



Dave Yost • Auditor of State

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – June 30, 2010	13
Statement of Activities – For the Fiscal Year Ended June 30, 2010	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds – June 30, 2010	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2010	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - For the Fiscal Year Ended June 30, 2010	17
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, 2010	18
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, 2010	19
Statement of Net Assets – Proprietary Fund - June 30, 2010	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund – For the Fiscal Year Ended June 30, 2010	21
Statement of Cash Flows – Proprietary Fund – For the Fiscal Year Ended June 30, 2010	22
Statement of Fiduciary Net Assets – Fiduciary Funds - June 30, 2010.....	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund - For the Fiscal Year Ended June 30, 2010	24
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Receipts and Expenditures - For the Fiscal Year Ended June 30, 2010	57
Notes to the Schedule of Federal Awards Receipts and Expenditures	58

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	59
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.....	61
Schedule of Findings.....	63
Schedule of Prior Audit Findings.....	65



Dave Yost • 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, 2010, 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, 2010, 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 February 25, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 25, 2011

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities increased \$856,963 which represents an 8.99% increase from 2009.
- General revenues accounted for \$21,587,274 in revenue or 81.26% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,977,987 or 18.74% of all revenues.
- The District had \$25,708,298 in expenses related to governmental activities; \$4,977,987 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 \$21,587,274 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$22,293,517 in revenues and other financing sources and \$22,323,386 in expenditures. During fiscal 2010, the general fund's fund balance decreased \$29,869 from \$4,259,387 to \$4,229,518.

Using the Basic Financial Statements

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

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

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 2010?" The statement of net assets and statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

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 25-55 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for fiscal years 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
Assets:		
Current and other assets	\$18,341,132	\$17,963,572
Capital assets, net	3,512,308	3,484,552
Total assets	<u>21,853,440</u>	<u>21,448,124</u>
Liabilities:		
Current liabilities	8,323,940	8,391,984
Long-term liabilities	3,144,569	3,528,172
Total liabilities	<u>11,468,509</u>	<u>11,920,156</u>
Net Assets:		
Invested in capital assets, net of related debt	3,273,079	3,182,718
Restricted	2,395,863	1,902,909
Unrestricted	4,715,989	4,442,341
Total net assets	<u><u>\$10,384,931</u></u>	<u><u>\$ 9,527,968</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$10,384,931. Of this total, \$4,715,989 is unrestricted in use.

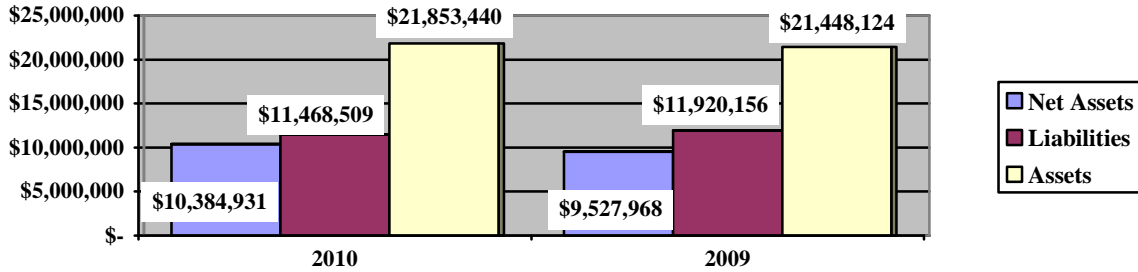
At year-end, capital assets represented 16.07% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$3,273,079. These capital 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, \$2,395,863, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,715,989 may be used to meet the District's ongoing obligations to the students and creditors.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal years 2010 and 2009.

Change in Net Assets		
	Governmental Activities 2010	Governmental Activities 2009
Revenues:		
Program revenues:		
Charges for services and sales	\$ 1,609,266	\$1,424,421
Operating grants and contributions	3,368,721	3,428,048
Capital grants and contributions		23,919
General revenues:		
Property taxes	9,457,589	10,584,094
Grants and entitlements	11,993,991	10,994,150
Investment earnings	73,537	183,264
Other	62,157	34,854
Total revenues	26,565,261	26,672,750
Expenses:		
Program expenses:		
Instruction:		
Regular	11,460,761	10,979,120
Special	4,208,162	4,234,517
Vocational	343,511	327,368
Other	41,960	83,019
Support services:		
Pupil	1,397,747	1,219,748
Instructional staff	642,177	559,793
Board of education	19,598	22,258
Administration	2,003,575	1,848,984
Fiscal	246,799	346,698
Business	362,119	329,824
Operations and maintenance	2,001,522	1,860,324
Pupil transportation	767,095	739,992
Central	358,548	185,400

(Continued)

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

**Change in Net Assets
(Continued)**

	Governmental Activities 2010	Governmental Activities 2009
Expenses: (Continued)		
Support services:		
Food service operations	932,121	940,286
Operations of non-instructional services	106,496	82,081
Extracurricular activities	735,427	761,553
Interest and fiscal charges	80,680	90,048
Total expenses	<u>25,708,298</u>	<u>24,611,013</u>
Change in net assets	856,963	2,061,737
Net assets at beginning of year	9,527,968	7,466,231
Net assets at end of year	<u>\$10,384,931</u>	<u>\$9,527,968</u>

Governmental Activities

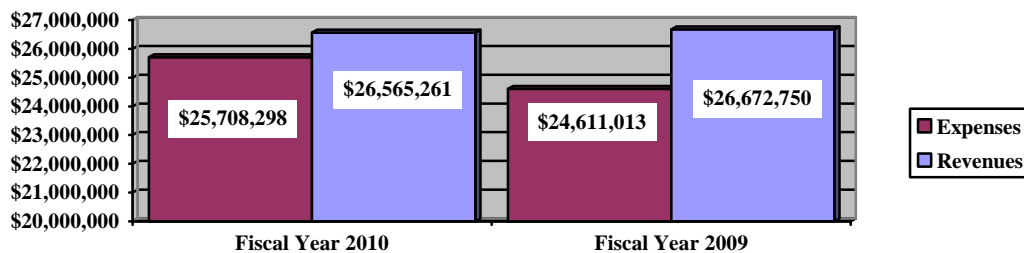
Net assets of the District's governmental activities increased \$856,963. Total governmental expenses of \$25,708,298 were offset by program revenues of \$4,977,987 and general revenues of \$21,587,274. Program revenues supported 19.36% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements. These revenue sources represent 80.75% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$16,054,394 or 62.45% of total governmental expenses for fiscal 2010.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

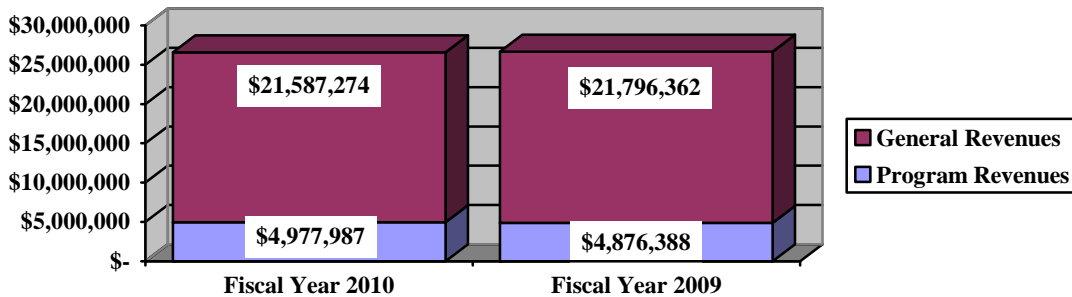
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Governmental Activities				
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses:				
Instruction:				
Regular	\$11,460,761	\$10,222,556	\$10,979,120	\$9,746,179
Special	4,208,162	3,031,267	4,234,517	2,332,437
Vocational	343,511	221,940	327,368	223,880
Other	41,960	41,960	83,019	83,019
Support services:				
Pupil	1,397,747	1,229,138	1,219,748	1,172,863
Instructional staff	642,177	626,265	559,793	549,608
Board of education	19,598	(15,464)	22,258	22,258
Administration	2,003,575	1,970,318	1,848,984	1,812,749
Fiscal	246,799	245,802	346,698	346,698
Business	362,119	208,080	329,824	218,945
Operations and maintenance	2,001,522	1,856,687	1,860,324	1,833,211
Pupil transportation	767,095	489,592	739,992	565,690
Central	358,548	39,579	185,400	185,400
Food service operations	932,121	(29,448)	940,286	(2,189)
Operations of non-instructional services	106,496	102,227	82,081	50,178
Extracurricular activities	735,427	409,132	761,553	503,651
Interest and fiscal charges	80,680	80,680	90,048	90,048
Total expenses	\$25,708,298	\$20,730,311	\$24,611,013	\$19,734,625

The dependence upon tax and other general revenues for governmental activities is apparent, 84.20% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.64%.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$5,684,309, which is higher than last year's total of \$5,290,809. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase/ (Decrease)	Percentage Change
General	\$4,229,518	\$4,259,387	(\$29,869)	(0.70)%
Other Governmental	1,454,791	1,031,422	423,369	41.05%
Total	\$5,684,309	\$5,290,809	\$393,500	7.44%

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

General Fund

The District's general fund balance decreased \$29,869. Tax revenues decreased 11.71% due to net effect of accrual adjustments for advances receivable. Earnings on investments decreased 62.04% as a result of a decrease in interest rates. 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 and support services expenditures increased as a result of annual inflation of wages and benefits. The debt service expenditures are related to capital lease payments and accrued interest payable on the tax anticipation notes outstanding and are reported as a fund liability of the general fund.

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

	2010 Amount	2009 Amount	Increase/ (Decrease)	Percentage Change	
Revenues:					
Taxes	\$ 8,784,362	\$ 9,949,612	(\$1,165,250)	(11.71)	%
Tuition	709,787	628,035	81,752	13.02	%
Earnings on investments	69,654	183,495	(113,841)	(62.04)	%
Other revenues	49,023	64,504	(15,481)	(24.00)	%
Intergovernmental	12,298,827	11,772,699	526,128	4.47	%
Total	21,911,653	22,598,345	(686,692)	(3.04)	%
Expenditures:					
Instruction	14,441,107	13,814,687	626,420	4.53	%
Support services	6,817,432	6,533,045	284,387	4.35	%
Non-instructional services	99,982	55,603	44,379	79.81	%
Extracurricular activities	424,427	518,087	(93,660)	(18.08)	%
Capital outlay	381,864		381,864	100.00	%
Debt service	158,574	81,503	77,071	94.56	%
Total	\$22,323,386	\$21,002,925	\$1,320,461	6.29	%

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

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

For the general fund, original budgeted revenues and other financing sources were \$20,761,813 and final budgeted revenues and other financing sources were \$21,420,763. Actual revenues and other financing sources for fiscal year 2010 was \$22,001,539. This represents a \$580,776 increase over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$23,030,023 and \$24,463,571, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$22,798,017, which was \$1,665,554 less than final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the District had \$3,512,308 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities.

The overall increase in capital assets of \$27,756 is due to capital asset additions of \$192,415 exceeding depreciation expense of \$164,659. See Note 8 to the basic financial statements for detail on the District's capital assets.

The following table shows fiscal 2010 balances compared to 2009:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2010	2009
Land	\$1,127,575	\$1,127,575
Land improvements	145,605	124,638
Building and improvements	1,664,770	1,693,574
Furniture and equipment	237,245	304,164
Vehicles	286,945	182,100
Infrastructure	50,168	52,501
Total	\$3,512,308	\$3,484,552

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Debt Administration

At June 30, 2010, the District had \$110,000 in energy conservation notes and \$433,483 in capital lease obligations outstanding. Of this total, \$143,819 is due within one year and \$399,664 is due in greater than one year. The following table summarizes the notes and leases outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2010	Governmental Activities 2009
Energy conservation notes	\$110,000	\$135,000
Capital lease obligation	433,483	166,834
Total	\$543,483	\$301,834

At June 30, 2010, the District's overall legal debt margin was \$24,017,628, and an un-voted energy conservation debt margin of \$266,863. See Note 10 to the basic financial statements for detail on the District's debt administration.

Current Related Financial Activities

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

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

The District ranks #52 out of 612 districts in the State in reliance on tangible personal property tax. The District 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").

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

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

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

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

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

Contacting the District's Financial Management

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government	Component Unit
	Governmental Activities	Urbana Community School
Assets:		
Equity in pooled cash, cash equivalents and investments	\$8,777,299	\$887,341
Receivables:		
Taxes	8,945,721	
Accounts	814	
Intergovernmental	451,052	1,046
Accrued interest	9,943	
Prepayments	3,002	
Materials and supplies inventory	15,384	
Due from component unit	137,917	
Capital assets:		
Land	1,127,575	
Depreciable capital assets, net	2,384,733	
Capital assets, net	3,512,308	
Total assets	21,853,440	888,387
Liabilities:		
Accounts payable	88,753	
Contracts payable	13,000	
Accrued wages and benefits	1,910,083	
Pension obligation payable	482,799	
Intergovernmental payable	73,269	2,493
Claims payable	470,336	
Accrued interest payable	34,908	
Due to primary government		137,917
Unearned revenue	5,250,792	
Long-term liabilities:		
Due within one year	762,350	
Due in more than one year	2,382,219	
Total liabilities	11,468,509	140,410
Net Assets:		
Invested in capital assets, net of related debt	3,273,079	
Restricted for:		
Capital projects	593,606	
Locally funded programs	6,110	
State funded programs	220,128	18,000
Federally funded programs	274,468	
Student activities	83,417	
Public school support	76,460	
Other purposes	1,141,674	
Unrestricted	4,715,989	729,977
Total net assets	\$10,384,931	\$747,977

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Governmental Activities	Component Unit Urbana Community School
Governmental activities:					
Instruction:					
Regular	\$11,460,761	\$756,240	\$481,965	(\$10,222,556)	
Special	4,208,162	82,576	1,094,319	(3,031,267)	
Vocational	343,511		121,571	(221,940)	
Other	41,960			(41,960)	
Support services:					
Pupil	1,397,747		168,609	(1,229,138)	
Instructional staff	642,177		15,912	(626,265)	
Board of education	19,598		35,062	15,464	
Administration	2,003,575		33,257	(1,970,318)	
Fiscal	246,799		997	(245,802)	
Business	362,119	132,250	21,789	(208,080)	
Operations and maintenance	2,001,522	9,813	135,022	(1,856,687)	
Pupil transportation	767,095	465	277,038	(489,592)	
Central	358,548		318,969	(39,579)	
Operation of non-instructional services:					
Food service operations	932,121	340,450	621,119	29,448	
Other non-instructional services	106,496		4,269	(102,227)	
Extracurricular activities	735,427	287,472	38,823	(409,132)	
Interest and fiscal charges	80,680			(80,680)	
Total governmental activities	\$25,708,298	\$1,609,266	\$3,368,721	(20,730,311)	
Component unit:					
Urbana community school	\$304,237	\$0	\$24,904		(279,333)
General Revenues:					
Property taxes levied for:					
General purposes				8,955,673	
Capital projects				501,916	
Grants and entitlements not restricted to specific programs				11,993,991	334,396
Investment earnings				73,537	2,124
Miscellaneous				62,157	50
Total general revenues				21,587,274	336,570
Change in net assets				856,963	57,237
Net assets at beginning of year				9,527,968	690,740
Net assets at end of year				\$10,384,931	\$747,977

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash, cash equivalents and investments	\$4,070,276	\$1,557,746	\$5,628,022
Receivables:			
Taxes	8,378,304	567,417	8,945,721
Accounts	131	683	814
Intergovernmental	75,131	375,921	451,052
Interfund loans	50,346		50,346
Accrued interest	9,943		9,943
Prepayments	3,002		3,002
Materials and supplies inventory		15,384	15,384
Loans to other funds	58,854		58,854
Due from component unit	137,917		137,917
Restricted assets:			
Equity in pooled cash and cash equivalents and investment	593,611		593,611
Total assets	<u><u>13,377,515</u></u>	<u><u>2,517,151</u></u>	<u><u>15,894,666</u></u>
Liabilities:			
Accounts payable	21,049	67,704	88,753
Contracts payable		13,000	13,000
Accrued wages and benefits	1,794,189	115,894	1,910,083
Compensated absences payable	217,170		217,170
Pension obligation payable	455,408	27,391	482,799
Intergovernmental payable	69,683	3,586	73,269
Accrued interest payable	33,991		33,991
Interfund loans payable		50,346	50,346
Notes payable	1,040,000		1,040,000
Loans from other funds		58,854	58,854
Deferred revenue	602,523	388,777	991,300
Unearned revenue	4,913,984	336,808	5,250,792
Total liabilities	<u><u>9,147,997</u></u>	<u><u>1,062,360</u></u>	<u><u>10,210,357</u></u>
Fund Balances:			
Reserved for encumbrances	558,241	297,827	856,068
Reserved for materials and supplies inventory		15,384	15,384
Reserved for prepayments	3,002		3,002
Reserved for tax revenue unavailable for appropriation	3,069,696	210,400	3,280,096
Reserved for loans to other funds	58,854		58,854
Reserved for budget stabilization	113,449		113,449
Reserved for instructional materials	479,414		479,414
Reserved for school bus purchases	748		748
Unreserved, undesignated, (deficit) reported in:			
General fund	(53,886)		(53,886)
Special revenue funds		710,493	710,493
Capital projects fund		220,687	220,687
Total fund balances	<u><u>4,229,518</u></u>	<u><u>1,454,791</u></u>	<u><u>5,684,309</u></u>
Total liabilities and fund balances	<u><u>\$13,377,515</u></u>	<u><u>\$2,517,151</u></u>	<u><u>\$15,894,666</u></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, 2010**

Total governmental fund balances		\$5,684,309
Amounts reported for governmental activities on the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,512,308
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$414,833	
Accounts receivable	181,506	
Intergovernmental receivable	386,592	
Accrued interest receivable	8,369	
Total	<u>991,300</u>	991,300
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		2,085,330
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(917)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences payable	(1,343,916)	
Energy conservation notes payable	(110,000)	
Capital lease obligation payable	(433,483)	
Total	<u>(1,887,399)</u>	(1,887,399)
Net assets of governmental activities		<u><u>\$10,384,931</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, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$8,784,362	\$495,150	\$9,279,512
Tuition	709,787		709,787
Transportation fees	20,642		20,642
Charges for services		340,450	340,450
Earnings on investments	69,654	160	69,814
Extracurricular		406,535	406,535
Classroom materials and fees		64,755	64,755
Other local revenues	28,381	83,578	111,959
Intergovernmental - Intermediate	109,416		109,416
Intergovernmental - State	12,189,411	305,792	12,495,203
Intergovernmental - Federal		2,833,960	2,833,960
Total revenues	<u>21,911,653</u>	<u>4,530,380</u>	<u>26,442,033</u>
Expenditures:			
Current:			
Instruction:			
Regular	10,756,131	575,797	11,331,928
Special	3,300,248	1,004,453	4,304,701
Vocational	342,768	4,400	347,168
Other	41,960		41,960
Support services:			
Pupil	1,226,038	161,669	1,387,707
Instructional staff	641,960	23,238	665,198
Board of education	19,598		19,598
Administration	1,984,381	74,649	2,059,030
Fiscal	292,162	821	292,983
Business	207,898	145,584	353,482
Operations and maintenance	1,665,957	113,589	1,779,546
Pupil transportation	693,395	171,373	864,768
Central	86,043	272,505	358,548
Operation of non-instructional services:			
Food service operations		923,210	923,210
Other non-instructional services	99,982	7,357	107,339
Extracurricular activities	424,427	293,344	717,771
Facilities acquisition and construction		275,778	275,778
Capital outlay	381,864		381,864
Debt service:			
Principal retirement	91,215	49,000	140,215
Interest and fiscal charges	67,359	12,968	80,327
Total expenditures	<u>22,323,386</u>	<u>4,109,735</u>	<u>26,433,121</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(411,733)</u>	<u>420,645</u>	<u>8,912</u>
Other financing sources (uses):			
Transfers in		1,778	1,778
Transfers (out)		(1,778)	(1,778)
Capital lease transaction	381,864		381,864
Total other financing sources (uses)	<u>381,864</u>		<u>381,864</u>
Net change in fund balances	(29,869)	420,645	390,776
Fund balances at beginning of year	4,259,387	1,031,422	5,290,809
Increase in reserve for inventory		2,724	2,724
Fund balances at end of year	<u>\$4,229,518</u>	<u>\$1,454,791</u>	<u>\$5,684,309</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, 2010**

Net change in fund balances - total governmental funds \$390,776

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

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

Capital asset additions	\$192,415	
Current year depreciation	(164,659)	
Total	27,756	27,756

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

2,724

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

Taxes	178,077	
Tuition revenue	35,411	
Other revenue	43,589	
Intergovernmental revenue	(137,732)	
Accrued interest	3,333	
Total	122,678	122,678

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

140,215

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

(381,864)

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

(353)

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.

325,524

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.

229,507

Change in net assets of governmental activities

\$856,963

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, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$8,093,295	\$8,155,350	\$8,708,584	\$553,234
Tuition	743,991	705,299	709,187	3,888
Transportation fees	21,149	20,207	20,642	435
Earnings on investments	111,909	52,279	57,394	5,115
Other local revenues	32,383	18,901	19,222	321
Intergovernmental - Intermediate	55,925	158,814	109,416	(49,398)
Intergovernmental - State	11,600,432	12,239,602	12,300,851	61,249
Total revenues	<u>20,659,084</u>	<u>21,350,452</u>	<u>21,925,296</u>	<u>574,844</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,942,622	11,329,616	11,019,813	309,803
Special	3,421,744	3,650,782	3,402,982	247,800
Vocational	385,163	410,187	370,532	39,655
Other	55,997	58,645	55,038	3,607
Support services:				
Pupil	1,223,039	1,272,770	1,250,193	22,577
Instructional staff	580,815	616,069	591,395	24,674
Board of education	30,025	23,969	23,732	237
Administration	1,974,780	2,075,592	1,983,424	92,168
Fiscal	583,051	462,366	347,716	114,650
Business	217,520	231,150	214,099	17,051
Operations and maintenance	1,942,574	1,975,847	1,749,247	226,600
Pupil transportation	750,441	787,809	729,020	58,789
Central	214,619	194,433	93,218	101,215
Operation of non-instructional services	82,267	109,786	98,331	11,455
Extracurricular activities	563,672	604,099	454,541	149,558
Debt service:				
Principal retirement		419,366	260,000	159,366
Interest and fiscal charges		104,390	104,390	
Total expenditures	<u>22,968,329</u>	<u>24,326,876</u>	<u>22,747,671</u>	<u>1,579,205</u>
Excess of expenditures over revenues	<u>(2,309,245)</u>	<u>(2,976,424)</u>	<u>(822,375)</u>	<u>2,154,049</u>
Other financing sources (uses):				
Refund of prior year expenditure	13,411	10,630	10,630	
Transfers (out)	(61,694)	(86,345)		86,345
Advances in	12,971	57,881	57,881	
Advances (out)		(50,350)	(50,346)	4
Sale of assets	76,347	1,800	7,732	5,932
Total other financing sources (uses)	<u>41,035</u>	<u>(66,384)</u>	<u>25,897</u>	<u>92,281</u>
Net change in fund balance	(2,268,210)	(3,042,808)	(796,478)	2,246,330
Fund balance at beginning of year	4,186,912	4,186,912	4,186,912	
Prior year encumbrances appropriated	485,803	485,803	485,803	
Fund balance at end of year	<u>\$2,404,505</u>	<u>\$1,629,907</u>	<u>\$3,876,237</u>	<u>\$2,246,330</u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash, cash equivalents and investments	\$2,555,666
Total assets	<u>2,555,666</u>
Liabilities:	
Claims payable	470,336
Total liabilities	<u>470,336</u>
Net assets:	
Unrestricted	2,085,330
Total net assets	<u><u>\$2,085,330</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, 2010**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$2,823,816
Total operating revenues	<u>2,823,816</u>
Operating expenses:	
Claims and administrative services	2,594,859
Total operating expenses	<u>2,594,859</u>
Operating income	<u>228,957</u>
Non-operating revenues:	
Interest revenue	550
Total non-operating revenues	<u>550</u>
Change in net assets	229,507
Net assets at beginning of year	<u>1,855,823</u>
Net assets at end of year	<u><u>\$2,085,330</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, 2010**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$2,823,816
Cash payments for claims and administrative services	(2,574,066)
Net cash provided by operating activities	249,750
 Cash flows from investing activities:	
Interest received	550
Net cash provided by investing activities	550
 Net increase in cash and cash equivalents	250,300
 Cash and cash equivalents at beginning of year	2,305,366
Cash and cash equivalents at end of year	2,555,666
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	228,957
 Changes in assets and liabilities:	
Increase in claims payable	20,793
Net cash provided by operating activities	\$249,750

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash, cash equivalents, and investments	\$129,788	\$71,930
Receivables:		
Accounts		926
Total assets	129,788	72,856
Liabilities:		
Accounts payable		16,281
Due to students		56,575
Total liabilities		\$72,856
Net assets:		
Held in trust for scholarships	129,788	
Total net assets	\$129,788	

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, 2010

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Interest	\$418
Gifts and contributions	44,429
Total additions	<u>44,847</u>
Deductions:	
Scholarships awarded	<u>3,000</u>
Change in net assets	41,847
Net assets at beginning of year	<u>87,941</u>
Net assets at end of year	<u><u>\$129,788</u></u>

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, 2010**

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 215th largest in the State of Ohio among 905 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 84 non-certified and 170 certified personnel to provide services to approximately 2,278 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Chapter 3314. The superintendent of the District serves as the Chief Administrative Officer of the School and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the School, the School's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the School, the School is a component unit of the District. See Note 18 for detail on the School.

The District's services provided to the School are reimbursed from the School to the District. The School also owed \$137,917 for District-incurred expenses on behalf of the School for fiscal year 2010 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 Donn Walls., Administrator, 129 East Court Street, Sidney, Ohio 45265.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The governing board of MEC consists of one voting representative from each member district. The District paid \$177,706 to MEC during fiscal year 2010. Financial information is available from Ron Miller, Director, 2100 Citygate Dr., Columbus, Ohio 43219.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ohio Hi-Point Joint Vocational School District

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

3. Insurance Purchasing Pool

Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

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

1. Governmental Funds

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

General fund - The general fund is used to account for 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) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds, (b) grants and other resources whose use is restricted to a particular purpose, and (c) food service operations.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund

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

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

3. Fiduciary Funds

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

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

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

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

2. Fund Financial Statements

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Unearned Revenue and Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2010, 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 2010 is as follows:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds or alter total function appropriations within the general fund or permanent improvement fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

During fiscal year 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable and non-negotiable certificates of deposit, U.S. government money market mutual funds and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

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 2010 amounted to \$69,654, which includes \$32,313 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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for sick leave is made to the extent that it is probable that the benefit will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least twenty years of service and all employees age 50 with at least 10 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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, prepayments, tax revenue unavailable for appropriation, loans to other funds, budget stabilization, instructional materials and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

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

N. Estimates

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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 17 for details.

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Non-Major Funds</u>	<u>Deficit</u>
Food service	\$ 614
IDEA Part B	13,741
Stimulus Title II D	3,350
Title I	116,196
Improving Teacher Quality	20,821

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.

C. Investing Activity

Contrary to Ohio Revised Code sections 135.13 and 135.44 the entity held 1.126 million in Certificates of Deposit Account Registry Services (CDARs) at June 30,2010 which had maturities of more than one year.

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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

A. Cash on Hand

At fiscal year end, the District had \$100 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents and investments."

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$6,302,974. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$5,853,394 of the District's bank balance of \$6,424,242 was exposed to custodial risk as discussed below, while \$570,848 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 Months	13 to 18 Months	19 to 24 Months	Greater than 24 Months
Negotiable certificates of deposit	\$1,126,291	\$1,026,174	\$100,117			
FNMA	1,317,472					\$1,317,472
U.S. government money market mutual funds	207,180	207,180				
STAR Ohio	25,000	25,000				
	<u>\$2,675,943</u>	<u>\$1,258,354</u>	<u>\$100,117</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,317,472</u>

The weighted average maturity of investments is 1.88 years.

1. Interest Rate Risk

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

2. Credit Risk

STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

3. Custodial Credit Risk

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

4. Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Credit Rating</u>
Negotiable certificates of deposit	\$1,126,291	42.09	N/A
FNMA	1,317,472	49.23	Standard & Poor's AAA
U.S. government money market			
mutual funds	207,180	7.75	Standard & Poor's AAAM
STAR Ohio	25,000	0.93	Standard & Poor's AAAM
	<u>\$2,675,943</u>	<u>100.00</u>	

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$6,302,974
Investments	2,675,943
Cash on hand	100
Total	<u>\$8,979,017</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$8,777,299
Private-purpose trust funds	129,788
Agency funds	71,930
Total	<u>\$8,979,017</u>

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2010 as reported on the fund statements, consist of the following interfund loans receivable/payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Non-major governmental funds	\$50,346

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, 2010
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

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

- B.** Interfund balances at June 30, 2010 as reported on the fund statements, consist of the following long-term loans to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	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.

- C.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfer to non-major governmental fund from:	
Non-major governmental fund	\$1,778

The Title I fund (a non-major governmental fund) transferred \$1,778 to the stimulus school improvement fund (a non-major governmental fund) as a residual equity transfer to close out the fund.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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 for reporting in 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. PROPERTY TAXES (Continued)

Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$3,069,696 in the general fund and \$210,400 in the permanent improvement fund (a non-major governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$2,993,918 in the general fund and \$169,599 in the permanent improvement fund (a non-major governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$258,379,030	92.59	\$258,132,650	96.59
Public utility personal	8,664,370	3.10	8,836,820	3.30
Tangible personal property	12,023,179	4.31	285,580	0.11
Total	\$279,066,579	100.00	\$267,255,050	100.00
Tax rate per \$1,000 of assessed valuation	\$68.05		\$68.05	

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:	
Taxes	\$8,945,721
Accounts	814
Intergovernmental	451,052
Accrued interest	9,943
Total receivables	\$9,407,530

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

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 06/30/09	Additions	Deductions	Balance 06/30/10
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$1,127,575			\$1,127,575
Total capital assets, not being depreciated	1,127,575			1,127,575
Capital assets, being depreciated:				
Land improvements	546,250	\$40,500		586,750
Buildings and improvements	4,103,455			4,103,455
Furniture and equipment	1,618,498			1,618,498
Vehicles	1,112,155	151,915	(\$41,285)	1,222,785
Infrastructure	70,000			70,000
Total capital assets, being depreciated	7,450,358	192,415	(41,285)	7,601,488
Less: accumulated depreciation				
Land improvements	(421,612)	(19,533)		(441,145)
Buildings and improvements	(2,409,881)	(28,804)		(2,438,685)
Furniture and equipment	(1,314,334)	(66,919)		(1,381,253)
Vehicles	(930,055)	(47,070)	41,285	(935,840)
Infrastructure	(17,499)	(2,333)		(19,832)
Total accumulated depreciation	(5,093,381)	(164,659)	41,285	(5,216,755)
Governmental activities capital assets, net	\$3,484,552	\$27,756	\$ 0	\$3,512,308

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$64,572
Special	1,709
Vocational	603
Support services:	
Pupil	2,054
Instructional staff	733
Administration	634
Fiscal	1,121
Business	57
Operations and maintenance	6,118
Pupil transportation	48,060
Food service operations	11,635
Extracurricular activities	27,363
Total depreciation expense	<u><u>\$164,659</u></u>

9. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Computer equipment with a net present value of \$304,254 has not been capitalized since the asset does not meet the District's capitalization threshold. Capital assets consisting of buildings and land have been capitalized in the amount of \$574,000 and equipment has been capitalized in the amount of \$65,162. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Accumulated depreciation as of June 30, 2010 was \$237,428, leaving a book value of \$401,734. Principal payments in fiscal year 2010 totaled \$91,215 paid by the general fund and \$24,000 paid by the permanent improvement fund (a non-major 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, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$127,765
2012	118,461
2013	107,600
2014	<u>107,345</u>
Total minimum lease payments	461,171
Less: amount representing interest	<u>(27,688)</u>
Total	<u><u>\$433,483</u></u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

10. LONG-TERM OBLIGATIONS

A. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

Governmental activities:	Balance Outstanding June 30, 2009	Additions	Reductions	Balance Outstanding June 30, 2010	Amounts Due in One Year
Energy conservation notes	\$ 135,000		(\$ 25,000)	\$ 110,000	\$ 25,000
Capital lease obligation	166,834	\$381,864	(115,215)	433,483	118,819
Compensated absences	1,926,338	141,361	(506,613)	1,561,086	358,531
Total long-term obligations, governmental activities	<u>\$2,228,172</u>	<u>\$523,225</u>	<u>(\$646,828)</u>	2,104,569	502,350
Tax anticipation notes (see Note 11)				<u>1,040,000</u>	<u>260,000</u>
Total on statement of net assets				<u>\$3,144,569</u>	<u>\$762,350</u>

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

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

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 25,000	\$ 5,690	\$ 30,690
2012	25,000	4,259	29,259
2013	30,000	2,663	32,663
2014	30,000	893	30,893
Total	<u>\$110,000</u>	<u>\$13,505</u>	<u>\$123,505</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that 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, 2010, are a voted debt margin of \$24,017,628 and an un-voted debt margin of \$266,863.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

11. NOTES PAYABLE

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Tax anticipation notes	\$1,300,000	\$0	(\$260,000)	\$1,040,000	\$260,000

Principal and interest requirements to amortize tax anticipation notes outstanding at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 260,000	\$ 51,480	\$ 311,480
2012	260,000	38,610	298,610
2013	260,000	25,740	285,740
2014	260,000	12,870	272,870
Total	<u>\$1,040,000</u>	<u>\$128,700</u>	<u>\$1,168,700</u>

12. RISK MANAGEMENT

A. Comprehensive and Employee Health

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained risk management by traditional means of insuring through a commercial company.

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

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

The District provides medical/surgical benefits through a self-insurance program. The District maintains a self-insurance internal service fund to account for and finance its required claims/fee payments and reserves for this program to its employees. Monthly premiums are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee per year, and \$1.0 million group aggregate for fiscal year 2010. The premiums are paid by the District at a rate of 97% for all teaching employees and at a rate of either 85%, 65%, or 60% for classified staff.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

12. RISK MANAGEMENT (Continued)

The claims liability of \$470,336 reported in the internal service fund at June 30, 2010, 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>
2010	\$449,543	\$2,594,859	(\$2,574,066)	\$470,336
2009	384,181	2,777,750	(2,712,388)	449,543

The District continues to carry commercial insurance for all others risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2009.

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

B. Workers' Compensation

For fiscal year 2010, 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

13. PENSION PLANS

A. School Employees Retirement System

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 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 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$264,322, \$184,079 and \$181,646, respectively; 59.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. PENSION PLANS (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,326,359, \$1,286,808 and \$1,285,416, respectively; 82.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$42,645 made by the District and \$30,460 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$43,348, \$118,077 and \$128,055, respectively; 59.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$15,719, \$15,188 and \$13,088, respectively; 59.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$102,028, \$98,985 and \$98,878, respectively; 82.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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.

15. BUDGETARY BASIS OF ACCOUNTING

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);

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

15. BUDGETARY BASIS OF ACCOUNTING (Continued)

- (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) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) 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:

Net Change in Fund Balance	General Fund
Budget basis	\$(796,478)
Net adjustment for revenue accruals	(13,643)
Net adjustment for expenditure accruals	(166,327)
Net adjustment for other sources/uses	355,967
Adjustment for encumbrances	590,612
GAAP basis	(\$ 29,869)

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

17. 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, 2010, the reserve activity was as follows:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

17. STATUTORY RESERVES (Continued)

	Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of July 1, 2009	\$364,228		\$113,449
Current year set-aside requirement	363,305	\$363,305	
Current year offsets		(451,349)	
Qualifying disbursements	(248,119)		
Total	479,414	(88,044)	113,449
Cash balance carried forward to fiscal year 2011	\$479,414	\$ 0	\$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 District had qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements of future years.

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

A schedule of the restricted assets at June 30, 2010 follows:

Amount restricted for instructional materials	\$479,414
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	748
Total restricted assets	\$593,611

18. URBANA COMMUNITY SCHOOL

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

The School was approved under contract with the Sponsor for the period of five years commencing July 1, 2003. The contract is renewed annually. The School began operations on July 1, 2004.

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

A. Summary of Significant Accounting Policies

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The School has the option to also apply this FASB guidance issued after November 30, 1989, subject to this same limitation. The School has elected not to apply these FASB guidance. The School's significant accounting policies are described below.

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

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

Capital Assets and Depreciation - Capital assets are capitalized at (cost or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market value as of the date donated. The School maintains a capitalization threshold of \$500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School does not have any assets over the threshold at June 30, 2010.

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

Intergovernmental Revenues - The School currently participates in the State Foundation Program through the Ohio Department of Education, the education stabilization grant, and the EMIS State grant. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and Federal grants for the fiscal year 2010 received by the School was \$24,904.

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

B. Change in Accounting Principles

For fiscal year 2010, the School has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the School.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the School.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the School.

C. Equity in Pooled Cash and Investments

At June 30, 2010, the carrying amount of the School's deposits was \$887,341. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$652,703 of the School's bank balance of \$902,703 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

D. Comprehensive Services Agreement with TRECA

The School entered into a one-year contract on January 4, 2010, for fiscal year 2010, with Tri-Rivers Education Computer Association (TRECA). Under the contract, the following terms were agreed upon:

1. TRECA shall provide the School with instructional, supervisory/administrative, and technical services sufficient to effectively implement the School's educational plan and the School's assessment and accountability plan.
2. All personnel providing services to the School on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The technical services provided by TRECA to the School shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the School.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. The School shall pay to TRECA \$3,875 per full-time student enrolled in the School per year. Part time students may be enrolled on such terms as are agreed to by the parties.

The School paid \$163,851 to TRECA for fiscal year 2010 services.

To obtain TRECA's audited June 30, 2010 financial statements, please contact Scott Armstrong at scott@treca.org.

E. Agreement with American Correspondence School

In addition to providing students with online technology classes, the School also permits students to enroll in the American Correspondence School (Correspondence School), in which students perform educational duties through mail correspondence. The School incurs the tuition costs for students enrolled in the Correspondence School and the tuition is not reimbursed by the students. The payments are remitted by the Sponsor and the School reimburses the Sponsor for the expenses. The School paid \$255 to Correspondence School for fiscal year 2010 services

F. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2010, the School was named on the Sponsor's policy for property and general liability insurance.

G. Contingencies

Grants - The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2010.

State Foundation Funding - The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the review after fiscal year-end, the Ohio Department of Education owed the School \$1,046. This amount is reflected as an intergovernmental receivable (due from other governments) on the basic financial statements.

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

H. Fiscal Agent

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

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
Child Nutrition Cluster:						
School Breakfast Program		10.553	\$106,425		\$106,425	
Non-Cash Assistance (Food Distribution) School Breakfast Program				\$14,600		\$14,600
Total School Breakfast Program			<u>106,425</u>	<u>14,600</u>	<u>106,425</u>	<u>14,600</u>
National School Lunch Program						
Non-Cash Assistance (Food Distribution) National School Lunch Program		10.555	413,612		413,612	
Total National School Lunch Program			<u>413,612</u>	<u>62,407</u>	<u>413,612</u>	<u>62,407</u>
Summer Food Service Program for Children		10.559	43,914		43,914	
Total Child Nutrition Cluster - United States Department of Agriculture			<u>563,951</u>	<u>77,007</u>	<u>563,951</u>	<u>77,007</u>
U.S. Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1, Part A Cluster						
Title I Grants to Local Educational Agencies	2010	84.010	353,305		369,273	
	2009		173,868		160,728	
School Improvement Grants	2010		22,978		21,599	
Total Title 1 Grants to Local Educational Agencies			<u>550,151</u>		<u>551,600</u>	
ARRA Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	82,681		83,654	
Total Title I, Part A Cluster			<u>632,832</u>		<u>635,254</u>	
Special Education Cluster:						
Special Education Grants to States		84.027	512,528		566,330	
ARRA Special Education Grants to States, Recovery Act		84.391	196,075		187,707	
Total Special Education Grants to States			<u>708,603</u>		<u>754,037</u>	
Safe and Drug-Free Schools and Communities State Grants		84.186	11,328		10,955	
Twenty First Century Community Learning Centers		84.287	47,030		49,184	
State Grants for Innovative Programs		84.298			1,773	
Education Technology State Grants Cluster						
Education Technology State Grants		84.318	3,264		5,118	
ARRA Education Technology State Grants, Recovery Act		84.386	52,671		55,824	
Total Education Technology State Grants Cluster			<u>55,935</u>		<u>60,942</u>	
English Language Acquisition Grants		84.365	518		2,277	
Improving Teacher Quality State Grants		84.367	126,979		125,000	
School Improvement Grants		84.377	38,085		13,091	
ARRA State Fiscal Stabilization Fund (SFSF), Education State Grants, Recovery Act		84.394	552,587		383,329	
Total U. S. Department of Education			<u>2,173,897</u>		<u>2,035,842</u>	
U. S. Department of Health and Human Services						
<i>(Passed Through Ohio Department of Developmental Disabilities)</i>						
Medical Assistance Program		93.778	109,416		109,416	
Total U.S. Dept. of Health and Human Services			<u>109,416</u>		<u>109,416</u>	
Total Federal Financial Assistance			<u>\$2,847,264</u>	<u>\$77,007</u>	<u>\$2,709,209</u>	<u>\$77,007</u>

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Urbana City School District, Champaign County (the District), as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2011. 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 for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted a certain noncompliance or other matter that we reported to the District's management in a separate letter dated February 25, 2011.

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

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



Dave Yost
Auditor of State

February 25, 2011



Dave Yost • 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 could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The Government's basic financial statements include the operations of the Urbana Community School, which received \$49,794 in federal awards which is not included in the District's Federal Awards Expenditure Schedule for the year ended June 30, 2010. Our audit of Federal awards, described below, did not include the operations of the Urbana Community School because the component unit is legally separate from the primary government which this report addresses, and because it expended less than \$500,000 of Federal awards for the year ended June 30, 2010, it was not subject to OMB Circular A-133 audit requirements.

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 included in the Comptroller General of the United States' *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, Champaign County, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses, as defined above. 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, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 25, 2011

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2010-001

Noncompliance Citation

Ohio Rev. Code Section 135.13 provides that interim deposits are certificates of deposit maturing not more than one year from the deposit date, or savings or deposit accounts, including passbook accounts. **Ohio Rev. Code Section 135.144** permits governments to use the Certificate of Deposit Account Registry Services (CDARS) or similar programs meeting Ohio Rev. Code §135.144 requirements for interim deposits. At June 30, 2010, the District held 13 negotiable certificates of deposits, in the amount of \$1,126,292, with maturity dates greater than one year from the purchase date. These certificates of deposit were purchased on behalf of the District by a bank used by the District for investments.

In addition to violating the Ohio Revised Code, the failure to deposit interim deposit in certificates of deposits with an allowed maturity period may result in the District not having adequate available deposits to meet short-term financing needs.

The District should implement monitoring procedures to help assure that interim deposits are not used to purchase certificates of deposit with a maturity period of more than one year.

OFFICIALS' RESPONSE:

Urbana City Schools maintains an account with Fifth-Third Securities, wherein funds not needed to meet short-term financing needs are deposited to generate additional interest for the district. The accounts at Fifth-Third Securities are not considered deposit accounts, but rather offer a wide range of investment options for these funds. Historically, the district has invested in options other than certificates of deposit in the securities firm. In fiscal year 2008-09, due to economic conditions, past investment options were not as safe as they had previously been and were subject to potential losses that the district could not afford. Certificates of deposit within the securities firm were much safer and are FDIC insured, thereby guaranteeing funds would not be lost. At the time of investment, 18-month CDs offered a much better interest rate for the district than those of a lesser time period. After consulting the 5 year forecast, it was determined the district could still meet short-term financing needs that may have potentially arisen even with these funds invested in the 18-month CDs. The last of those CDs matured in August of 2010 and the district no longer has any investments outside of the one-year limit.

Overall, the district and board understand the legal need for the citation and will ensure in the future that any CDs purchased will mature in 12 months or fewer whether they are purchased through a securities firm or a bank; however, I feel the definition of "deposit accounts" is somewhat subjective and could be open to interpretation. I consulted with the securities firm holding our investments and this issue had arisen with another school district, but was not included in their audit as a report-level citation, as the accounts were set to mature in a matter of months. The investments were not made without consideration to the financial position of the district and the need for available funds during the 18-month period. Overall the district received a greater financial benefit by holding the 18-month CDs, rather than cashing them in and suffering the penalties that would have been assessed by the securities firm.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	ORC Sections 135.13 and 135.144 provide guidelines for investment in CDAR's. These investments matured more than one year from the date of deposit, which is contrary to the ORC guidelines in the sections noted above.	No, 13 of the 14 CDAR's were still outstanding at June 30, 2010.	Partially corrected. The client is aware of the ORC requirements based upon the prior year audit, but will hold the investments to maturity based upon penalties for early withdrawal and excessive loss of interest revenue. All CDAR's have matured in the subsequent period prior to the release of this audit report. Repeat as finding 2010-001.

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Dave Yost • Auditor of State

URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2011**