



Mary Taylor, CPA
Auditor of State

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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CHAMPAIGN COUNTY

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Mary Taylor, CPA

Auditor of State

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 financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 15, 2008

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

The discussion and analysis of the Urbana City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities decreased \$734,425 which represents a 9.07% decrease from 2006.
- General revenues accounted for \$18,151,988 in revenue or 79.13% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,786,229 or 20.87% of all revenues.
- The District had \$23,672,642 in expenses related to governmental activities; \$4,786,229 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,151,988 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,120,699 in revenues and other financing sources and \$19,888,771 in expenditures and other financing uses. During fiscal 2007, the general fund's fund balance decreased \$768,072 from \$3,794,609 to \$3,026,537.

Using these Basic Financial Statements

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The net assets of the District have been restated as detailed in Note 3.A of the notes to the basic financial statements.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	(Restated) Governmental Activities 2006
Assets		
Current and other assets	\$16,670,450	\$18,752,443
Capital assets, net	3,409,022	3,541,646
Total assets	20,079,472	22,294,089
Liabilities		
Current liabilities	10,170,992	11,346,758
Long-term liabilities	2,541,668	2,846,094
Total liabilities	12,712,660	14,192,852
Net Assets		
Invested in capital assets, net of related debt	2,566,026	2,511,646
Restricted	2,328,188	2,575,403
Unrestricted	2,472,598	3,014,188
Total net assets	\$7,366,812	\$8,101,237

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$7,366,812. Of this total, \$2,472,598 is unrestricted in use.

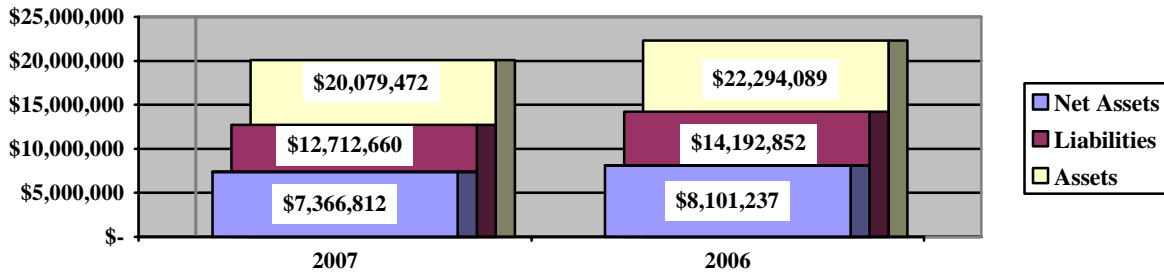
**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

At year-end, capital assets represented 16.98% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$2,566,026. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,328,188, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,472,598 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006.

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
Revenues		
Program revenues:		
Charges for services and sales	\$1,636,335	\$1,375,133
Operating grants and contributions	3,115,884	1,869,616
Capital grants and contributions	34,010	
General revenues:		
Property taxes	8,301,490	8,282,844
Grants and entitlements	9,304,227	9,516,715
Investment earnings	499,613	417,418
Other	46,658	183,473
Total revenues	<u>22,938,217</u>	<u>21,645,199</u>

(Continued)

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
Expenses		
Program expenses:		
Instruction:		
Regular	\$11,144,733	\$9,908,551
Special	3,552,900	3,023,054
Vocational	307,576	244,991
Other	70,551	175,379
Support services:		
Pupil	1,112,214	1,146,415
Instructional staff	565,041	496,950
Board of education	30,246	30,024
Administration	1,718,697	1,874,695
Fiscal	290,478	253,363
Business	335,250	351,488
Operations and maintenance	1,844,214	2,067,512
Pupil transportation	688,507	742,672
Central	207,220	197,277
Food service operations	928,696	799,215
Operations of non-instructional services	153,816	166,296
Extracurricular activities	675,921	651,186
Interest and fiscal charges	46,582	62,348
	<u>23,672,642</u>	<u>22,191,416</u>
Total expenses		
		<u>129,629</u>
Change in net assets	(734,425)	(416,588)
Net assets at beginning of year (restated)	<u>8,101,237</u>	<u>8,517,825</u>
Net assets at end of year	<u><u>\$7,366,812</u></u>	<u><u>\$8,101,237</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$734,425. Total governmental expenses of \$23,672,642 were offset by program revenues of \$4,786,229 and general revenues of \$18,151,988. Program revenues supported 20.22% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 76.75% of total governmental revenue.

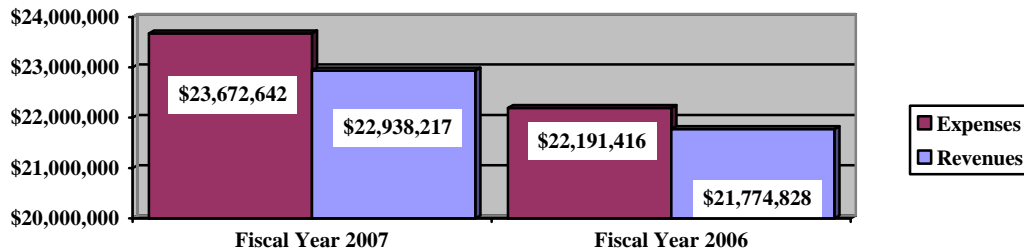
The largest expense of the District is for instructional programs. Instruction expenses totaled \$15,075,760 or 63.68% of total governmental expenses for fiscal 2007.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses:				
Instruction:				
Regular	\$11,144,733	\$9,824,633	\$9,908,551	\$8,980,582
Special	3,552,900	1,817,433	3,023,054	2,110,393
Vocational	307,576	219,916	244,991	244,991
Other	70,551	70,551	175,379	175,379
Support services:				
Pupil	1,112,214	1,055,765	1,146,415	1,046,598
Instructional staff	565,041	523,359	496,950	483,378
Board of education	30,246	30,246	30,024	30,024
Administration	1,718,697	1,718,697	1,874,695	1,841,929
Fiscal	290,478	261,364	253,363	253,363
Business	335,250	183,564	351,488	208,808
Operations and maintenance	1,844,214	1,818,194	2,067,512	2,048,110
Pupil transportation	688,507	562,359	742,672	738,254
Central	207,220	207,220	197,277	197,277
Food service operations	928,696	56,528	799,215	25,215
Operations of non-instructional services	153,816	73,662	166,296	103,561
Extracurricular activities	675,921	416,340	651,186	396,457
Interest and fiscal charges	46,582	46,582	62,348	62,348
Total expenses	\$23,672,642	\$18,886,413	\$22,191,416	\$18,946,667

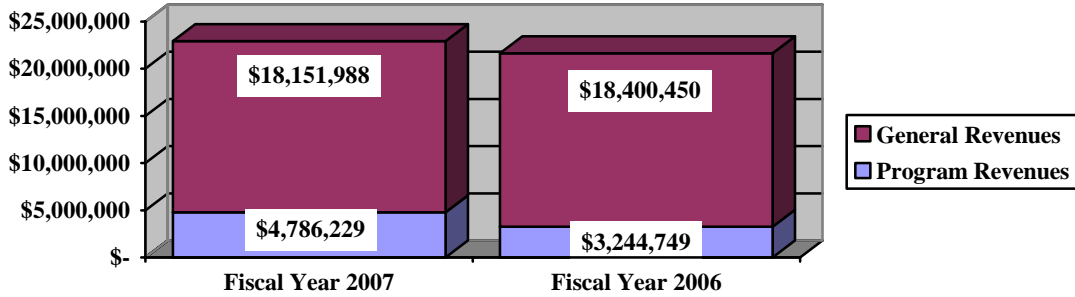
The dependence upon tax and other general revenues for governmental activities is apparent, 79.15% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.78%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,717,690, which is lower than last year's total of \$5,662,966. The beginning funds balances at June 30, 2006 have been restated. See Note 3.A for detail. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Restated Fund Balance June 30, 2006	(Decrease)	Percentage Change
General	\$3,026,537	\$3,794,609	(\$768,072)	(20.24) %
Other Governmental	1,691,153	1,868,357	(177,204)	(9.48) %
Total	\$4,717,690	\$5,662,966	(\$945,276)	(16.69) %

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balances of the other governmental funds is primarily due to fund balance decreases of \$102,067 and \$50,462 in the Title VI-B fund and Title I fund, respectively. The decrease was a result of expenditures exceeding grant revenues in the Title VI-B fund and Title I fund.

General Fund

The District's general fund balance decreased \$768,072. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2007 Amount	2006 Amount	Increase/ (Decrease)	Percentage Change
Revenues				
Taxes	\$ 7,763,767	\$ 7,898,846	(\$135,079)	(1.71) %
Tuition	604,661	470,823	133,838	28.43 %
Earnings on investments	479,787	376,934	102,853	27.29 %
Other revenues	79,786	137,678	(57,892)	(42.05) %
Intergovernmental	10,126,730	9,468,363	658,367	6.95 %
Total	19,054,731	18,352,644	702,087	3.83 %

(Continued)

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Increase/ Decrease</u>	<u>Percentage Change</u>
Expenditures				
Instruction	13,143,149	11,955,754	1,187,395	9.93 %
Support services	6,119,339	6,263,266	(143,927)	(2.30) %
Non-instructional services	69,745	78,755	(9,010)	(11.44) %
Extracurricular activities	401,101	398,366	2,735	0.69 %
Capital outlay	65,162		65,162	100.00 %
Debt service	9,275		9,275	100.00 %
Total	<u>\$19,807,771</u>	<u>\$18,696,141</u>	<u>\$1,111,630</u>	5.95 %

Earnings on investments increased 27.29% as a result of increasing interest rates on investments held by the District. Tuition revenues increased due to the District's continued participation in the open enrollment program. Other revenues, which are made up of rentals, contributions and donations, services provided to other entities, transportation fees and miscellaneous revenues decreased primarily due to decreasing revenues from local sources. Instruction expenditures increased as a result of increased student enrollment and annual inflation of wages and benefits. The increase in capital outlay and debt service is related to a new capital lease transaction during the year.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, original budgeted revenues and other financing sources were \$19,840,877 and final budgeted revenues and other financing sources were \$19,606,463. Actual revenues and other financing sources for fiscal 2007 was \$19,636,715. This represents a \$30,252 increase over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$22,007,585 and \$21,866,177, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$20,916,238, which was \$949,939 less than final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$3,409,022 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. The capital assets of the District have been restated as detailed in Note 3.A of the notes to the basic financial statements. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

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

	Governmental Activities	
	(Restated)	
	2007	2006
Land	\$1,127,575	\$1,127,575
Land improvements	115,537	133,972
Building and improvements	1,737,131	1,769,257
Furniture and equipment	249,351	276,833
Vehicles	122,261	174,508
Infrastructure	57,167	59,501
Total	\$3,409,022	\$3,541,646

The overall decrease in capital assets of \$132,624 is due to depreciation expense of \$172,983 and total disposals of \$24,803 (net of accumulated depreciation) exceeding capital outlay of \$65,162 in the fiscal year.

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

Debt Administration

At June 30, 2007, the District had \$35,000 in general obligation bonds and \$175,000 in energy conservation notes outstanding. Of this total, \$35,000 is due within one year and \$175,000 is due in greater than one year. The following table summarizes the bonds and loans outstanding.

	Outstanding Debt at Year End	
	Governmental Activities 2007	Governmental Activities 2006
	General obligation bonds	\$35,000
Energy conservation notes	175,000	195,000
Total	\$210,000	\$245,000

At June 30, 2007, the District's overall legal debt margin was \$22,362,625, and an unvoted energy conservation debt margin of \$248,863.

See Note 10 to the basic financial statements for detail on the District's debt administration.

Current Related Financial Activities

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The school district is facing a deficit in 2009. It is hoped that a combination of cost-saving measures and passage of a levy will eliminate this deficit. An earned income tax issue failed in the spring of 2007 and an operating levy failed in November of 2007.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 45% approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers and at the same time proceed to meet district needs. In 2004, the Board proceeded to put their local share on the ballot through the Expedited Local Partnership Program with Phase I including a new PK-5 building and a 6-8 building. The high school was slated to be Phase II, built with State funds. Phase I failed in 2004 and in 2006. With the tax rate increasing because of deflating property values (complete loss of \$60,000,000 in tangible personal valuation) and community concerns, the Board decided to split Phase I and build a PK-5 with Phase I, build a 6-8 middle school with Phase II and make the high school OSFC project, Phase III. Phase I also failed in November of 2006, with less millage. The project will continue to increase with the increase in construction costs. The local share will continue to increase as the tax base decreases, which will make it more difficult to pass. HB119 passed in June of 2007, with Governor Strickland's emphasis on speeding up the pace of these projects. As a result of the state re-financing other projects, we are projected to be offered our state allocation in the spring of 2008. However, as an operating levy has not passed, our school will probably defer our offer until at least 2009.

The District formed a community school during fiscal 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function well in the regular school system or who were not able to achieve academic success in the regular school setting. The Urbana Community School opened its doors July 1, 2004 with approximately 25 students enrolled and enrolled 68 students as of June 30, 2007. It remains a conversion community school as a separate autonomy with a board of directors, but under the wings of Urbana City Schools' administration and governance. It is our hope that these students who continue to reside in our school district will achieve academic success through this type of school.

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

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Londa Schwierking, Treasurer, Urbana City School District, 711 Wood St., Urbana, Ohio 43078.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Primary Government	Component Unit
	Governmental Activities	Urbana Community School
Assets:		
Equity in pooled cash, cash equivalents and investments	\$8,404,328	\$584,883
Receivables:		
Taxes	7,926,285	
Intergovernmental	202,874	
Accrued interest	18,850	
Materials and supplies inventory	5,298	
Due from component unit	112,815	
Capital assets:		
Land	1,127,575	
Depreciable capital assets, net	2,281,447	
Capital assets, net	3,409,022	
Total assets	20,079,472	584,883
Liabilities:		
Accounts payable	104,169	
Contracts payable	5,120	
Accrued wages and benefits	1,830,037	
Pension obligation payable	425,948	
Intergovernmental payable	122,982	23,231
Accrued interest payable	1,109	
Claims payable	462,043	
Due to primary government.		112,815
Unearned revenue	7,219,584	
Long-term liabilities:		
Due within one year	524,263	
Due in more than one year	2,017,405	
Total liabilities	12,712,660	136,046
Net Assets:		
Invested in capital assets, net of related debt	2,566,026	
Restricted for:		
Capital projects	602,368	
Locally funded programs	2,599	
State funded programs	296,986	9,000
Federally funded programs	78,251	
Student activities	52,944	
Public school support	64,041	
Other purposes	1,230,999	
Unrestricted	2,472,598	439,837
Total net assets	\$7,366,812	\$448,837

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash, cash equivalents and investments	\$4,310,698	\$1,738,103	\$6,048,801
Receivables:			
Taxes	7,429,245	497,040	7,926,285
Intergovernmental		202,874	202,874
Interfund loans	15,194		15,194
Accrued interest	18,850		18,850
Materials and supplies inventory		5,298	5,298
Loans to other funds	58,854		58,854
Due from component unit	112,815		112,815
Restricted assets:			
Equity in pooled cash and cash equivalents	564,643		564,643
Total assets	<u>12,510,299</u>	<u>2,443,315</u>	<u>14,953,614</u>
Liabilities:			
Accounts payable	92,237	11,932	104,169
Contracts payable		5,120	5,120
Accrued wages and benefits	1,708,220	121,817	1,830,037
Compensated absences payable	69,628		69,628
Pension obligation payable	399,819	26,129	425,948
Intergovernmental payable	114,837	8,145	122,982
Interfund loan payable		15,194	15,194
Loans from other funds		58,854	58,854
Deferred revenue	329,676	54,732	384,408
Unearned revenue	6,769,345	450,239	7,219,584
Total liabilities	<u>9,483,762</u>	<u>752,162</u>	<u>10,235,924</u>
Fund Balances:			
Reserved for encumbrances	772,717	427,742	1,200,459
Reserved for materials and supplies inventory		5,298	5,298
Reserved for tax revenue unavailable for appropriation	447,095	34,399	481,494
Reserved for loans to other funds	58,854		58,854
Reserved for budget stabilization	113,449		113,449
Reserved for textbooks	403,225		403,225
Reserved for school bus purchases	47,969		47,969
Unreserved, reported in:			
Designated for budget stabilization	253,159		253,159
Undesignated, reported in:			
General fund	930,069		930,069
Special revenue funds		1,011,436	1,011,436
Capital projects funds		212,278	212,278
Total fund balances	<u>3,026,537</u>	<u>1,691,153</u>	<u>4,717,690</u>
Total liabilities and fund balances	<u>\$12,510,299</u>	<u>\$2,443,315</u>	<u>\$14,953,614</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental fund balances		\$4,717,690
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,409,022
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$227,042	
Tuition revenue	112,815	
Accrued interest	4,056	
Intergovernmental revenue	<u>40,495</u>	
Total		384,408
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,328,841
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(1,109)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,550,336)	
General obligation bonds	(35,000)	
Energy conservation notes	(175,000)	
Capital lease obligation	<u>(711,704)</u>	
Total		<u>(2,472,040)</u>
Net assets of governmental activities		<u><u>\$7,366,812</u></u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$7,763,767	\$544,371	\$8,308,138
Tuition	604,661		604,661
Transportation fees	25,108		25,108
Charges for services		412,003	412,003
Earnings on investments	479,787	7,952	487,739
Extracurricular		355,537	355,537
Classroom materials and fees		78,970	78,970
Other local revenues	54,678	73,046	127,724
Other revenue	65,908	9,963	75,871
Intergovernmental - State	10,060,822	433,843	10,494,665
Intergovernmental - Federal		1,804,315	1,804,315
Total revenues	<u>19,054,731</u>	<u>3,720,000</u>	<u>22,774,731</u>
Expenditures:			
Current:			
Instruction:			
Regular	10,396,225	631,220	11,027,445
Special	2,414,908	1,087,960	3,502,868
Vocational	303,963	2,260	306,223
Other	28,053	42,498	70,551
Support services:			
Pupil	1,093,630	69,707	1,163,337
Instructional staff	510,947	39,510	550,457
Board of education	30,246		30,246
Administration	1,644,878	48,222	1,693,100
Fiscal	283,886		283,886
Business	181,786	148,070	329,856
Operations and maintenance	1,542,679	33,515	1,576,194
Pupil transportation	624,067	9,391	633,458
Central	207,220		207,220
Operation of non-instructional services:			
Food service operations		915,290	915,290
Other non-instructional services	69,745	84,140	153,885
Extracurricular activities	401,101	256,547	657,648
Facilities acquisition and construction		245,297	245,297
Capital outlay	65,162		65,162
Debt service:			
Principal retirement	6,166	322,490	328,656
Interest and fiscal charges	3,109	47,385	50,494
Total expenditures	<u>19,807,771</u>	<u>3,983,502</u>	<u>23,791,273</u>
Deficiency of revenues under expenditures	<u>(753,040)</u>	<u>(263,502)</u>	<u>(1,016,542)</u>
Other financing sources (uses):			
Transfers in		81,000	81,000
Transfers (out)	(81,000)		(81,000)
Sale of capital assets	806		806
Capital lease transaction	65,162		65,162
Total other financing sources (uses)	<u>(15,032)</u>	<u>81,000</u>	<u>65,968</u>
Net change in fund balances	(768,072)	(182,502)	(950,574)
Fund balances			
at beginning of year (restated)	3,794,609	1,868,357	5,662,966
Increase in reserve for inventory		5,298	5,298
Fund balances at end of year	<u>\$3,026,537</u>	<u>\$1,691,153</u>	<u>\$4,717,690</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds (\$950,574)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$65,162	
Current year depreciation	(172,983)	
Total	(107,821)	(107,821)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(24,803)

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

5,298

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

Taxes	(6,648)	
Tuition revenue	112,815	
Intergovernmental revenue	37,493	
Accrued interest	(2,110)	
Total	141,550	141,550

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

328,656

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

(65,162)

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

3,912

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(38,905)

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

(26,576)

Change in net assets of governmental activities (\$734,425)

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
From local sources:				
Taxes	\$7,810,205	\$7,717,930	\$7,729,838	\$11,908
Tuition	701,620	693,330	694,400	1,070
Transportation fees	25,369	25,069	25,108	39
Earnings on investments	569,225	562,500	563,368	868
Other local revenues	55,246	54,594	54,678	84
Other revenue	66,593	65,806	65,908	102
Intergovernmental - State	10,165,425	10,045,323	10,060,822	15,499
Total revenues	<u>19,393,683</u>	<u>19,164,552</u>	<u>19,194,122</u>	<u>29,570</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,131,765	11,060,240	10,579,746	480,494
Special	2,719,311	2,701,840	2,584,462	117,378
Vocational	330,363	328,240	313,980	14,260
Other	50,631	50,305	48,120	2,185
Support services:				
Pupil	1,119,524	1,112,330	1,064,007	48,323
Instructional staff	533,552	530,123	507,093	23,030
Board of education	32,159	31,952	30,564	1,388
Administration	1,885,526	1,873,411	1,792,024	81,387
Fiscal	306,623	304,653	291,418	13,235
Business	191,717	190,485	182,210	8,275
Operations and maintenance	1,793,824	1,782,298	1,704,869	77,429
Pupil transportation	721,760	717,122	685,968	31,154
Central	222,548	221,118	211,512	9,606
Operation of non-instructional services	75,976	75,487	72,208	3,279
Extracurricular activities	433,666	430,880	412,161	18,719
Total expenditures	<u>21,548,945</u>	<u>21,410,484</u>	<u>20,480,342</u>	<u>930,142</u>
Deficiency of revenues under expenditures	<u>(2,155,262)</u>	<u>(2,245,932)</u>	<u>(1,286,220)</u>	<u>959,712</u>
Other financing sources (uses):				
Transfers in	343,235	339,180	339,703	523
Transfers (out)	(442,654)	(439,810)	(420,703)	19,107
Advances in	2,902	2,868	2,872	4
Advances (out)	(15,986)	(15,883)	(15,193)	690
Insurance proceeds	94,793	93,673	93,818	145
Refund of prior year expenditure	6,264	6,190	6,200	10
Total other financing sources (uses)	<u>(11,446)</u>	<u>(13,782)</u>	<u>6,697</u>	<u>20,479</u>
Net change in fund balance	(2,166,708)	(2,259,714)	(1,279,523)	980,191
Fund balance at beginning of year	4,736,096	4,736,096	4,736,096	
Prior year encumbrances appropriated	552,753	552,753	552,753	
Fund balance at end of year	<u>\$3,122,141</u>	<u>\$3,029,135</u>	<u>\$4,009,326</u>	<u>\$980,191</u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash, cash equivalents and investments	\$1,790,884
Total assets	<u>1,790,884</u>
Liabilities:	
Claims payable	462,043
Total liabilities	<u>462,043</u>
Net assets:	
Unrestricted	1,328,841
Total net assets	<u><u>\$1,328,841</u></u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$2,460,039
Total operating revenues	<u>2,460,039</u>
Operating expenses:	
Claims and administrative services	2,508,551
Total operating expenses	<u>2,508,551</u>
Operating loss	<u>(48,512)</u>
Nonoperating revenues:	
Interest revenue	<u>21,936</u>
Total non-operating revenues	<u>21,936</u>
Change in net assets	(26,576)
Net assets at beginning of year	<u>1,355,417</u>
Net assets at end of year	<u><u>\$1,328,841</u></u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$2,460,039
Cash payments for claims and administrative services.	(2,399,329)
	60,710
Cash flows from investing activities:	
Interest received	21,936
	21,936
Net increase in cash and cash equivalents	82,646
Cash and cash equivalents at beginning of year	1,708,238
Cash and cash equivalents at end of year	1,790,884
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	(48,512)
Changes in liabilities:	
Increase in claims payable	109,222
	\$60,710

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash, cash equivalents and investments	\$79,579	\$59,223
Total assets	<u>79,579</u>	<u>59,223</u>
Liabilities:		
Accounts payable		3,363
Due to students		55,860
Total liabilities		<u>\$59,223</u>
Net Assets:		
Held in trust for scholarships	<u>79,579</u>	
Total net assets	<u>\$79,579</u>	

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$3,790
Gifts and contributions	3,000
Total additions	6,790
Deductions:	
Scholarships awarded	7,500
Change in net assets	(710)
Net assets at beginning of year (restated)	80,289
Net assets at end of year	\$79,579

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 217th largest in the State of Ohio among 876 public and community schools in terms of enrollment. It currently operates 3 elementary schools, 1 intermediate, 1 junior high and 1 high school. The District is staffed by 85 non-certified and 180 certificated personnel to provide services to approximately 2,342 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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. For the District, this includes general operations, food service, preschool and student related activities of the District.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

1. Discretely Presented Component Unit

The Urbana Community School

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

On March 27, 2007, six members of the Board of Directors resigned and were not replaced. The decision to resign was the result of conflicting legal advice as to whether employees of the Sponsor school could legally sit on the Board. As of the date of this report, new Board members have not been appointed and the School has operated nearly a year with no governing body.

The District's services provided to the School are reimbursed from the School to the District. The School also owed \$112,815 for District-incurred expenses on behalf of the School for fiscal year 2007 services. This amount is shown on the government wide statements net assets as due to primary government and from component unit. Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

2. Jointly Governed Organizations

Western Ohio Computer Organization

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The governing board of MEC consists of one voting representative from each member district. The District paid \$125,124 to MEC during fiscal year 2007. Financial information is available from Elmo Kallner, Director, 2100 Citygate Dr., Columbus, Ohio 43219.

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 Eric Adelsberger, Treasurer, of the Ohio Hi-Point Joint Vocational School District, 2280 State Route 540, Suite A, Bellefontaine, Ohio 43311.

West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

3. Insurance Purchasing Pool

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

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

B. Fund Accounting

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

2. Proprietary Fund

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

Internal Service Fund

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

3. Fiduciary Funds

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

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

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

2. Fund Financial Statements

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions

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

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

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

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

2. Unearned Revenue and Deferred Revenue

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

3. Expenses/Expenditures

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the Certificate of Estimated Resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to 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 of Estimated Resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate of Estimated Resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2007.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds or alter total function appropriations within the general fund or permanent improvement fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, Money Market Mutual Funds, Federal Home Loan Bank Notes (FHLB), Federal National Mortgage Association Notes (FNMA), and Federal Home Loan Mortgage Corporation Notes (FHLMN). 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 a Fifth Third Bank government money market 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, 2007.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$479,787, which includes \$121,525 assigned from other funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2007, the District increased their capitalization threshold from \$1,000 to \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District possesses underground wastewater equipment.

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, 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 severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves/Designation

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property tax revenue unavailable for appropriation, budget stabilization, loans to other funds, textbooks and school bus purchase allowance. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. The amount set-aside by the Board for budget stabilization is reported as a designation of fund balance in the general fund.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund

N. Net Assets

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

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

O. Estimates

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

P. 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. There were no net assets restricted by enabling legislation at June 30, 2007.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

3. ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Fund Balances and Net Assets

The fund balance of other nonmajor governmental funds and the private-purpose trust funds have been restated at July 1, 2006 to account for cash adjustments made from a previous fiscal year.

The adjustments had the following effect on fund balance of the governmental activities as previously reported:

	Other Non-major Governmental Funds	Private-Purpose Trusts
Fund balance as previously reported	\$1,867,004	\$81,642
Adjustment to correct errors	1,353	(1,353)
Restated fund balance as of July 1, 2006	\$1,868,357	\$80,289

During fiscal year 2007, the District increased their capitalization threshold from \$1,000 to \$5,000. Furthermore, the District added a 20 percent salvage value to all of their buildings and improvements. The Districts capital assets will be restated at July 1, 2006 for the change in the capitalization threshold and the addition of the salvage value.

The change in capitalization threshold and adjustment to correct cash errors had the following effect on the net assets at July 1, 2006:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

	Governmental Activities
Net assets, June 30, 2006	\$8,066,667
Adjustment to correct errors	1,353
Adjustment for capital assets	33,217
Restated net assets, July 1, 2006	\$8,101,237

B. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	Deficit
Non-major Funds	
Food Service	\$45,769
Title I	4,010
Title VI	559
Class Size Reduction	1,497

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies are to be deposited or invested in the following securities:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At year-end, the District had \$100 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$6,117,748 Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$6,137,282 of the District's bank balance of \$6,393,188 was exposed to custodial risk as discussed below, while \$255,906 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>		
		<u>6 months or less</u>	<u>13 to 18 Months</u>	<u>Greater than 24 Months</u>
FHLB	\$846,426	\$99,313		\$747,113
FNMA	278,600			278,600
FHLMN	1,236,846		\$496,405	740,441
Money market mutual funds	38,410	38,410		
STAR Ohio	25,000	25,000		
	<u>\$2,425,282</u>	<u>\$162,723</u>	<u>\$496,405</u>	<u>\$1,766,154</u>

The weighted average maturity of investments is 3.03 years.

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

Credit Risk: The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Credit Rating</u>
FHLB	\$846,426	34.90	Moody's Aaa
FNMA	278,600	11.49	Moody's Aaa
FHLMN	1,236,846	51.00	Moody's Aaa
Money market mutual funds	38,410	1.58	Standard & Poor's A-1+
STAR Ohio	25,000	1.03	Standard & Poor's AAA
	<u>\$2,425,282</u>	<u>100.00</u>	

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$6,117,748
Investments	2,425,282
Cash on hand	100
Total	<u>\$8,543,130</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$8,404,328
Private-purpose trust funds	79,579
Agency funds	59,223
Total	<u>\$8,543,130</u>

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following interfund loans receivable/payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major governmental funds	\$15,194

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund loans at June 30, 2007 as reported on the fund statements, consist of the following long-term loans to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major governmental funds	\$58,854

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- C.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Non-major Governmental funds from:	
General Fund	\$81,000

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

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

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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. Under certain circumstances, State statute permits alternate payment dates to be established.

**URBANA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$447,095 in the general fund and \$34,399 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$413,166 in the general fund and \$30,024 in the permanent improvement fund (a nonmajor governmental fund).

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$225,534,570	79.16	\$240,063,550	83.79
Public Utility Personal	11,903,020	4.18	11,903,020	4.15
Tangible Personal Property	47,479,096	16.66	34,541,690	12.06
Total	\$284,916,686	100.00	\$286,508,260	100.00
Tax rate per \$1,000 of assessed valuation	\$60.30		\$60.30	

7. RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes	\$7,926,285
Intergovernmental	202,874
Accrued interest	<u>18,850</u>
Total receivables	<u><u>\$8,148,009</u></u>

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

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to an increase in the Districts capitalization threshold and the addition of a 20 percent salvage value to buildings and improvements of as follows (see Note 3.A.):

	Balance 06/30/06	Adjustments	Restated Balance 07/01/06
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$1,127,575		\$1,127,575
Total capital assets, not being depreciated	<u>1,127,575</u>		<u>1,127,575</u>
Capital assets, being depreciated:			
Land improvements	553,300	(54,200)	499,100
Buildings and improvements	4,482,552	(378,497)	4,104,055
Furniture and equipment	3,119,300	(1,612,345)	1,506,955
Vehicles	1,226,753	(198,151)	1,028,602
Infrastructure	70,000		70,000
Total capital assets, being depreciated	<u>9,451,905</u>	<u>(2,243,193)</u>	<u>7,208,712</u>
Less: accumulated depreciation:	(7,071,051)	2,276,410	(4,794,641)
Governmental activities capital assets, net	<u><u>\$3,508,429</u></u>	<u><u>\$33,217</u></u>	<u><u>\$3,541,646</u></u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. CAPITAL ASSETS (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance 07/01/06	Additions	Deductions	Balance 06/30/07
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 1,127,575			\$ 1,127,575
Total capital assets, not being depreciated	<u>1,127,575</u>			<u>1,127,575</u>
Capital assets, being depreciated:				
Land improvements	499,100			499,100
Buildings and improvements	4,104,055			4,104,055
Furniture and equipment	1,506,955	65,162	(160,850)	1,411,267
Vehicles	1,028,602		(32,544)	996,058
Infrastructure	70,000			70,000
Total capital assets, being depreciated	<u>7,208,712</u>	<u>65,162</u>	<u>(193,394)</u>	<u>7,080,480</u>
Less: accumulated depreciation				
Land improvements	(365,128)	(18,435)		(383,563)
Buildings and improvements	(2,334,798)	(32,126)		(2,366,924)
Furniture and equipment	(1,230,122)	(67,841)	136,047	(1,161,916)
Vehicles	(854,094)	(52,247)	32,544	(873,797)
Infrastructure	(10,499)	(2,334)		(12,833)
Total accumulated depreciation	<u>(4,794,641)</u>	<u>(172,983)</u>	<u>168,591</u>	<u>(4,799,033)</u>
Governmental activities capital assets, net	<u>\$3,541,646</u>	<u>(\$107,821)</u>	<u>(\$24,803)</u>	<u>\$3,409,022</u>

C. Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$77,399
Special	1,805
Vocational	739
Support Services:	
Pupil	6,221
Instructional staff	778
Administration	677
Fiscal	172
Business	57
Operations and maintenance	5,121
Pupil transportation	52,247
Food Service Operations	11,073
Extracurricular activities	16,694
Total depreciation expense	<u>\$172,983</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for modular classrooms, land, computer equipment and copier equipment. These lease agreements meet the criteria of capital lease as defined by 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and land have been capitalized in the amount of \$574,000 and equipment has been capitalized in the amount of \$65,162. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Accumulated depreciation as of June 30, 2007 was \$60,572, leaving a book value of \$578,590. Principal payments in fiscal year 2007 totaled \$6,166 paid by the general fund and \$211,000 paid by the permanent improvement fund (a non-major governmental fund).

Computer equipment in the amount of \$219,256 has not been capitalized since the assets individually do not meet the District's capitalization threshold. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$76,490 paid by the debt service fund (a nonmajor governmental fund).

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$335,012
2009	253,043
2010	45,632
2011	45,646
2012	36,343
2013 - 2014	<u>60,853</u>
Total minimum lease payments	776,529
Less: amount representing interest	<u>(64,825)</u>
Total	<u><u>\$711,704</u></u>

10. LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2007</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
General obligation bonds	\$50,000		(\$15,000)	\$35,000	\$15,000
Energy conservation notes	195,000		(20,000)	175,000	20,000
Capital lease obligation	940,198	\$65,162	(293,656)	711,704	308,308
Compensated absences	<u>1,660,896</u>	<u>265,741</u>	<u>(306,673)</u>	<u>1,619,964</u>	<u>180,955</u>
Total long-term obligations, governmental activities	<u><u>\$2,846,094</u></u>	<u><u>\$330,903</u></u>	<u><u>(\$635,329)</u></u>	<u><u>\$2,541,668</u></u>	<u><u>\$524,263</u></u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District is primarily the general fund and the following non-major governmental funds: Food Service and Title I.

- B. 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 statement of net assets. 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, 2007:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding June 30, 2006</u>	<u>Issued in Fiscal 2007</u>	<u>Retired in Fiscal 2007</u>	<u>Bonds Outstanding June 30, 2007</u>
Facilities improvement	5.501%	07/06/99	06/01/09	\$50,000	\$0	(\$15,000)	\$35,000

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>
2008	\$15,000	\$1,574	\$16,574
2009	20,000	575	20,575
Total	\$35,000	\$2,149	\$37,149

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2007:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding June 30, 2006</u>	<u>Issued in Fiscal 2007</u>	<u>Retired in Fiscal 2007</u>	<u>Notes Outstanding June 30, 2007</u>
Energy conservation note	5.60%	12/01/99	06/01/14	\$195,000	\$0	(\$20,000)	\$175,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

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

Year Ending June 30	Principal	Interest	Total
2008	\$20,000	\$9,438	\$29,438
2009	20,000	8,353	28,353
2010	25,000	7,103	32,103
2011	25,000	5,690	30,690
2012	25,000	4,259	29,259
2013 - 2014	60,000	3,555	63,555
Total	<u>\$175,000</u>	<u>\$38,398</u>	<u>\$213,398</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$22,362,625 and an unvoted debt margin of \$248,863.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. RISK MANAGEMENT (Continued)

The District provides medical/surgical benefits through a self-insurance program. The District maintains a self-insurance internal service fund to account for and finance its required claims/fee payments and reserves for this program to its employees. Monthly premiums are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$60,000 per employee per year, and \$1.0 million group aggregate for fiscal 2007. 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 \$462,043 reported in the internal service fund at June 30, 2007, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as updated by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the District's third party administrator.

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

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$ 352,821	\$ 2,508,551	\$ (2,399,329)	\$ 462,043
2006	292,284	2,004,738	(1,944,201)	352,821

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 2006.

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

B. Workers' Compensation

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$215,153, \$204,595, and \$202,626, respectively; 45.97 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$116,241 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**URBANA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

12. PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,275,940, \$1,274,355, and \$1,231,143, respectively; 83.38 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$212,093 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$27,603 made by the District and \$19,740 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

13. POST-EMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$98,149 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. POST-EMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$110,244 to fund health care benefits, including the surcharge.

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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

14. BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- d) Investments are reported as fair value (GAAP basis) rather than cost (budget basis).

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance	General Fund
Budget basis	(\$1,279,523)
Net adjustment for revenue accruals	(139,391)
Net adjustment for expenditure accruals	(177,366)
Net adjustment for other sources/uses	(21,729)
Adjustment for encumbrances	849,937
GAAP basis	(\$768,072)

15. CONTINGENCIES

A. Grants

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

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, 2007, the reserve activity was as follows:

	Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of July 1, 2006	\$674,702	(\$1,238,197)	\$113,449
Current year set-aside requirement	339,703	339,703	
Current year offsets		(646,508)	
Qualifying disbursements	(611,180)		
Total	403,225	(1,545,002)	113,449
Cash balance carried forward to FY 2008	\$403,225	(\$1,545,002)	\$113,449

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. The balance in the budget stabilization reserve at June 30, 2007 was \$113,449 and \$253,159 in the designation.

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

16. STATUTORY RESERVES (Continued)

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for instructional materials	\$403,225
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>47,969</u>
Total restricted assets	<u><u>\$564,643</u></u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

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>						
Food Distribution	10.550	N/A		\$82,374		\$82,374
Child Nutrition Cluster:						
School Breakfast Program	10.553	05-PU	\$65,299		\$65,299	
National School Lunch Program	10.555	LL-P4	283,870		283,870	
Summer School Food Program	10.559	24-PU	13,488		13,488	
Total Child Nutrition Cluster			<u>362,657</u>		<u>362,657</u>	
Total U.S. Department of Agriculture			362,657	82,374	362,657	82,374
U.S. Department of Education						
<i>Passed through Ohio Department of Education</i>						
Grants to Local Educational Agencies	84.010	C1-S1-06 C1-S1-07	59,662 <u>387,627</u>		130,747 <u>374,910</u>	
Total Grants to Local Educational Agencies			447,289		505,657	
Special Education Grants to States	84.027	6B-SF-06 6B-SF-07	82,767 <u>595,967</u>		150,507 <u>584,391</u>	
Total Special Education Grants to States			678,734		734,898	
Safe and Drug-Free Schools and Communities State Grants	84.186	DR-S1-06 DR-S1-07	68 <u>6,755</u>		2,510 <u>8,285</u>	
Total Safe and Drug-Free Schools and Communities State Grants			6,823		10,795	
21st Century Grant	84.287	T1-S1-06 T1-S1-07	56,626 <u>90,445</u>		99,046 <u>79,794</u>	
Total 21st Century Grant			147,071		178,840	
Title V - State Grants for Innovative Program	84.298	C2-S1-07	1,340		2,977	
Education Technology State Grants	84.318	TJ-S1-06 TJ-S1-07	870 <u>4,381</u>		2,098 <u>4,381</u>	
Total Education Technology State Grants			5,251		6,479	
Improving Teacher Quality State Grant	84.367	TR-S1-04 TR-S1-06 TR-S1-07	 <u>111,685</u>		267 6,744 <u>103,217</u>	
Total Improving Teacher Quality State Grant			111,685		110,228	
Total U. S. Department of Education			1,398,193		1,549,874	
U. S. Department of Health and Human Services						
<i>(Passed Through Ohio Department of Mental Retardation and Developmental Disabilities/Tri-County ESC)</i>						
Medical Assistance Program	93.778	N/A	814			
Total U.S. Dept. of Health and Human Services			814			
Total Federal Financial Assistance			<u>\$1,761,664</u>	<u>\$82,374</u>	<u>\$1,912,531</u>	<u>\$82,374</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - 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.

NOTE E - COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)

The Tri County Educational Service Center provided services to the District in prior years which was reimbursed in the current year as CAFS revenue. The District, therefore, reported the CAFS funds as revenue only (no expenditures), due to the revenue being a reimbursement for prior year expenditures.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe that the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated March 15, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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



Mary Taylor, CPA
Auditor of State

March 15, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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, Champaign County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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**Internal Control Over Compliance
(Continued)**

Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

March 15, 2008

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

**Significant Deficiency
System Appropriations Not in Agreement with Permanent Appropriations**

The appropriations recorded in the District's budgetary accounting system should reflect the appropriations that were approved by the Board. The District's system did not correctly reflect the permanent appropriations or any changes made to appropriations that were approved by the Board. In addition, the Original and Final appropriations reported on The Statement Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual, General Fund did not agree to the official Appropriation Resolutions. Instructional and support functions on the original budget were misstated by 3.8%. The function is the legal level of control for the General Fund. As such, the stated intentions of the Board were not reported on the financial statements, and the District's internal control system did not identify or correct the error in a timely manner.

The appropriations should be accurately entered into the system and reported on year end reports after they have been approved by the Board. The accuracy of the budgetary information on the system will provide the Board with better information to monitor the District's financial activities. It will also allow the Board to make informed decisions with regards to the District's financial activity.

Officials Response:

We received no response from officials.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 29, 2008**