



Mary Taylor, CPA  
Auditor of State



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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CHAMPAIGN COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2008, 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 major fund, and the aggregate discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the respective 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 January 30, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

January 30, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities increased \$99,419 which represents a 1.35% increase from 2007.
- General revenues accounted for \$18,583,887 in revenue or 79.65% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,746,997 or 20.35% of all revenues.
- The District had \$23,231,465 in expenses related to governmental activities; \$4,746,997 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,583,887 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,788,835 in revenues and other financing sources and \$20,226,202 in expenditures and other financing uses. During fiscal 2008, the general fund's fund balance decreased \$437,367 from \$3,026,537 to \$2,589,170.

**Using these Basic Financial Statements**

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

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other 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 2008?" 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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 25-57 of this report.

**The District as a Whole**

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2008 and 2007.

	<b>Net Assets</b>	
	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
<b>Assets</b>		
Current and other assets	\$16,816,234	\$16,670,450
Capital assets, net	3,505,323	3,409,022
<b>Total assets</b>	<b>20,321,557</b>	<b>20,079,472</b>
<b>Liabilities</b>		
Current liabilities	9,277,481	10,170,992
Long-term liabilities	3,577,845	2,541,668
<b>Total liabilities</b>	<b>12,855,326</b>	<b>12,712,660</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,926,927	2,566,026
Restricted	1,746,536	2,328,188
Unrestricted	2,792,768	2,472,598
<b>Total net assets</b>	<b>\$ 7,466,231</b>	<b>\$ 7,366,812</b>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$7,466,231. Of this total, \$2,792,768 is unrestricted in use.

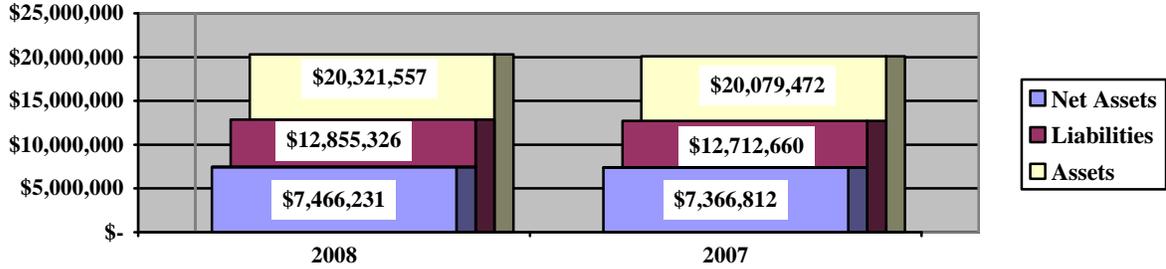
At year-end, capital assets represented 17.25% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$2,926,927. These capital 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
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A portion of the District's net assets, \$1,746,536, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,792,768 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2008 and 2007.

	<b>Change in Net Assets</b>	
	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services and sales	\$1,569,620	\$1,636,335
Operating grants and contributions	3,164,699	3,115,884
Capital grants and contributions	12,678	34,010
<b>General revenues:</b>		
Property taxes	8,094,271	8,301,490
Grants and entitlements	10,025,191	9,304,227
Investment earnings	391,641	499,613
Other	72,784	46,658
<b>Total revenues</b>	<b>23,330,884</b>	<b>22,938,217</b>
<b>Expenses</b>		
<b>Program expenses:</b>		
<b>Instruction:</b>		
Regular	10,611,395	11,144,733
Special	3,754,366	3,552,900
Vocational	222,282	307,576
Other	76,730	70,551
<b>Support services:</b>		
Pupil	1,192,245	1,112,214
Instructional staff	543,835	565,041
Board of education	25,650	30,246
Administration	1,771,425	1,718,697
Fiscal	240,831	290,478
Business	283,149	335,250
Operations and maintenance	1,836,882	1,844,214
Pupil transportation	705,097	688,507
Central	175,168	207,220

(Continued)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**Change in Net Assets  
(Continued)**

	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
<b>Expenses:</b>		
<b>Support Services: (Continued)</b>		
Food service operations	901,888	928,696
Operations of non-instructional services	100,560	153,816
Extracurricular activities	736,984	675,921
Interest and fiscal charges	52,978	46,582
Total expenses	<u>23,231,465</u>	<u>23,672,642</u>
Change in net assets	99,419	(734,425)
Net assets at beginning of year	<u>7,366,812</u>	<u>8,101,237</u>
Net assets at end of year	<u>\$7,466,231</u>	<u>\$7,366,812</u>

**Governmental Activities**

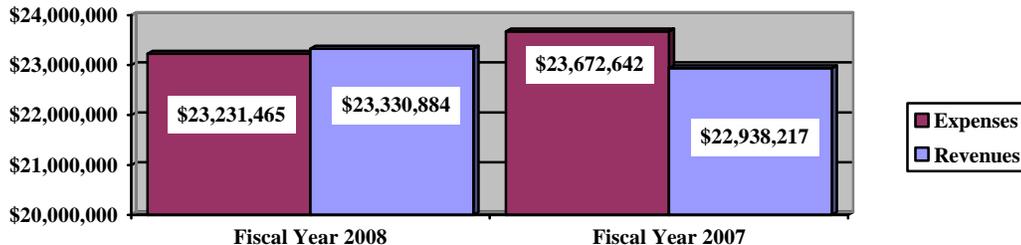
Net assets of the District's governmental activities increased \$99,419. Total governmental expenses of \$23,231,465 were offset by program revenues of \$4,746,997 and general revenues of \$18,583,887. Program revenues supported 20.43% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 77.66% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$14,664,773 or 63.12% of total governmental expenses for fiscal 2008.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

**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, OHIO**

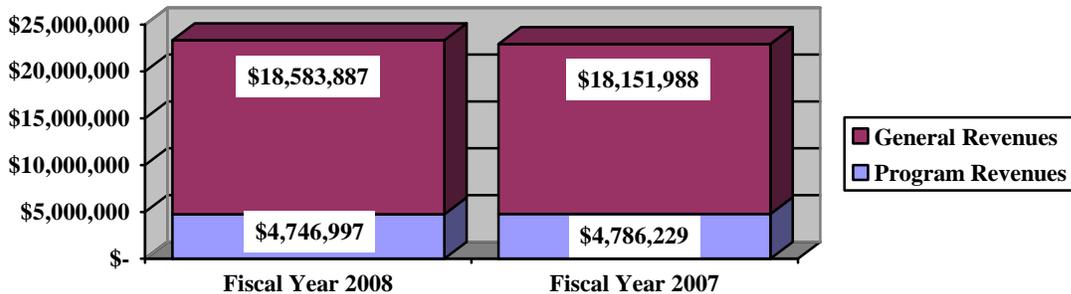
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

<b>Governmental Activities</b>				
	<b>Total Cost of Services 2008</b>	<b>Net Cost of Services 2008</b>	<b>Total Cost of Services 2007</b>	<b>Net Cost of Services 2007</b>
<b>Program expenses:</b>				
<b>Instruction:</b>				
Regular	\$10,611,395	\$9,658,171	\$11,144,733	\$9,824,633
Special	3,754,366	1,789,345	3,552,900	1,817,433
Vocational	222,282	104,400	307,576	219,916
Other	76,730	76,730	70,551	70,551
<b>Support services:</b>				
Pupil	1,192,245	1,145,789	1,112,214	1,055,765
Instructional staff	543,835	529,366	565,041	523,359
Board of education	25,650	25,650	30,246	30,246
Administration	1,771,425	1,590,548	1,718,697	1,718,697
Fiscal	240,831	239,448	290,478	261,364
Business	283,149	177,891	335,250	183,564
Operations and maintenance	1,836,882	1,809,187	1,844,214	1,818,194
Pupil transportation	705,097	573,482	688,507	562,359
Central	175,168	175,168	207,220	207,220
Food service operations	901,888	7,275	928,696	56,528
Operations of non-instructional services	100,560	53,779	153,816	73,662
Extracurricular activities	736,984	475,261	675,921	416,340
Interest and fiscal charges	52,978	52,978	46,582	46,582
<b>Total expenses</b>	<b>\$23,231,465</b>	<b>\$18,484,468</b>	<b>\$23,672,642</b>	<b>\$18,886,413</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 79.30% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.57%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

**Governmental Activities - General and Program Revenues**



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,724,491, which is lower than last year's total of \$4,717,690. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	<b>Fund Balance June 30, 2008</b>	<b>Fund Balance June 30, 2007</b>	<b>(Decrease)</b>	<b>Percentage Change</b>	
General	\$2,589,170	\$3,026,537	(\$437,367)	(14.45)	%
Other Governmental	1,135,321	1,691,153	(555,832)	(32.87)	%
Total	<u>\$3,724,491</u>	<u>\$4,717,690</u>	<u>(\$993,199)</u>	<u>(21.05)</u>	<u>%</u>

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

**General Fund**

The District's general fund balance decreased \$437,367. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

Earnings on investments decreased 22.97% as a result of a decrease in interest rates that resulted in a fair market value adjustment at year-end. Tuition revenues decreased due to the drop off in open enrollment program revenues. Other revenues, which are made up of rentals, contributions and donations, services provided to other entities, transportation fees and miscellaneous revenues increased primarily due to increasing revenues from local sources. Instruction expenditures increased as a result of annual inflation of wages and benefits. The debt service is related to a capital lease payments during the year.

	<b>2008 Amount</b>	<b>2007 Amount</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>	
<b>Revenues</b>					
Taxes	\$ 7,600,593	\$ 7,763,767	(\$163,174)	(2.10)	%
Tuition	547,186	604,661	(57,475)	(9.51)	%
Earnings on investments	369,571	479,787	(110,216)	(22.97)	%
Other revenues	221,388	79,786	141,602	177.48	%
Intergovernmental	11,045,523	10,126,730	918,793	9.07	%
Total	<u>19,784,261</u>	<u>19,054,731</u>	<u>729,530</u>	<u>3.83</u>	<u>%</u>
<b>Expenditures</b>					
Instruction	13,372,147	13,143,149	228,998	1.74	%
Support services	6,235,263	6,119,339	115,924	1.89	%
Non-instructional services	60,777	69,745	(8,968)	(12.86)	%
Extracurricular activities	448,893	401,101	47,792	11.92	%
Capital outlay		65,162	(65,162)	(100.00)	%
Debt service	28,122	9,275	18,847	203.20	%
Total	<u>\$20,145,202</u>	<u>\$19,807,771</u>	<u>\$337,431</u>	<u>1.70</u>	<u>%</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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 \$19,443,521 and final budgeted revenues and other financing sources were \$20,642,339. Actual revenues and other financing sources for fiscal 2008 was \$20,657,207. This represents a \$14,868 increase over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$21,678,434 and \$21,373,614, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$20,628,733, which was \$744,881 less than final budget appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2008, the District had \$3,505,323 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 \$96,301 is due to additions of \$296,125, depreciation expense of \$173,224 and total disposals of \$26,600 (net of accumulated depreciation). See Note 8 to the basic financial statements for detail on the District's capital assets.

The following table shows fiscal 2008 balances compared to 2007:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
Land	\$1,127,575	\$1,127,575
Land improvements	97,102	115,537
Building and improvements	1,725,690	1,737,131
Furniture and equipment	347,480	249,351
Vehicles	152,642	122,261
Infrastructure	54,834	57,167
<b>Total</b>	<b>\$3,505,323</b>	<b>\$3,409,022</b>

**Debt Administration**

At June 30, 2008, the District had \$20,000 in general obligation bonds and \$155,000 in energy conservation notes outstanding. Of this total, \$40,000 is due within one year and \$135,000 is due in greater than one year. The following table summarizes the bonds and loans outstanding.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
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(Continued)**

<b>Outstanding Debt, at Year End</b>		
	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
General obligation bonds	\$ 20,000	\$ 35,000
Energy conservation notes	155,000	175,000
Total	\$175,000	\$210,000

At June 30, 2008, the District's overall legal debt margin was \$23,723,572, and an unvoted energy conservation debt margin of \$263,817. See Note 10 to the basic financial statements for detail on the District's debt administration.

**Current Related Financial Activities**

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

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

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

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 45% approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers and at the same time proceed to meet District needs. In 2004, the Board proceeded to put their local share on the ballot through the Expedited Local Partnership Program with Phase I including a new PK-5 building and a 6-8 building. The high school was slated to be Phase II, built with State funds. Phase I failed in 2004 and in 2006. With the tax rate increasing because of deflating property values (complete loss of \$60,000,000 in tangible personal valuation) and community concerns, the Board decided to split Phase I and build a PK-5 with Phase I, build a 6-8 middle school with Phase II and make the high school OSFC project, Phase III. Phase I also failed in November of 2006, with less millage. The project will continue to increase with the increase in construction costs. The local share will continue to increase as the tax base decreases, which will make it more difficult to pass. HB119 passed in June of 2007, with Governor Strickland's emphasis on speeding up the pace of these projects. As a result of the State re-financing other projects, we were offered our State allocation in the spring of 2008, which we deferred as we needed to pass an operating levy. It will be offered again to us in the spring of 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

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

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

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

**Contacting the District's Financial Management**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Urbana Community School</b>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	\$9,100,827	\$854,204
<b>Receivables:</b>		
Taxes	7,316,042	
Accounts	15,816	
Intergovernmental	85,084	
Accrued interest	12,956	
Prepayments	9,625	
Materials and supplies inventory	12,822	
Due from component unit	263,062	
<b>Capital assets:</b>		
Land	1,127,575	
Depreciable capital assets, net	2,377,748	
Capital assets, net	3,505,323	
Total assets	20,321,557	854,204
<b>Liabilities:</b>		
Accounts payable	117,899	
Contracts payable	4,733	
Accrued wages and benefits	1,868,793	
Pension obligation payable	432,375	
Intergovernmental payable	54,333	15,709
Accrued interest payable	12,931	
Claims payable	384,181	
Due to primary government		263,062
Unearned revenue	6,402,236	
<b>Long-term liabilities:</b>		
Due within one year	541,741	
Due in more than one year	3,036,104	
Total liabilities	12,855,326	278,771
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,926,927	
<b>Restricted for:</b>		
Capital projects	360,271	
Locally funded programs	3,376	
State funded programs	140,494	10,800
Federally funded programs	3,699	
Student activities	41,098	
Public school support	80,894	
Other purposes	1,116,704	
Unrestricted	2,792,768	564,633
Total net assets	\$7,466,231	\$575,433

*See accompanying notes to the basic financial statements.*



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash, cash equivalents and investments	\$4,979,688	\$1,271,423	\$6,251,111
<b>Receivables:</b>			
Taxes	6,890,771	425,271	7,316,042
Accounts	2,706	13,110	15,816
Intergovernmental	9,024	76,060	85,084
Interfund loans	12,971		12,971
Accrued interest	12,956		12,956
Prepayments	4,625	5,000	9,625
Materials and supplies inventory		12,822	12,822
Loans to other funds	58,854		58,854
Due from component unit	263,062		263,062
<b>Restricted assets:</b>			
Equity in pooled cash and cash equivalents	501,233		501,233
<b>Total assets</b>	<b>12,735,890</b>	<b>1,803,686</b>	<b>14,539,576</b>
<b>Liabilities:</b>			
Accounts payable	111,636	6,263	117,899
Contracts payable		4,733	4,733
Accrued wages and benefits	1,764,377	104,416	1,868,793
Compensated absences payable	138,041	6,304	144,345
Pension obligation payable	410,804	21,571	432,375
Intergovernmental payable	50,621	3,712	54,333
Accrued interest payable	12,222		12,222
Interfund loan payable		12,971	12,971
Notes payable	1,300,000		1,300,000
Loans from other funds		58,854	58,854
Deferred revenue	327,070	79,254	406,324
Unearned revenue	6,031,949	370,287	6,402,236
<b>Total liabilities</b>	<b>10,146,720</b>	<b>668,365</b>	<b>10,815,085</b>
<b>Fund Balances:</b>			
Reserved for encumbrances	371,840	195,992	567,832
Reserved for materials and supplies inventory		12,822	12,822
Reserved for prepayments	4,625	5,000	9,625
Reserved for tax revenue available for appropriation	692,475	44,200	736,675
Reserved for loans to other funds	58,854		58,854
Reserved for budget stabilization	113,449		113,449
Reserved for textbooks	353,970		353,970
Reserved for school bus purchases	33,814		33,814
<b>Unreserved, reported in:</b>			
Designated for budget stabilization	253,159		253,159
<b>Undesignated, reported in:</b>			
General fund	706,984		706,984
Special revenue funds		698,189	698,189
Capital projects funds		179,118	179,118
<b>Total fund balances</b>	<b>2,589,170</b>	<b>1,135,321</b>	<b>3,724,491</b>
<b>Total liabilities and fund balances</b>	<b>\$12,735,890</b>	<b>\$1,803,686</b>	<b>\$14,539,576</b>

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, 2008**

Total governmental fund balances		\$3,724,491
 <i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,505,323
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$177,131	
Accounts receivable	150,839	
Accrued interest receivable	9,884	
Intergovernmental receivable	68,470	
Total	406,324	406,324
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.		1,964,302
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(709)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,555,104)	
General obligation bonds	(20,000)	
Energy conservation notes	(155,000)	
Capital lease obligation	(403,396)	
Total	(2,133,500)	(2,133,500)
Net assets of governmental activities		\$7,466,231

*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, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
<b>From local sources:</b>			
Taxes	\$7,600,593	\$543,589	\$8,144,182
Tuition	547,186		547,186
Transportation fees	26,686		26,686
Charges for services		391,174	391,174
Earnings on investments	369,571	5,830	375,401
Extracurricular		333,396	333,396
Classroom materials and fees		94,478	94,478
Other local revenues	194,702	44,396	239,098
Intergovernmental - intermediate	59,792	1,816	61,608
Intergovernmental - State	10,985,731	452,183	11,437,914
Intergovernmental - Federal		1,641,603	1,641,603
Total revenues	<u>19,784,261</u>	<u>3,508,465</u>	<u>23,292,726</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	10,281,320	623,596	10,904,916
Special	2,837,710	995,781	3,833,491
Vocational	227,272	2,394	229,666
Other	25,845	50,885	76,730
<b>Support services:</b>			
Pupil	1,106,953	75,954	1,182,907
Instructional staff	525,776	31,368	557,144
Board of education	25,650		25,650
Administration	1,757,115	47,675	1,804,790
Fiscal	237,933	1,851	239,784
Business	191,093	94,941	286,034
Operations and maintenance	1,521,606	42,250	1,563,856
Pupil transportation	693,969	49,236	743,205
Central	175,168		175,168
<b>Operation of non-instructional services:</b>			
Food service operations		904,840	904,840
Other non-instructional services	60,777	47,983	108,760
Extracurricular activities	448,893	271,161	720,054
Facilities acquisition and construction		544,342	544,342
<b>Debt service:</b>			
Principal retirement	11,600	331,708	343,308
Interest and fiscal charges	16,522	36,856	53,378
Total expenditures	<u>20,145,202</u>	<u>4,152,821</u>	<u>24,298,023</u>
Deficiency of revenues under expenditures	<u>(360,941)</u>	<u>(644,356)</u>	<u>(1,005,297)</u>
<b>Other financing sources (uses):</b>			
Transfers in		81,000	81,000
Transfers (out)	(81,000)		(81,000)
Sale of capital assets	4,574		4,574
Total other financing sources (uses)	<u>(76,426)</u>	<u>81,000</u>	<u>4,574</u>
Net change in fund balances	(437,367)	(563,356)	(1,000,723)
Fund balances at beginning of year	3,026,537	1,691,153	4,717,690
Increase in reserve for inventory		7,524	7,524
Fund balances at end of year	<u>\$2,589,170</u>	<u>\$1,135,321</u>	<u>\$3,724,491</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, 2008**

Net change in fund balances - total governmental funds (\$1,000,723)

**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	\$296,125	
Current year depreciation	<u>(173,224)</u>	
Total		122,901

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

(26,600)

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

7,524

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

Taxes	(49,911)	
Other revenue	38,024	
Intergovernmental revenue	27,975	
Accrued interest	<u>5,828</u>	
Total		21,916

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

343,308

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

400

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.

(4,768)

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.

635,461

Change in net assets of governmental activities

\$99,419

*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, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
<b>Revenues:</b>				
<b>From local sources:</b>				
Taxes	\$6,923,068	\$7,349,558	\$7,355,213	\$5,655
Tuition	515,037	546,765	547,186	421
Transportation fees	25,118	26,666	26,686	20
Earnings on investments	269,336	285,928	286,148	220
Other local revenues	75,229	79,864	79,925	61
Intergovernmental - Intermediate	54,683	58,051	58,096	45
Intergovernmental - State	10,336,219	10,972,973	10,981,417	8,444
Total revenues	<u>18,198,690</u>	<u>19,319,805</u>	<u>19,334,671</u>	<u>14,866</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	10,882,046	10,719,273	10,351,156	368,117
Special	3,025,751	2,987,206	2,835,709	151,497
Vocational	298,955	295,147	261,682	33,465
Other	40,757	40,238	40,202	36
<b>Support services:</b>				
Pupil	1,129,477	1,115,089	1,111,646	3,443
Instructional staff	535,144	528,327	525,368	2,959
Board of education	32,045	31,637	26,276	5,361
Administration	1,974,002	1,948,855	1,919,773	29,082
Fiscal	259,868	256,558	251,714	4,844
Business	195,832	193,337	191,321	2,016
Operations and maintenance	1,674,074	1,652,747	1,590,873	61,874
Pupil transportation	787,412	777,381	725,874	51,507
Central	225,874	222,997	203,672	19,325
Operation of non-instructional services	71,064	70,159	61,131	9,028
Extracurricular activities	444,572	438,909	438,365	544
Total expenditures	<u>21,576,873</u>	<u>21,277,860</u>	<u>20,534,762</u>	<u>743,098</u>
Deficiency of revenues under expenditures	<u>(3,378,183)</u>	<u>(1,958,055)</u>	<u>(1,200,091)</u>	<u>757,964</u>
<b>Other financing sources (uses):</b>				
Transfers (out)	(88,423)	(82,783)	(81,000)	1,783
Advances in	14,300	15,193	15,193	
Advances (out)	(13,138)	(12,971)	(12,971)	
Refund of prior year expenditure	2,606	2,767	2,769	2
Sale of notes	1,223,620	1,300,000	1,300,000	
Sale of capital assets	4,305	4,574	4,574	
Total other financing sources (uses)	<u>1,143,270</u>	<u>1,226,780</u>	<u>1,228,565</u>	<u>1,785</u>
Net change in fund balance	(2,234,913)	(731,275)	28,474	759,749
Fund balance at beginning of year	4,009,326	4,009,326	4,009,326	
Prior year encumbrances appropriated	849,937	849,937	849,937	
Fund balance at end of year	<u>\$2,624,350</u>	<u>\$4,127,988</u>	<u>\$4,887,737</u>	<u>\$759,749</u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Equity in pooled cash, cash equivalents and investments	\$2,348,483
Total assets	<u>2,348,483</u>
<b>Liabilities:</b>	
Claims payable	384,181
Total liabilities	<u>384,181</u>
<b>Net assets:</b>	
Unrestricted	1,964,302
Total net assets	<u><u>\$1,964,302</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, 2008**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services	\$2,614,147
Total operating revenues	<u>2,614,147</u>
<b>Operating expenses:</b>	
Claims and administrative services	1,994,928
Total operating expenses	<u>1,994,928</u>
Operating income	<u>619,219</u>
<b>Nonoperating revenues:</b>	
Interest revenue	<u>16,242</u>
Total nonoperating revenues	<u>16,242</u>
Change in net assets	635,461
Net assets at beginning of year	<u>1,328,841</u>
Net assets at end of year	<u><u>\$1,964,302</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, 2008**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services	\$2,614,147
Cash payments for claims and administrative services	<u>(2,072,790)</u>
Net cash provided by operating activities	<u>541,357</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>16,242</u>
Net cash provided by investing activities	<u>16,242</u>
Net increase in cash and cash equivalents	557,599
Cash and cash equivalents at beginning of year	<u>1,790,884</u>
Cash and cash equivalents at end of year	<u><u>2,348,483</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	619,219
<b>Changes in liabilities:</b>	
Decrease in claims payable	<u>(77,862)</u>
Net cash provided by operating activities	<u><u>\$541,357</u></u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	\$76,973	\$58,007
<b>Receivables:</b>		
Accounts		17
Prepayments		76
Total assets	76,973	58,100
<b>Liabilities:</b>		
Accounts payable		230
Intergovernmental payable		8
Due to students		57,862
Total liabilities		58,100
<b>Net Assets:</b>		
Held in trust for scholarships	76,973	
Total net assets	\$76,973	

*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, 2008

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$3,646
Total additions	<u>3,646</u>
<b>Deductions:</b>	
Scholarships awarded	<u>6,252</u>
Change in net assets	(2,606)
Net assets at beginning of year	<u>79,579</u>
Net assets at end of year	<u><u>\$76,973</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, 2008**

**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 218 largest in the State of Ohio among 896 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 69 non-certified and 173 certificated personnel to provide services to approximately 2,299 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**1. Discretely Presented Component Unit**

**The Urbana Community School**

The Urbana Community School (the "School") is a legally separate, conversion community school, served by a Board of Directors. The School provides students within the District with curriculum and instruction via distance learning technology. The Board of Director's consists of the District's Superintendent, Director of Business Affairs, High School Principal, Curriculum Director, and three additional Board members appointed by the District. The Urbana City School District is the sponsoring District of the School under Ohio Revised Code Section 3314. The superintendent of the District serves as the Chief Administrative Officer of the School and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the School, the School's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the School, the School is a component unit of the District. 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 \$263,062 for District-incurred expenses on behalf of the School for fiscal year 2008 services. This amount is shown on the government wide statements net assets as due to primary government and from component unit. Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

**2. Jointly Governed Organizations**

**Western Ohio Computer Organization**

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

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

**Metropolitan Educational Council**

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The governing board of MEC consists of one voting representative from each member district. The District paid \$138,407 to MEC during fiscal year 2008. 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, 2008  
(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 district's elected boards. The Board possesses its own budgeting and taxing authority. Financial information is available from Eric Adelsberger, Treasurer, of the Ohio Hi-Point Joint Vocational School District, 2280 State Route 540, Suite A, Bellefontaine, Ohio 43311.

**3. Insurance Purchasing Pool**

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

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

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

**B. Fund Accounting**

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

**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) for the accumulation of resources for, and payment of, general long-term debt, principal, interest and related costs, (c) for grants and other resources whose use is restricted to a particular purpose, and (d) for food service operations.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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, 2008  
(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 Non-exchange Transactions**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue on the governmental fund financial statements.

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

**3. Expenses/Expenditures**

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

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the Certificate of Estimated Resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2008 is as follows:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate of Estimated Resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2008.
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, 2008  
(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 2008, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, money market accounts and commercial paper. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and a Fifth Third Bank government money market are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

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 2008 amounted to \$369,571, which includes \$79,510 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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. 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:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
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, 2008, 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 ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves/Designation**

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

**M. Operating Revenues and Expenses**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include monies restricted by State statute for textbooks, school bus purchases and budget stabilization. There were no net assets restricted by enabling legislation at June 30, 2008.

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by State statute. The District has also received state monies that are restricted for school bus purchases. Fund balance reserves have also been established. See Note 17 for details.

**Q. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to post-employment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Non-major funds</u>	<u>Deficit</u>
Food service	\$48,472
Entry year program	23
Poverty aid	674
Title I	42,657
Title VI	15
Drug free school grant	1,645
Class size reduction	13,215
Miscellaneous federal grants	28,660

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

**4. DEPOSITS AND INVESTMENTS**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

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

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all District deposits was \$8,002,182. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$6,724,651 of the District's bank balance of \$8,303,602 was exposed to custodial risk as discussed below, while \$1,578,951 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, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Commercial paper	\$ 819,656	\$ 819,656
Money market accounts	388,869	388,869
STAR Ohio	25,000	25,000
	<u>\$1,233,525</u>	<u>\$1,233,525</u>

The weighted average maturity of investments is 0.02 years.

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

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

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

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

**Concentration of Credit Risk:** The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Credit Rating</u>
Commercial paper	\$ 819,656	66.44	Moody's Aaa
Money market accounts	388,869	31.53	Standard & Poor's A-1+
STAR Ohio	25,000	2.03	Standard & Poor's AAA
	<u>\$1,233,525</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, 2008:

<b>Cash and investments per note</b>	
Carrying amount of deposits	\$8,002,182
Investments	1,233,525
Cash on hand	100
Total	<u>\$9,235,807</u>
<b>Cash and investments per statement of net assets</b>	
Governmental activities	\$9,100,827
Private-purpose trust funds	76,973
Agency funds	58,007
Total	<u>\$9,235,807</u>

**5 INTERFUND TRANSACTIONS**

**A.** Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following interfund loans receivable/payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major governmental funds	\$12,971

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

**5 INTERFUND TRANSACTIONS (Continued)**

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

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

- B.** Interfund loans at June 30, 2008 as reported on the fund statements, consist of the following long-term loans to/from other funds:

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

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

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

- C.** Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

	<b>Amount</b>
<b>Transfers to non-major governmental funds from:</b>	
General Fund	\$81,000

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

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

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

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**6. PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2008, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**6. PROPERTY TAXES (Continued)**

The amount available as an advance at June 30, 2008 was \$692,475 in the general fund and \$44,200 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2007 was \$447,095 in the general fund and \$34,399 in the permanent improvement fund (a nonmajor governmental fund).

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	<b>2007 Second Half Collections</b>		<b>2008 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$240,063,550	83.79	\$255,442,600	87.12
Public Utility Personal	11,903,020	4.15	11,283,080	3.85
Tangible Personal Property	34,541,690	12.06	26,493,362	9.03
<b>Total</b>	<b>\$286,508,260</b>	<b>100.00</b>	<b>\$293,219,042</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation	\$60.30		\$60.30	

**7. RECEIVABLES**

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b><u>Governmental Activities</u></b>	
Taxes	\$7,316,042
Accounts	15,816
Intergovernmental	85,084
Accrued interest	12,956
<b>Total receivables</b>	<b><u><u>\$7,429,898</u></u></b>

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

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<b>Balance 06/30/07</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 06/30/08</b>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$1,127,575			\$1,127,575
Total capital assets, not being depreciated	<u>1,127,575</u>			<u>1,127,575</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	499,100			499,100
Buildings and improvements	4,104,055	\$ 46,900	(\$47,500)	4,103,455
Furniture and equipment	1,411,267	170,408		1,581,675
Vehicles	996,058	78,817		1,074,875
Infrastructure	70,000			70,000
Total capital assets, being depreciated	<u>7,080,480</u>	<u>296,125</u>	<u>(47,500)</u>	<u>7,329,105</u>
Less: accumulated depreciation				
Land improvements	(383,563)	(18,435)		(401,998)
Buildings and improvements	(2,366,924)	(31,741)	20,900	(2,377,765)
Furniture and equipment	(1,161,916)	(72,279)		(1,234,195)
Vehicles	(873,797)	(48,436)		(922,233)
Infrastructure	(12,833)	(2,333)		(15,166)
Total accumulated depreciation	<u>(4,799,033)</u>	<u>(173,224)</u>	<u>20,900</u>	<u>(4,951,357)</u>
Governmental activities capital assets, net	<u>\$3,409,022</u>	<u>\$122,901</u>	<u>(\$26,600)</u>	<u>\$3,505,323</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$77,070
Special	1,792
Vocational	722
<b>Support Services:</b>	
Pupil	4,731
Instructional staff	772
Administration	671
Fiscal	647
Business	57
Operations and maintenance	5,120
Pupil transportation	48,436
Food service operations	10,876
Extracurricular activities	22,330
Total depreciation expense	<u>\$173,224</u>

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**9. CAPITALIZED LEASES - LESSEE DISCLOSURE**

The District has entered into capitalized leases for modular classrooms, land, computer equipment and copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and land have been capitalized in the amount of \$574,000 and equipment has been capitalized in the amount of \$65,162. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Accumulated depreciation as of June 30, 2008 was \$188,404, leaving a book value of \$450,758. Principal payments in fiscal year 2008 totaled \$11,600 paid by the general fund and \$218,000 paid by the permanent improvement fund (a nonmajor governmental fund).

Computer equipment in the amount of \$219,256 has not been capitalized since the assets individually do not meet the District's capitalization threshold. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$78,708 paid by the debt service fund (a nonmajor governmental fund).

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$253,043
2010	45,632
2011	45,646
2012	36,343
2013	30,554
2014 - 2015	<u>30,299</u>
Total minimum lease payments	441,517
Less: amount representing interest	<u>(38,121)</u>
Total	<u><u>\$403,396</u></u>

**10. LONG-TERM OBLIGATIONS**

A. During the fiscal year 2008, the following activity occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2008</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 35,000		(\$ 15,000)	\$ 20,000	\$ 20,000
Energy conservation notes	175,000		(20,000)	155,000	20,000
Capital lease obligation	711,704		(308,308)	403,396	236,562
Compensated absences	<u>1,619,964</u>	<u>\$274,683</u>	<u>(195,198)</u>	<u>1,699,449</u>	<u>265,179</u>
Total long-term obligations, governmental activities	<u>\$2,541,668</u>	<u>\$274,683</u>	<u>(\$538,506)</u>	<u>2,277,845</u>	<u>541,741</u>
Tax anticipation notes (see note 11)				<u>1,300,000</u>	
Total on statement of net assets				<u><u>\$3,577,845</u></u>	<u><u>\$541,741</u></u>

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**10. LONG-TERM OBLIGATIONS (Continued)**

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

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

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

The following is a description of the District's general obligation bonds outstanding as of June 30, 2008:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 6/30/2007</u>	<u>Issued in Fiscal 2008</u>	<u>Retired in Fiscal 2008</u>	<u>Bonds Outstanding 6/30/2008</u>
Facilities improvement	5.501%	07/06/99	06/01/09	\$35,000	\$0	(\$15,000)	\$20,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 20,000	\$575	\$20,575

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2008:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding 6/30/2007</u>	<u>Issued in Fiscal 2008</u>	<u>Retired in Fiscal 2008</u>	<u>Notes Outstanding 6/30/2008</u>
Energy conservation note	5.60%	12/01/99	06/01/14	\$175,000	\$0	(\$20,000)	\$155,000

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

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

**10. LONG-TERM OBLIGATIONS (Continued)**

Year Ending June 30	Principal	Interest	Total
2009	\$ 20,000	\$ 8,353	\$ 28,353
2010	25,000	7,103	32,103
2011	25,000	5,690	30,690
2012	25,000	4,259	29,259
2013	30,000	2,663	32,663
2014	30,000	893	30,893
Total	<u>\$155,000</u>	<u>\$28,961</u>	<u>\$183,961</u>

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use 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, 2008, are a voted debt margin of \$23,723,572 and an unvoted debt margin of \$263,817.

**11. NOTES PAYABLE**

During fiscal year 2008, the District issued \$1,300,000 in 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 at 6/30/2007	Additions	Reductions	Balance at 6/30/2008	Due Within One Year
Tax anticipation notes	\$0	\$1,300,000	\$0	\$1,300,000	\$0

Principal and interest requirements to amortize tax anticipation notes outstanding at June 30, 2008 are as follows:

Fiscal Year Ended,	Principal	Interest	Total
2010	\$ 260,000	\$ 97,955	\$ 357,955
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>\$1,300,000</u>	<u>\$226,655</u>	<u>\$1,526,655</u>

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**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 \$60,000 per employee per year, and \$1.0 million group aggregate for fiscal 2008. The premiums are paid by the District at a rate of 100% for all employees. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

The 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 2007.

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.

The claims liability of \$384,181 reported in the internal service fund at June 30, 2008, 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>
2008	\$462,043	\$1,994,928	(\$2,072,790)	\$384,181
2007	352,821	2,508,551	(2,399,329)	462,043

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**12. RISK MANAGEMENT (Continued)**

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 2007.

**B. Workers' Compensation**

For fiscal year 2008, 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 Gates McDonald & Co. 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

**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 2008, 9.16 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, 2008, 2007 and 2006 were \$181,646, \$201,454 and \$189,511, respectively; 42.58 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**13. PENSION PLANS (Continued)**

**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](http://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 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,285,416, \$1,275,940, and \$1,274,355, respectively; 83.11 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$20,902 made by the District and \$20,498 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**14. POST-EMPLOYMENT 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. 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.

**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 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$128,055, \$110,244, and \$98,703, respectively; 42.58 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,088, \$13,699, and \$15,084, respectively; 42.58 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**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](http://www.strsoh.org) or by calling (888) 227-7877.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**14. POST-EMPLOYMENT BENEFITS (Continued)**

**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 2008, 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, 2008, 2007, and 2006 were \$98,878, \$98,149, and \$98,027, respectively; 83.11 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**15. BUDGETARY BASIS OF ACCOUNTING**

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

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

- a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to 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:

	<b>General Fund</b>
Budget basis	\$ 28,474
Net adjustment for revenue accruals	449,590
Net adjustment for expenditure accruals	(92,401)
Net adjustment for other sources/uses	(1,304,991)
Adjustment for encumbrances	481,961
GAAP basis	(\$ 437,367)

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**16. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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, 2008, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of July 1, 2007	\$403,225	(\$1,545,002)	\$113,449
Current year set-aside requirement	354,296	354,296	
Current year offsets		(661,352)	
Qualifying disbursements	<u>(403,551)</u>		
Total	<u>353,970</u>	<u>(1,852,058)</u>	<u>113,449</u>
Cash balance carried forward to FY 2009	<u>\$353,970</u>	<u>(\$1,852,058)</u>	<u>\$113,449</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. The balance in the budget stabilization reserve at June 30, 2008 was \$113,449 and \$253,159 in the designation.

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

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

A schedule of the restricted assets at June 30, 2008 follows:

Amount restricted for instructional materials	\$353,970
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>33,814</u>
Total restricted assets	<u>\$501,233</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

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

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

The School operates under the direction of an eight-member (seven voting members) Board of Directors made up of:

- a) Four persons employed and serving in administrator positions within the Sponsor's District, including the Superintendent, Curriculum Director, Director of Business Affairs, and High School Principal. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Sponsor's Board of Education and its interests.
- b) One person of whom shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the School.
- c) One person who is neither an officer nor employee of the Sponsor and is a person who represents the interest of parents and students served by the School.
- d) The final person is a community member and parent of student(s) enrolled in the Sponsor School District.
- e) The Sponsor's Treasurer as a non-voting ex officio member of the Board of Directors. The Treasurer shall serve the Board of Directors in his/her official capacity as a representative of the Sponsor and Sponsor's interests.

On March 27, 2007, six members of the Board of Directors resigned and were not replaced. The decision to resign was the result of conflicting legal advice as to whether employees of the Sponsor school could legally sit on the Board. As of June 30, 2008, new Board members had not been appointed and the School used the Sponsor's Board of Education. See Note. 18.I. for subsequent events.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**18. URBANA COMMUNITY SCHOOL (Continued)**

**A. Summary of Significant Accounting Policies**

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

- 1. 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.
- 2. 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.
- 3. Budgetary Process** - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires the School to prepare a five-year annual budget detailing revenues and expenses. The five-year project is also required by Ohio Revised Code Section 5705.391.
- 4. 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".
- 5. 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, 2008.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**18. URBANA COMMUNITY SCHOOL (Continued)**

- 6. 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.
- 7. Intergovernmental Revenues** - The School currently participates in the State Foundation Program through the Ohio Department of Education. 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 grants for the fiscal year 2008 received by the School was \$1,800.
- 8. 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. Accountability and Compliance**

**Change in Accounting Principles** - For fiscal year 2008, the School has implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues".

GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the School.

**C. Equity in Pooled Cash and Investments**

At June 30, 2008, the carrying amount of the School's deposits was \$854,204. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$765,425 of the School's bank balance of \$865,425 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**18. URBANA COMMUNITY SCHOOL (Continued)**

**D. Comprehensive Services Agreement with TRECA**

The School entered into a one-year contract on November 29, 2007, for fiscal year 2008, with Tri-Rivers Education Computer Association (TRECA). Under the contract, the following terms were agreed upon:

1. TRECA shall provide the School with instructional, supervisory/administrative, and technical services sufficient to effectively implement the School's educational plan and the School's assessment and accountability plan.
2. All personnel providing services to the School on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The technical services provided by TRECA to the School shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the School.
5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. The School shall pay to TRECA \$3,600 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.

For fiscal year 2008, \$117,747 was paid to TRECA.

To obtain TRECA's audited June 30, 2008 financial statements, please contact Scott Armstrong at [scott@treca.org](mailto: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. As of June 30, 2008, the School owed the Sponsor \$10,912 for payments remitted to the Correspondence School on behalf of the School. For fiscal year 2008, the School paid \$9,456 to the Correspondence School.

**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 2008, the School was named on the Sponsor's policy for property and general liability insurance.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**18. URBANA COMMUNITY SCHOOL (Continued)**

**G. Contingencies**

**Grants** - The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2008.

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

**State Foundation Funding** - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which State foundation funding is calculated. As a result of the review after fiscal year-end, the School owed the Ohio Department of Education \$7,847. This amount is reflected as an intergovernmental payable on the basic financial statement.

**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 her services.

**I. Subsequent Event**

The six members, Board of Directors was re-established on December 16, 2008.

**19. SUBSEQUENT EVENT**

Londa Schwierking retired as treasurer of the District on October 31, 2008. Amanda Hildebrand became treasurer of the District effective November 1, 2008.

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**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. Department of Agriculture</b>					
<i>Passed through Ohio Department of Education</i>					
Food Donation	10.550		\$54,298		\$54,298
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$82,327		\$82,327	
National School Lunch Program	10.555	337,324		337,324	
Summer Food Service Program for Children	10.559	19,394		19,394	
Total Child Nutrition Cluster		<u>439,045</u>		<u>439,045</u>	
Total U.S. Department of Agriculture		<u>439,045</u>	<u>54,298</u>	<u>439,045</u>	<u>54,298</u>
<b>U.S. Department of Education</b>					
<i>Passed through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	438,049		439,966	
Special Education Cluster:					
Special Education Grants to States	84.027	605,527		613,173	
<i>Passed through Madison-Champaign Educational Service Center</i>					
Special Education Preschool Grants	84.173	<u>35,302</u>		<u>35,302</u>	
Total Special Education Cluster		<u>640,829</u>		<u>648,475</u>	
<i>Passed through Ohio Department of Education</i>					
Safe and Drug-Free Schools and Communities State Grants	84.186	10,483		10,526	
Twenty First Century Community Learning Centers	84.287	112,896		127,087	
State Grants for Innovative Programs	84.298	5,494		3,857	
Education Technology State Grants	84.318	5,239		5,239	
School Renovation Grant	84.352			558	
Improving Teacher Quality State Grants	84.367	120,709		123,418	
Total U. S. Department of Education		<u>1,333,699</u>		<u>1,359,126</u>	
<b>U. S. Department of Health and Human Services</b>					
<i>(Passed Through Ohio Department of Mental Retardation and Developmental Disabilities)</i>					
Medical Assistance Program (CAFS)	93.778	5,886			
Total U.S. Dept. of Health and Human Services		<u>5,886</u>			
Total Federal Financial Assistance		<u>\$1,778,630</u>	<u>\$54,298</u>	<u>\$1,798,171</u>	<u>\$54,298</u>

See accompanying notes to the Federal Awards Expenditures Schedule.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

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



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, 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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2009. 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 opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted certain matters that we reported to the District's management in a separate letter dated January 30, 2009.

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### **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 matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 30, 2009.

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.



**Mary Taylor, CPA**  
Auditor of State

January 30, 2009



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Urbana City School District, Champaign County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. 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.

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

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

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

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

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



**Mary Taylor, CPA**  
Auditor of State

January 30, 2009

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	<b>No</b>
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	<b>No</b>
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	<b>No</b>
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<b>Nutrition Cluster CFDA 10.553, 10.555 and 10.559 Special Education Cluster CFDA 84.027 and 84.173</b>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	<b>Type A: &gt; \$ 300,000 Type B: all others</b>
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	<b>No</b>

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

**FINDING NUMBER 2008-001**

**Non-Compliance – Finding For Recovery – Repaid Under Audit**

Primary Care Nursing Services billed Urbana City School District's Title VI-B program for identical services on two separate occasions. The company billed the school district \$112.50 for 3.75 hours of nursing services on April 10, 2008 from 8:15 – 11:45 AM, which the district paid with check #80723 dated April 25, 2008 in the amount of \$727.50. Primary Care subsequently included the same nursing hours in a billing statement to the school district in May, which the district paid with check #80837 dated May 9, 2008 in the amount of \$322.50. As a result of the duplicate billing, an overpayment in the amount of \$112.50 was provided to Primary Care Nursing Services.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Primary Care Nursing Services in the amount of \$112.50 in favor of the Urbana City School District Title VI-B Fund in the amount of \$112.50.

**Officials' Response:**

The finding was repaid on February 4, 2009, as evidenced by check # 17459.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	System Appropriations not in Agreement with Permanent Appropriations	Partially	Reported in a separate letter to management of the District.





Mary Taylor, CPA  
Auditor of State

URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 12, 2009