u>111,827</u>	<u>991,853</u>	<u>31,249</u>	<u>17,256,519</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,177,495</u>	<u>107,480</u>	<u>(111,827)</u>	<u>(337,770)</u>	<u>24,768</u>	<u>860,146</u>
Other financing sources (uses):						
Operating transfers in	-	350,000	167,228	-	-	517,228
Operating transfers out	(629,000)	-	-	(107,228)	-	(736,228)
Proceeds from capital lease transaction	213,771	-	-	242,000	-	455,771
Proceeds from sale of fixed assets	1,456	-	-	-	-	1,456
Total other financing sources (uses)	<u>(413,773)</u>	<u>350,000</u>	<u>167,228</u>	<u>134,772</u>	<u>-</u>	<u>238,227</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>763,722</u>	<u>457,480</u>	<u>55,401</u>	<u>(202,998)</u>	<u>24,768</u>	<u>1,098,373</u>
Fund balances, July 1 (restated)	<u>1,699,525</u>	<u>613,335</u>	<u>13,911</u>	<u>778,429</u>	<u>41,049</u>	<u>3,146,249</u>
Fund balances, June 30	<u>\$ 2,463,247</u>	<u>\$ 1,070,815</u>	<u>\$ 69,312</u>	<u>\$ 575,431</u>	<u>\$ 65,817</u>	<u>\$ 4,244,622</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

This page intentionally left blank.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 8,152,925	\$ 8,151,920	\$ (1,005)	\$ -	\$ -	\$ -
Tuition	51,800	52,811	1,011	-	-	-
Earnings on investments	130,000	131,206	1,206	533	533	-
Extracurricular activities	-	-	-	423,401	424,132	731
Other local revenues	49,803	49,985	182	17,580	18,173	593
Other revenue	74,000	74,952	952	77,800	78,471	671
Intergovernmental - State	7,798,952	7,800,123	1,171	200,809	200,721	(88)
Intergovernmental - Federal	-	-	-	789,698	789,698	-
Total revenues	<u>16,257,480</u>	<u>16,260,997</u>	<u>3,517</u>	<u>1,509,821</u>	<u>1,511,728</u>	<u>1,907</u>
Expenditures:						
Current:						
Instruction:						
Regular	7,362,678	6,953,649	409,029	420,241	341,758	78,483
Special	1,560,710	1,474,006	86,704	385,833	313,777	72,056
Vocational	286,959	271,017	15,942	-	-	-
Other	114,367	108,013	6,354	-	-	-
Support services:						
Pupil	1,151,553	1,087,579	63,974	254,976	207,357	47,619
Instructional staff	355,532	335,781	19,751	20,155	16,391	3,764
Board of Education	24,768	23,392	1,376	-	-	-
Administration	1,622,341	1,532,213	90,128	4,644	3,777	867
Fiscal	204,423	193,066	11,357	1,314	1,069	245
Business	148,183	139,951	8,232	212,775	173,038	39,737
Operations and maintenance	1,335,218	1,261,041	74,177	-	-	-
Pupil transportation	599,415	566,115	33,300	7,208	5,862	1,346
Central	226,326	213,753	12,573	2,421	1,969	452
Community services	-	-	-	106,884	86,923	19,961
Extracurricular activities	344,063	324,949	19,114	390,116	317,260	72,856
Facilities acquisition and construction	-	-	-	122,964	100,000	22,964
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>15,336,536</u>	<u>14,484,525</u>	<u>852,011</u>	<u>1,929,531</u>	<u>1,569,181</u>	<u>360,350</u>
Excess (deficiency) of revenues over (under) expenditures	<u>920,944</u>	<u>1,776,472</u>	<u>855,528</u>	<u>(419,710)</u>	<u>(57,453)</u>	<u>362,257</u>
Other financing sources (uses):						
Advances out	(15,882)	(15,000)	882	-	-	-
Operating transfers in	598,943	598,943	-	350,000	350,000	-
Operating transfers out	(1,300,173)	(1,227,943)	72,230	-	-	-
Proceeds from capital lease transaction	-	-	-	-	-	-
Proceeds from sale of fixed assets	1,500	1,456	(44)	21	21	-
Refund of prior year expenditure	2,000	2,020	20	-	-	-
Total other financing sources (uses)	<u>(713,612)</u>	<u>(640,524)</u>	<u>73,088</u>	<u>350,021</u>	<u>350,021</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>207,332</u>	<u>1,135,948</u>	<u>928,616</u>	<u>(69,689)</u>	<u>292,568</u>	<u>362,257</u>
Fund balances, July 1	2,250,181	2,250,181	-	581,800	581,800	-
Prior year encumbrances appropriated	179,591	179,591	-	161,743	161,743	-
Fund balances, June 30	<u>\$ 2,637,104</u>	<u>\$ 3,565,720</u>	<u>\$ 928,616</u>	<u>\$ 673,854</u>	<u>\$ 1,036,111</u>	<u>\$ 362,257</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 563,225	\$ 563,295	\$ 70	\$ 8,716,150	\$ 8,715,215	\$ (935)
-	-	-	-	-	-	51,800	52,811	1,011
-	-	-	-	-	-	130,533	131,739	1,206
-	-	-	-	-	-	423,401	424,132	731
-	-	-	23,700	23,700	-	91,083	91,858	775
-	-	-	-	-	-	151,800	153,423	1,623
-	-	-	92,045	91,651	(394)	8,091,806	8,092,495	689
-	-	-	-	-	-	789,698	789,698	-
-	-	-	678,970	678,646	(324)	18,446,271	18,451,371	5,100
-	-	-	18,602	19,074	(472)	7,801,521	7,314,481	487,040
-	-	-	-	-	-	1,946,543	1,787,783	158,760
-	-	-	-	-	-	286,959	271,017	15,942
-	-	-	-	-	-	114,367	108,013	6,354
-	-	-	-	-	-	1,406,529	1,294,936	111,593
-	-	-	-	-	-	375,687	352,172	23,515
-	-	-	-	-	-	24,768	23,392	1,376
-	-	-	14,616	14,987	(371)	1,641,601	1,550,977	90,624
-	-	-	-	-	-	205,737	194,135	11,602
-	-	-	-	-	-	360,958	312,989	47,969
-	-	-	-	-	-	1,335,218	1,261,041	74,177
-	-	-	-	-	-	606,623	571,977	34,646
-	-	-	17,655	18,103	(448)	246,402	233,825	12,577
-	-	-	-	-	-	106,884	86,923	19,961
-	-	-	-	-	-	734,179	642,209	91,970
-	-	-	1,325,854	1,359,488	(33,634)	1,448,818	1,459,488	(10,670)
48,115	48,115	-	29,258	30,000	(742)	77,373	78,115	(742)
11,885	10,342	1,543	22,792	23,370	(578)	34,677	33,712	965
60,000	58,457	1,543	1,428,777	1,465,022	(36,245)	18,754,844	17,577,185	1,177,659
(60,000)	(58,457)	1,543	(749,807)	(786,376)	(36,569)	(308,573)	874,186	1,182,759
-	-	-	-	-	-	(15,882)	(15,000)	882
53,858	113,858	60,000	-	-	-	1,002,801	1,062,801	60,000
-	-	-	-	(53,858)	(53,858)	(1,300,173)	(1,281,801)	18,372
-	-	-	238,000	242,000	4,000	238,000	242,000	4,000
-	-	-	-	-	-	1,521	1,477	(44)
-	-	-	-	-	-	2,000	2,020	20
53,858	113,858	60,000	238,000	188,142	(49,858)	(71,733)	11,497	83,230
(6,142)	55,401	61,543	(511,807)	(598,234)	(86,427)	(380,306)	885,683	1,265,989
13,911	13,911	-	318,664	318,664	-	3,164,556	3,164,556	-
-	-	-	603,080	603,080	-	944,414	944,414	-
\$ 7,769	\$ 69,312	\$ 61,543	\$ 409,937	\$ 323,510	\$ (86,427)	\$ 3,728,664	\$ 4,994,653	\$ 1,265,989

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$ 73,850	\$ -	\$ -	\$ 73,850
Sales/charges for services	383,234	1,234,975	-	1,618,209
Investment earnings	-	-	1,893	1,893
Other operating revenues.	-	-	1,000	1,000
	<u>457,084</u>	<u>1,234,975</u>	<u>2,893</u>	<u>1,694,952</u>
Total operating revenues				
Operating expenses:				
Personal services	142,214	-	-	142,214
Contract services	507,596	135,997	-	643,593
Materials and supplies	120,349	-	-	120,349
Depreciation	10,774	-	-	10,774
Claims expense	-	909,080	-	909,080
Other	685	-	3,000	3,685
	<u>781,618</u>	<u>1,045,077</u>	<u>3,000</u>	<u>1,829,695</u>
Total operating expenses				
Operating income (loss)	<u>(324,534)</u>	<u>189,898</u>	<u>(107)</u>	<u>(134,743)</u>
Nonoperating revenues:				
Operating grants	244,583	-	-	244,583
Federal commodities	58,129	-	-	58,129
Interest revenue.	806	9,717	-	10,523
	<u>303,518</u>	<u>9,717</u>	<u>-</u>	<u>313,235</u>
Total nonoperating revenues.				
Net income (loss) before operating transfers . .	(21,016)	199,615	(107)	178,492
Operating transfers in.	-	219,000	-	219,000
Net income (loss)	(21,016)	418,615	(107)	397,492
Retained earnings/fund balance, July 1 (restated). .	109,446	225,235	67,386	402,067
Retained earnings/fund balance, June 30	<u>\$ 88,430</u>	<u>\$ 643,850</u>	<u>\$ 67,279</u>	<u>\$ 799,559</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 73,879	\$ -	\$ -	\$ 73,879
Cash received from sales/service charges	383,226	1,234,975	-	1,618,201
Cash received from other operations	-	-	1,000	1,000
Cash payments for personal services	(129,995)	-	-	(129,995)
Cash payments for contract services	(621,155)	(135,997)	-	(757,152)
Cash payments for materials and supplies	(69,006)	-	-	(69,006)
Cash payments for claims expenses	-	(917,782)	-	(917,782)
Cash payments for other expenses	(685)	-	(3,000)	(3,685)
	(363,736)	181,196	(2,000)	(184,540)
Net cash provided by (used in) operating activities				
Cash flows from noncapital financing activities:				
Cash received from operating grants	244,508	-	-	244,508
Cash received from interfund loans	15,000	-	-	15,000
Cash received from operating transfers	-	219,000	-	219,000
	259,508	219,000	-	478,508
Net cash provided by noncapital financing activities				
Cash flows from investing activities:				
Interest received	806	9,717	1,793	12,316
	806	9,717	1,793	12,316
Net cash provided by investing activities				
Net increase (decrease) in cash and cash equivalents	(103,422)	409,913	(207)	306,284
Cash and cash equivalents at beginning of year	179,458	419,331	67,386	666,175
Cash and cash equivalents at end of year	\$ 76,036	\$ 829,244	\$ 67,179	\$ 972,459
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (324,534)	\$ 189,898	\$ (107)	\$ (134,743)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	10,774	-	-	10,774
Federal donated commodities	55,495	-	-	55,495
Interest reported as operating income	-	-	(1,893)	(1,893)
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	4,262	-	-	4,262
Decrease in accounts receivable	29	-	-	29
Decrease in accounts payable	(114,824)	-	-	(114,824)
Increase in accrued wages and benefits	6,064	-	-	6,064
Increase in compensated absences payable	6,484	-	-	6,484
Decrease in pension obligation payable	(737)	-	-	(737)
Increase in due to other governments	400	-	-	400
Decrease in claims payable	-	(8,702)	-	(8,702)
Decrease in deferred revenue	(7,149)	-	-	(7,149)
	(363,736)	181,196	(2,000)	(184,540)
Net cash provided by (used in) operating activities				

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

This page intentionally left blank.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Urbana City School District (the "District") is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is a city district as defined by Ohio Rev. Code Section 3311.02. The District operates under an elected Board of Education of five members and is responsible for the provision of public education to residents of the District.

The District is the 229th largest in the State of Ohio among 705 public and community school districts in terms of enrollment. It currently operates 1 elementary school and 1 comprehensive middle/high school. The District is staffed by 91 non-certified and 171 certificated personnel to provide services to approximately 2,316 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or 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 for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 11 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information is available from Lewis Ivey, Jr., Administrator, 129 East Court Street, Sidney, Ohio 45265.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Metropolitan Education Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The governing board of MEC consists of one voting representative from each member district. Financial information is available from Elmo Kallner, Director, 6100 Channingway Boulevard, Suite 604, Columbus, Ohio 43232.

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 district's elected boards. The Board possesses its own budgeting and taxing authority. Financial information is available from the Treasurer of the Ohio Hi-Point Joint Vocational School District, 2280 State Route 540, Bellefontaine, Ohio 43311.

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund types:

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

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.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust, nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have a measurement focus.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary or nonexpendable trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary or nonexpendable trust funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. 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 2002 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

2. By no later than January 20, the Board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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 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. Although the legal level of budgetary control was established at the fund level of expenditures for all funds except the general fund, the District has elected to present budgetary statements comparisons at the fund and function level of expenditures for all governmental funds.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds other than the general fund, or alter total function appropriations within the general fund must be approved by the Board of Education.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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. Appropriation 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.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses encumbrances outstanding for the enterprise funds at fiscal year-end.

E. 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 Cash Equivalents" and "Investments" (both unrestricted and restricted) on the combined balance sheet.

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, and a repurchase agreement.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

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 2002 amounted to \$128,342, which includes \$52,806 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	7 - 20

H. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, tax advance unavailable for appropriation, and instructional materials, budget stabilization, and bus purchase allowance. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment. The reserve for tax advance unavailable for appropriation represents property taxes recognized as revenue under GAAP but not available for appropriations under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. The District has also received state monies that are restricted for school bus purchases. Fund balance reserves have also been established. See Note 16 for details.

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund, which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term interfund loans receivable or payable outstanding at June 30, 2002.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

M. Estimates

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

N. Total Columns on the General Purpose Financial Statements

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

A prior period adjustment is required to properly state the claims liability at June 30, 2001, in the Employee Benefits Self-Insurance internal service fund rather than in the general fund. The prior period adjustment had the following effect on fund balance/retained earnings as previously reported as of June 30, 2001:

	General Fund	Internal Service Fund
Fund balance/retained earnings as previously reported	\$1,505,429	\$ 419,331
Restatement for claims payable	194,096	(194,096)
Restated fund/balance retained earnings as of July 1, 2001	<u>\$1,699,525</u>	<u>\$ 225,235</u>

B. Deficit Fund Balances

At June 30, 2002, the District had the following individual fund deficit:

	Deficit Balance
<u>Special Revenue Funds</u>	
Class Size Reduction	\$467

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balance in the Class Size Reduction special revenue fund is caused by accruing wage obligations in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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.

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 or 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;

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year-end, the District had \$100 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$5,167,860 and the bank balance was \$5,484,505 (both amounts include \$41,594 in non-negotiable certificates of deposit). Of the bank balance:

1. \$321,197 was covered by federal deposit insurance; and
2. \$5,163,308 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. STAR Ohio is an unclassified investment because it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$1,545,577</u>	\$1,545,577	\$1,545,577
Total	<u>\$1,545,577</u>		
Not subject to categorization:			
Investment in STAR Ohio		25,000	25,000
Total investments		<u>\$1,570,577</u>	<u>\$1,570,577</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash, cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of equity in pooled cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,738,537	\$ -
Investments of the cash management pool:		
Repurchase agreement	(1,545,577)	1,545,577
Investment in STAR Ohio	(25,000)	25,000
Cash on hand	<u>(100)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 5,167,860</u>	<u>\$1,570,577</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a reconciliation of the District's operating transfers for fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$629,000
Debt Service Fund	167,228	-
<u>Special Revenue Fund</u>		
District Severance Reserve	350,000	-
<u>Capital Projects Fund</u>		
Permanent improvement	-	107,228
<u>Internal Service Fund</u>		
Employee Benefits Self-insurance	<u>219,000</u>	<u>-</u>
Total	<u>\$736,228</u>	<u>\$736,228</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$15,185	\$ -
<u>Special Revenue Fund</u> Jr. High Health Grant	-	185
<u>Enterprise Fund</u> Food Service	-	15,000
Total	<u>\$15,185</u>	<u>\$15,185</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed value upon which the 2001 taxes were collected was \$263,215,614. Agricultural/residential estate represented 60.19% or \$158,435,620 of this total; Commercial & industrial real estate represented 17.59% or \$46,308,560 of this total, public utility tangible represented 4.40% or \$11,588,480 of this total and general tangible property represented 17.82% or \$46,882,954 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$54.80 per \$1,000.00 of assessed valuation for operations and \$3.50 per \$1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Champaign County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the district prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2002 totaled \$407,630 in the general fund and \$40,132 in the Permanent Improvement capital projects fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (rent and student fees), accrued interest, interfund loans and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "Due from Other Governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$8,534,187
Accounts	706
Accrued interest	5,671
Interfund loan	15,185
Due from other governments	5,615
 <u>Special Revenue Funds</u>	
Accrued interest	52
Due from other governments	7,716
 <u>Capital Projects Funds</u>	
Taxes - current and delinquent	588,922
 <u>Enterprise Funds</u>	
Due from other governments	28,137

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2002</u>
Land/improvements	\$ 618,701	\$ -	\$ -	\$ 618,701
Buildings/improvements	6,867,500	867,949	-	7,735,449
Furniture/equipment	3,836,320	328,292	(275,439)	3,889,173
Vehicles	701,534	56,455	(22,228)	735,761
Construction in progress	85,000	540,949	(625,949)	-
Total	<u>\$12,109,055</u>	<u>\$1,793,645</u>	<u>\$(923,616)</u>	<u>\$12,979,084</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ 224,882
Less: accumulated depreciation	<u>(180,679)</u>
Net fixed assets	<u>\$ 44,203</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into capital lease agreements for modular classrooms. During fiscal 2002, the District entered into a lease for additional modular classrooms and a lease for computer equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$502,200 for modular classrooms and \$213,771 for computer equipment, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled \$75,001 in the general fund and \$48,115 in the debt service fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2002:

General Long-Term Obligations

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2003	\$138,181
2004	<u>326,347</u>
Total future minimum lease payments	464,528
Less: amount representing interest	<u>(32,853)</u>
Present value of future minimum lease payments	<u>\$431,675</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The District does not have capitalized lease obligations after fiscal year 2004.

NOTE 10 - LONG-TERM OBLIGATIONS

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Notes <u>Outstanding</u> <u>July 1, 2001</u>	<u>Issued</u> <u>in 2002</u>	<u>Retired</u> <u>in 2002</u>	Notes <u>Outstanding</u> <u>June 30, 2002</u>
Energy conservation notes	5.6%	12/01/99	06/01/14	<u>\$280,000</u>	<u>\$ -</u>	<u>\$(15,000)</u>	<u>\$265,000</u>

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal on Energy</u> <u>Conservation Notes</u>	<u>Interest on Energy</u> <u>Conservation Notes</u>	<u>Total</u>
2003	\$ 15,000	\$ 13,383	\$ 28,383
2004	15,000	12,750	27,750
2005	20,000	13,365	33,365
2006	20,000	12,135	32,135
2007	20,000	11,095	31,095
2008 - 2012	115,000	38,095	153,095
2013 - 2014	<u>60,000</u>	<u>5,325</u>	<u>65,325</u>
Total	<u>\$265,000</u>	<u>\$106,148</u>	<u>\$371,148</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. During fiscal year 2000, the District issued un-voted general obligation bonds to provide funds for building improvements (new boilers). These bonds are general obligations of the District for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these bonds are recorded as expenditures of the debt service fund.

By agreement with the County Budget Commission, and in accordance with Ohio law, the District has converted a portion of its “inside”, or un-voted millage to provide the source of repayment for these bonds. Ohio statutes allow for the issuance of un-voted general obligation debt to the extent that the par amount of said debt does not exceed 1/10 of 1% of the valuation (at issuance date) of the District.

The following is a description of the District’s general obligation bonds outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding July 1, 2001</u>	<u>Issued in Fiscal 2002</u>	<u>Retired in Fiscal 2002</u>	<u>Bonds Outstanding June 30, 2002</u>
Facilities improvement	5.501%	07/06/99	06/01/09	<u>\$125,000</u>	<u>\$ -</u>	<u>\$(15,000)</u>	<u>\$110,000</u>

D. The following is a summary of the District’s future annual debt service requirements to maturity for general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 15,000	\$ 5,775	\$ 20,775
2004	15,000	4,988	19,988
2005	15,000	4,200	19,200
2006	15,000	3,575	18,575
2007	15,000	2,750	17,750
2008 - 2009	<u>35,000</u>	<u>3,110</u>	<u>38,110</u>
Total	<u>\$110,000</u>	<u>\$24,398</u>	<u>\$134,398</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2002</u>
General obligation bonds	\$ 125,000	\$ -	\$ (15,000)	\$ 110,000
Compensated absences	1,420,602	17,788	-	1,438,390
Pension obligation payable	94,091	101,692	(94,091)	101,692
Energy conservation notes	280,000	-	(15,000)	265,000
Capital lease obligation	<u>99,020</u>	<u>455,771</u>	<u>(123,116)</u>	<u>431,675</u>
Total	<u>\$2,018,713</u>	<u>\$575,251</u>	<u>\$(247,207)</u>	<u>\$2,346,757</u>

F. 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 further provides that un-voted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$23,758,717 (including available funds of \$69,312), an unvoted debt margin of \$153,216, and an unvoted energy conservation debt margin of \$2,103,941.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 - 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

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 reserves for this program to its employees. Monthly premiums and claims are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$60,000 per employee per year, and \$1.0 million group aggregate for fiscal 2002. The premiums are paid by the District at a rate of 100% for all employees. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

The claims liability of \$185,394 reported in the internal service fund at June 30, 2002, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the District's third party administrator.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 - RISK MANAGEMENT - (Continued)

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

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$194,096	\$909,080	\$917,782	\$185,394
2001	134,208	891,909	832,021	194,096

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 2002.

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

B. Worker's Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 school districts 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and special enterprises. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Special Enterprises</u>	<u>Total</u>
Operating revenue	\$ 383,226	\$73,850	\$ 8	\$ 457,084
Depreciation	10,774	-	-	10,774
Operating income/(loss)	(331,093)	6,551	8	(324,534)
Non-operating revenues:				
Operating grants	244,583	-	-	244,583
Donated commodities	58,129	-	-	58,129
Net income/(loss)	(27,575)	6,551	8	(21,016)
Net working capital	1,129	55,073	7,808	64,010
Total assets	98,789	55,073	7,808	161,670
Long-term liabilities				
payable from fund revenues	16,783	-	-	16,783
Total equity	25,549	55,073	7,808	88,430
Encumbrances at 6/30/02	106	3,349	-	3,455

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$297,959, \$278,946, and \$311,156, respectively; 54.66% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$135,084, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,221,275, \$1,154,452, and \$1,076,860, respectively; 84.26% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$192,236, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$392,553 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$213,947 during the 2002 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other
Financing Uses**

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$1,135,948	\$292,568	\$55,401	\$(598,234)
Net adjustment for revenue accruals	(368,482)	2,322	-	(24,563)
Net adjustment for expenditure accruals	(487,286)	47,640	(53,570)	185,780
Net adjustment for other financing sources/(uses)	226,751	(21)	53,570	(53,370)
Encumbrances (budget basis)	<u>256,791</u>	<u>114,971</u>	<u>-</u>	<u>287,389</u>
GAAP basis	<u>\$ 763,722</u>	<u>\$457,480</u>	<u>\$55,401</u>	<u>\$(202,998)</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of July 1, 2001	\$ 216,504	\$ -	\$113,449
Current year set-aside requirement	280,906	280,906	-
Additional Money Set-Aside	22,468	22,468	236,822
Current year offsets	-	(566,710)	-
Qualifying disbursements	<u>(158,216)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 361,662</u>	<u>\$(263,336)</u>	<u>\$350,271</u>
Cash balance carried forward to FY 2003	<u>\$ 361,662</u>	<u>\$(263,336)</u>	<u>\$350,271</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. Additional monies of \$236,822 were set-aside by the school board during fiscal 2002 for budget stabilization. The balance in the budget stabilization at June 30, 2002 was \$350,271.

Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may be used to reduce the set-aside requirements of future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for instructional materials	\$339,194
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>148,677</u>
Total restricted assets	<u>\$601,320</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 17 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is not currently a party to any legal proceedings.

C. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School District currently is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture <i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A		\$58,129		\$55,495
National School Breakfast Program	10.553	05-P1-02	\$34,442		\$34,442	
National School Lunch Program	10.555	LL-P1-01	17,749		17,749	
		LL-P4-01	30,085		30,085	
		LL-P4-02	149,212		149,212	
Total National School Lunch Program			<u>197,046</u>		<u>197,046</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			231,488	58,129	231,488	55,495
U.S. Department of Education <i>(Passed through Ohio Department of Education)</i>						
Title I	84.010	C1-S1-01	82,763		111,545	
		C1-S1-02	306,055		222,008	
Total Title I			<u>388,818</u>		<u>333,553</u>	
Special Education Cluster:						
Special Education Grants to States IDEA Part B	84.027	6B-SF-01			49,092	
		6B-SF-02	251,961		107,059	
Total IDEA Part B			<u>251,961</u>		<u>156,151</u>	
<i>(Passed through Madison-Champaign Educational Service)</i>						
Special Education - Preschool Grant	84.173	PG-S1-1P	28,273		28,273	
Total Special Education Cluster <i>(Passed through Ohio Department of Education)</i>			280,234		184,424	
Drug Free Schools	84.186	DR-S1-00			11	
		DR-S1-01			4,101	
		DR-S1-02	9,252		7,643	
Total Drug Free Schools			<u>9,252</u>		<u>11,755</u>	
Goals 2000	84.276	G2-S9-01	15,000		3,313	
		G2-S2-01			13,292	
		G2-S8-00			8,321	
Total Goals 2000			<u>15,000</u>		<u>24,926</u>	
Eisenhower Professional Development State Grant	84.281	MS-S1-00			5,321	
		MS-S1-01			3,856	
		MS-S1-02	12,559		9,711	
Total Eisenhower Professional Development State Grant			<u>12,559</u>		<u>18,888</u>	
Title VI - Innovative Education Program	84.298	C2-S1-00			30	
		C2-S1-01			9,077	
		C2-S1-02	12,785		2,348	
Total Title VI			<u>12,785</u>		<u>11,455</u>	
Technology Center Grant	84.352A	AT-S1-02	1,528		1,528	
Title VI-R - Class Reduction Grant	84.340	CR-S1-02	75,169		75,169	
Total U.S. Department of Education			<u>795,345</u>		<u>661,698</u>	
U.S. Department of Health and Human Services <i>(Passed through Ohio Department of Mental Retardation)</i>						
CAFS - Medicaid	93.778	N/A	71,497		71,497	
Total U. S. Department of Health and Human Services			<u>71,497</u>		<u>71,497</u>	
Total Federal Financial Assistance			<u>\$1,098,330</u>	<u>\$58,129</u>	<u>\$964,683</u>	<u>\$55,495</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of Urbana City School District (the District), Champaign County, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10311-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10311-002.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 14, 2003.

This report is intended for the information and use of the audit committee, management, board of education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 14, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Education:

Compliance

We have audited the compliance of Urbana City School District (the District), Champaign County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 14, 2003

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	10.550 – Food Distribution 10.553 – School Breakfast Program 10.555 – National School Lunch Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2002-10311-001

Non-Compliance Citation

Appropriations

Ohio Rev. Code 5705.41(B), states that a subdivision or taxing unit shall not expend funds until they have been appropriated. Our review of expenditures for the month of May 2002, noted that the School District had expenditures that exceeded appropriations at the function level, which is the legal level of control adopted by the Board of Education for the General Fund & Permanent Improvement Funds. The legal level of control for all other funds is the fund level, we noted expenditures that exceeded appropriations at the fund level as well. Expenditures which exceeded appropriations were as follows:

Fund/Function	Amount Appropriated	Encumbered And Expended	Unfavorable Variance
001-7000 Other uses of Funds	\$ 350,000	\$1,167,943	\$817,943
300 Athletics	\$ 354,400	\$ 394,945	\$ 40,545
003-5000 Permanent Improvement: Facilities Acq/Constr	\$1,155,188	\$1,241,105	\$ 85,917
006 Food Service	\$ 657,674	\$ 756,290	\$ 98,616
200 Student Activity Funds	\$ 91,370	\$ 160,355	\$ 68,985

To help ensure compliance with the above referenced section of code, the District should monitor financial reports to ensure budgetary expenditures do not exceed appropriations. In instances where it appears appropriations are insufficient to meet projected needs, the Board of Education should pass a resolution to amend appropriations. This analysis should also encompass a comparison of appropriations vs. available resources.

FINDING NUMBER 2002-10311-002

Reportable Condition

Fixed Assets

Of the additions included in the fixed asset inventory, 76% of these additions did not include an asset number. Two assets were listed as additions for FY 02; however, they should have been FY 03 additions. Three assets were listed as additions for FY 02; however, they were already included in the fixed asset listing and were actually received in a prior year. We also noted the dollar value used for valuing the fixed asset was the purchase order amount rather than actual cost. The value used to determine Construction in Progress for the current year did not include payments made for the projects during the month of June 2002. These errors caused Fixed Assets - Equipment and Furniture to be overstated by \$16,165, and Fixed Assets - Construction in Progress to be understated by \$43,886. Although the net understatement amount of \$27,721 is immaterial to total fixed assets it is indicative of an internal control issue.

Due to lack of detailed information for Proprietary Fund Fixed Assets, certain assumptions had to be made in order to determine value of disposed assets and depreciation expense.

**FINDING NUMBER 2002-10311-002
(Continued)**

The District should assign asset numbers and tags should be affixed to the asset at the time it is received. Information such as location, actual cost, asset number, etc. should be recorded on an asset addition form and entered into the fixed asset system in a timely manner. These procedures should allow the district to easily identify fixed assets and have greater control for valuing fixed assets for reporting purposes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MARCH 18, 2003**