



Dave Yost • Auditor of State

**CITY OF URBANA
CHAMPAIGN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and restated fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

August 16, 2012

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

As management of the City of Urbana (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$31.6 million (net assets). Of this amount, approximately \$3.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$3.2 million, or 11%, during the fiscal year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$4.7 million, a decrease of \$7,129 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$929,287, or 17% of total general fund expenditures including transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, health, leisure time activities, community development, transportation, and general government. The business-type activities of the City include water distribution, sewage collection, and recycling.

The government-wide financial statements can be found on pages 13-15 of this report.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 35 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Police and Fire Levy Fund, Fox River Development Fund, North Main Improvement Fund, Capital Improvements Fund and Perpetual Investment Fund, each of which are considered to be major funds. Data from the other 29 governmental funds are combined into a single, aggregated presentation. Individual data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 16-22 of this report.

Proprietary Funds. The City utilizes only one type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, sewage collection, and recycling activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

**CITY OF URBANA, OHIO
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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 26 of this report.

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. The notes to the financial statements can be found on pages 27-52 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's compliance with budgetary law. Required supplementary information can be found on pages 53-58 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 shows the detail of the City's net assets at December 31, 2011 and 2010.

**TABLE 1
Net Assets**

	Governmental Activites		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 7,182,841	\$ 8,201,863	\$ 1,142,107	\$ 1,303,788	\$ 8,324,948	\$ 9,505,651
Capital assets	23,573,382	25,113,912	15,783,240	15,644,561	39,356,622	40,758,473
Total Assets	30,756,223	33,315,775	16,925,347	16,948,349	47,681,570	50,264,124
Current and other liabilities	1,264,449	1,918,429	312,182	566,189	1,576,631	2,484,618
Long-term liabilities	5,509,862	4,970,142	12,276,334	11,255,792	17,786,196	16,225,934
Total Liabilities	6,774,311	6,888,571	12,588,516	11,821,981	19,362,827	18,710,552
Net Assets:						
Invested in capital assets, net of related debt	20,437,644	22,374,471	3,630,790	4,518,096	24,068,434	26,892,567
Restricted	2,059,563	1,285,321	-	-	2,059,563	1,285,321
Unrestricted	1,484,705	2,767,412	706,041	608,272	2,190,746	3,375,684
Total Net Assets	\$ 23,981,912	\$ 26,427,204	\$ 4,336,831	\$ 5,126,368	\$ 28,318,743	\$ 31,553,572

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by approximately \$31.6 million at the close of the most recent fiscal year.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The significant increase in capital assets is the result of additions exceeding depreciation by \$1.4 million. The City's major additions during 2011 included the Fox River project, Bike Path project and the Russell Avenue project.

The significant decrease in long-term debt is due to the City having no bond issuances during the year while principal payments were approximately \$1.5 million.

By far the largest portion of the City's net assets (85 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately \$3.4 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Table 2 details the changes in net assets for the fiscal years ended December 31, 2011 and 2010.

**TABLE 2
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Program Revenues:						
Charges for Service	\$ 2,094,967	\$ 2,227,651	\$ 4,049,145	\$ 4,444,512	\$ 6,144,112	\$ 6,672,163
Operating Grants	1,167,975	1,846,379	-	-	1,167,975	1,846,379
Capital Grants	1,292,859	2,138,703	-	-	1,292,859	2,138,703
General Revenues:						
Income Taxes	4,698,427	5,071,176	-	-	4,698,427	5,071,176
Property Taxes	669,721	605,924	-	-	669,721	605,924
Unrestricted Grants	777,470	930,751	-	-	777,470	930,751
Investment Earnings	59,794	38,043	2,994	91,013	62,788	129,056
Other	217,167	199,815	-	-	217,167	199,815
Total Revenues	10,978,380	13,058,442	4,052,139	4,535,525	15,030,519	17,593,967
Expenses:						
General Government	2,152,875	2,089,500	-	-	2,152,875	2,089,500
Public Safety	5,086,996	5,017,755	-	-	5,086,996	5,017,755
Health	260,327	293,359	-	-	260,327	293,359
Transportation	2,123,662	1,841,229	-	-	2,123,662	1,841,229
Community Development	303,018	809,239	-	-	303,018	809,239
Leisure Activities	397,866	409,532	-	-	397,866	409,532
Interest on Long-Term Debt	171,906	152,536	-	-	171,906	152,536
Water	-	-	1,788,548	1,791,761	1,788,548	1,791,761
Sewer	-	-	1,728,719	1,784,788	1,728,719	1,784,788
Recycling Program	-	-	140,485	169,439	140,485	169,439
Total Expenses	10,496,650	10,613,150	3,657,752	3,745,988	14,154,402	14,359,138
Change in Net Assets						
before Transfers	481,730	2,445,292	394,387	789,537	876,117	3,234,829
Transfers	84,068	-	(84,068)	-	-	-
Change in Net Assets	565,798	2,445,292	310,319	789,537	876,117	3,234,829
Net assets, Beginning	23,416,114	23,981,912	4,026,512	4,336,831	27,442,626	28,318,743
Net assets, Ending	\$ 23,981,912	\$ 26,427,204	\$ 4,336,831	\$ 5,126,368	\$28,318,743	\$31,553,572

Governmental Activities. Governmental activities increased the City's net assets by \$2.4 million, thereby accounting for 76 percent of the total growth in net assets of the City. Operating grants increased approximately \$678,404 mainly due to the City receiving additional funding in economic development grants in 2011. Capital grants increased approximately \$828,985 due to the City having more significant projects occurring in 2011. Expenses remained constant from 2010 to 2011 with an increase of 1 percent.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Business-type Activities. Business-type activities increased the City's net assets by \$789,537, accounting for 24 percent of the total growth in the City's net assets. This increase was primarily the result of a rate increase for water and sewer charges offset by expenses.

During the fiscal year, expenses of the City's business-type activities remained relatively consistent with an increase of \$88,236, or 2%.

TABLE 3

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2011	2010	2011
Governmental Activities:				
General Government	\$ (2,152,875)	\$ (2,089,500)	\$ (1,231,949)	\$ (1,244,464)
Public Safety	(5,086,996)	(5,017,755)	(4,214,782)	(4,035,322)
Transportation	(2,123,662)	(1,841,229)	(1,028,386)	143,866
Community Development	(303,018)	(809,239)	1,208,060	963,290
Leisure Activities	(397,866)	(409,532)	(340,521)	98,314
All Other	(432,233)	(445,895)	(333,271)	(326,101)
Total Governmental Activities	(10,496,650)	(10,613,150)	(5,940,849)	(4,400,417)
Business-Type Activities:				
Water	(1,788,548)	(1,791,761)	(86,969)	(21,508)
Sewer	(1,728,719)	(1,784,788)	454,903	726,316
Recycling Program	(140,485)	(169,439)	23,459	(6,284)
Total Business-Type Activities	(3,657,752)	(3,745,988)	391,393	698,524
Grand Total	\$ (14,154,402)	\$ (14,359,138)	\$ (5,549,456)	\$ (3,701,893)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$4.7million, a \$7,129 decrease from the previous year.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2011 and 2010.

	Restated Fund Balance 12/31/2010	Fund Balance 12/31/2011	Increase (Decrease)
General	\$ 1,192,545	\$ 1,320,754	\$ 128,209
Police and Fire Levy	136,547	68,755	(67,792)
Fox River Development	30,975	(16,859)	(47,834)
Main Street Improvement	-	-	-
Capital improvement	509,283	675,321	166,038
Perpetual Investment	1,877,353	1,827,353	(50,000)
Other Governmental	939,336	803,586	(135,750)
Total	<u>\$ 4,686,039</u>	<u>\$ 4,678,910</u>	<u>\$ (7,129)</u>

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$929,287, 70% of the total fund balance. The fund balance of the City's general fund increased \$128,209 during the current fiscal year, or 11%, from the previous year.

Intergovernmental revenues increased \$265,201, or 35%, primarily as a result of the increase in the amount of Estate Tax receipts during the year.

Expenditures increased \$77,155, or 1%, primarily as a result of increased spending for public safety expenditures.

The Police and Fire Levy Fund accounts for the income tax for additional patrolmen and firefighters that the General Fund can not financially support. The police and fire levy funds' fund balance decreased \$67,792 during the fiscal year. This decrease represents the amount by which expenditures outstripped income tax revenues.

The Fox River Development Fund accounts for the grant and local monies for the cleanup and remediation of the former Fox River property. The Fox River Development Funds' fund balance decreased \$47,834 during the fiscal year. This decrease represents the amount of expenditures during the year.

The North Main Improvement Fund accounts for grant and local receipts and expenditures related to the reconstruction of Main Street. The North Main Improvement Fund had no fund balance at year end. The grant revenues equaled expenditures during the year.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The Capital Improvements Fund accounts for the accumulation of financial resources to be used for the acquisition or construction of capital assets as well as to service debt. The Capital Improvement Funds' fund balance increased \$166,038 during the fiscal year. This increase mainly represents the increase of grant and other revenues over increase of expenditures.

The Perpetual Investment Fund accounts for the accumulation of financial resources to be used for the acquisition or construction of capital assets or other purposes of the City. The Perpetual Investment Fund' fund balance decreased \$50,000 during the fiscal year. This decrease mainly represents the increase of expenditures relating to economic development.

The fund balance of the City's Other Governmental Funds decreased \$135,750 during the fiscal year. This decrease is primarily the result of expenditures exceeding increase in revenues.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets in the Water Revenue Fund at the end of the year amounted to \$245,975. Total net assets increased \$60,084, or 2%, from the previous year.

Unrestricted net assets in the Sewer Revenue fund at the end of the year amounted to \$319,440. Total net assets increased \$735,737, or 52%, from the previous year. The increase is due to the increase in revenues due to a rate increase being fully collected in 2011.

Unrestricted net assets in the Recycling Program Fund at the end of the year amounted to \$42,857. Total net assets decreased \$6,284 or 13%, from the previous year. This decrease is the amount by which program expenses exceeded charges for services during the year.

Budget Information

General Fund

The City's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The final amended revenue estimate remained unchanged during the fiscal year and final appropriations exceeded the original resolution by \$471,445, or 8%. The City's actual revenues and other sources exceeded final amended revenue and other sources by \$436,929, or 7%, and final amended appropriations exceeded actual expenditures and other uses by \$54,851, or 1%.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to approximately \$40.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. Total acquisitions for the current fiscal year were approximately \$3.1 million and depreciation was approximately \$1.7 million.

Detailed information regarding capital asset activity is included in the Note 8 to the basic financial statements.

Debt

At the end of the current fiscal year, the City had total debt outstanding of approximately \$15.2 million. Of this amount, \$3.6 million represents bonds backed by the full faith and credit of the City. The remaining \$11.6 million of the City's debt represents loans in the City's name.

Detailed information regarding long-term debt is included in Note 9 to the basic financial statements.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it administers. If you have any questions about this report or need additional financial information, contact J. Lee Williams, Finance Director, 205 South Main Street, Urbana, Ohio 43078.

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011**

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled Cash and Investments	\$ 3,404,906	\$ 557,999	\$ 3,962,905
Receivables:			
Income Tax	1,123,672	-	1,123,672
Property Tax	736,092	-	736,092
Interest	7,681	-	7,681
Accounts	526,106	625,176	1,151,282
Notes	947,985	-	947,985
Due From Other Governments	1,287,030	-	1,287,030
Inventory	88,875	111,509	200,384
Prepaid Assets	29,933	8,984	38,917
Deferred Bond Issuance Costs	49,583	120	49,703
Capital Assets:			
Non-Depreciable	7,078,866	1,226,011	8,304,877
Depreciable	18,035,046	14,418,550	32,453,596
Total Assets	<u>33,315,775</u>	<u>16,948,349</u>	<u>50,264,124</u>
Liabilities			
Accounts Payable	700,997	334,452	1,035,449
Retainage Payable	37,210	1,961	39,171
Accrued Wages and Benefits	171,562	28,214	199,776
Due To Other Governments	459,183	44,384	503,567
Interest Payable	28,816	157,178	185,994
Unearned Revenue	520,661	-	520,661
Long-term Liabilities			
Due within one year	863,618	1,058,311	1,921,929
Due in more than one year	4,106,524	10,197,481	14,304,005
Total Liabilities	<u>6,888,571</u>	<u>11,821,981</u>	<u>18,710,552</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	22,374,471	4,518,096	26,892,567
Restricted for:			
Capital Projects	327,253	-	327,253
Transportation Programs	298,679	-	298,679
Public Safety Programs	385,893	-	385,893
Permanent Endowments	114,397	-	114,397
Grant Programs	156,615	-	156,615
Other	2,484	-	2,484
Unrestricted	2,767,412	608,272	3,375,684
Total Net Assets	<u>\$ 26,427,204</u>	<u>\$ 5,126,368</u>	<u>\$ 31,553,572</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Public Safety	\$ 5,017,755	\$ 784,892	\$ 197,541	\$ -
Health	293,359	119,794	-	-
Leisure Time	409,532	69,521	-	438,325
Community Development	809,239	52,493	691,772	1,028,264
Transportation	1,841,229	355,915	957,066	672,114
General Government	2,089,500	845,036	-	-
Interest on Debt	152,536	-	-	-
Total Governmental Activities	<u>10,613,150</u>	<u>2,227,651</u>	<u>1,846,379</u>	<u>2,138,703</u>
Business-type Activities:				
Water	1,791,761	1,770,253	-	-
Sewer	1,784,788	2,511,104	-	-
Recycling Program	169,439	163,155	-	-
Total Business-type Activities	<u>3,745,988</u>	<u>4,444,512</u>	<u>-</u>	<u>-</u>
Total Government	<u>\$ 14,359,138</u>	<u>\$ 6,672,163</u>	<u>\$ 1,846,379</u>	<u>\$ 2,138,703</u>

General Revenues:
Property Taxes
Income Taxes
Interest Earnings
Grants and Contributions Unrestricted
Other Unrestricted
Gain on Disposal of Capital Assets
Total General Revenues and Transfers

Change in Net Assets

Net assets at beginning of year
Net assets at end of year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (4,035,322)	\$ -	\$ (4,035,322)
(173,565)	-	(173,565)
98,314	-	98,314
963,290	-	963,290
143,866	-	143,866
(1,244,464)	-	(1,244,464)
(152,536)	-	(152,536)
<u>(4,400,417)</u>	<u>-</u>	<u>(4,400,417)</u>
-	(21,508)	(21,508)
-	726,316	726,316
-	(6,284)	(6,284)
<u>-</u>	<u>698,524</u>	<u>698,524</u>
<u>\$ (4,400,417)</u>	<u>\$ 698,524</u>	<u>\$ (3,701,893)</u>
605,924	-	605,924
5,071,176	-	5,071,176
38,043	91,013	129,056
930,751	-	930,751
198,465	-	198,465
1,350	-	1,350
<u>6,845,709</u>	<u>91,013</u>	<u>6,936,722</u>
2,445,292	789,537	3,234,829
23,981,912	4,336,831	28,318,743
<u>\$ 26,427,204</u>	<u>\$ 5,126,368</u>	<u>\$ 31,553,572</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2011

	General Fund	Police & Fire Levy Fund	Fox River Development Fund	North Main Improvement Fund
Assets:				
Pooled Cash and Investments	\$ 1,063,834	\$ 3,106	\$ 845	\$ -
Receivables:				
Income Tax	601,967	240,787	-	-
Property Tax	606,613	-	-	-
Interest	7,681	-	-	-
Accounts	438,021	-	-	-
Notes	-	-	-	-
Due From Other Governments	224,053	-	16,859	314,099
Due From Other Funds	26,318	-	-	-
Inventory	27,830	-	-	-
Prepaid Assets	24,179	-	-	-
Advances To Other Funds	92,000	-	-	-
Total Assets	\$ 3,112,496	\$ 243,893	\$ 17,704	\$ 314,099
Liabilities:				
Accounts Payable	\$ 39,512	\$ 625	\$ -	\$ 314,099
Retainage Payable	-	-	17,704	-
Accrued Wages and Benefits	125,956	19,099	-	-
Due To Other Governments	343,070	69,844	-	-
Due To Other Funds	-	-	-	-
Matured Compensated Absences	22,786	-	-	-
Deferred Revenue	1,260,418	85,570	16,859	-
Advances From Other Funds	-	-	-	-
Total Liabilities	1,791,742	175,138	34,563	314,099
Fund Balances:				
Nonspendable:				
Inventory	27,830	-	-	-
Advances	92,000	-	-	-
Prepays	24,179	-	-	-
Restricted:				
Capital Projects	-	-	-	-
Transportation Programs	-	-	-	-
Public Safety Programs	-	68,755	-	-
Permanent Endowments	-	-	-	-
Grant Programs	-	-	-	-
Other	-	-	-	-
Committed:				
Transportation Programs	-	-	-	-
Assigned:				
Encumbrances	2,626	-	-	-
Future Appropriations	244,832	-	-	-
Capital Projects	-	-	-	-
Unassigned	929,287	-	(16,859)	-
Total Fund Balances	1,320,754	68,755	(16,859)	-
Total Liabilities and Fund Balances	\$ 3,112,496	\$ 243,893	\$ 17,704	\$ 314,099

See accompanying notes to the basic financial statements

Capital Improvement Fund	Perpetual Investment Fund	Other Governmental Funds	Total Governmental Funds
\$ 493,203	\$ 900,024	\$ 943,894	\$ 3,404,906
200,656	-	80,262	1,123,672
-	-	129,479	736,092
-	-	-	7,681
55,731	-	32,354	526,106
-	927,329	20,656	947,985
168,183	-	563,836	1,287,030
-	-	-	26,318
-	-	61,045	88,875
-	-	5,754	29,933
-	-	-	92,000
<u>\$ 917,773</u>	<u>\$ 1,827,353</u>	<u>\$ 1,837,280</u>	<u>\$ 8,270,598</u>
\$ 30,026	\$ -	\$ 316,735	\$ 700,997
13,386	-	6,120	37,210
-	-	26,507	171,562
-	-	46,269	459,183
-	-	26,318	26,318
-	-	-	22,786
127,040	-	591,745	2,081,632
72,000	-	20,000	92,000
<u>242,452</u>	<u>-</u>	<u>1,033,694</u>	<u>3,591,688</u>
-	-	40,910	68,740
-	-	-	92,000
-	-	5,754	29,933
-	-	298,730	298,730
-	-	84,902	84,902
-	-	190,354	259,109
-	-	114,397	114,397
-	-	143,459	143,459
-	-	2,484	2,484
-	-	176,048	176,048
-	-	-	2,626
-	-	-	244,832
675,321	1,827,353	-	2,502,674
-	-	(253,452)	658,976
<u>675,321</u>	<u>1,827,353</u>	<u>803,586</u>	<u>4,678,910</u>
<u>\$ 917,773</u>	<u>\$ 1,827,353</u>	<u>\$ 1,837,280</u>	<u>\$ 8,270,598</u>

See accompanying notes to the basic financial statements

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total Governmental Fund Balances	\$ 4,678,910
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,113,912
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Income Taxes Receivable	399,327
Property Taxes Receivable	197,619
Intergovernmental Receivable	594,906
Accounts Receivable - Ambulance	287,851
Accounts Receivable - Cemetery	18,160
Accounts Receivable - Other	55,731
Interest Receivable	7,377
Governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of net assets.	
Unamortized Bond Issuance Costs	49,583
Unamortized Premium on Bonds	(18,919)
Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences payable	(850,152)
General obligation debt	(4,078,285)
Accrued interest payable	(28,816)
	(4,957,253)
Net Assets of Governmental Activities	\$ 26,427,204

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Police & Fire Levy Fund	Fox River Development	North Main Improvement Fund
Revenues:				
Income Taxes	\$ 2,710,045	\$ 1,083,209	\$ -	\$ -
Property Taxes	470,703	-	-	-
Intergovernmental	1,032,238	-	1,011,405	314,099
Charges for Services	714,070	-	-	-
Fines, Licenses, and Permits	613,219	-	-	-
Interest	46,993	-	-	-
Miscellaneous	79,988	-	-	-
Total revenues	<u>5,667,256</u>	<u>1,083,209</u>	<u>1,011,405</u>	<u>314,099</u>
Expenditures:				
Current:				
Public Safety	3,325,486	1,140,448	-	-
Health	41,874	-	-	-
Leisure Time	267,898	-	-	-
Community Development	-	-	-	-
Transportation	-	-	-	-
General Government	1,625,289	-	-	-
Capital Outlay	-	10,553	1,059,239	314,099
Debt service:				
Principal Retirement	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	<u>5,260,547</u>	<u>1,151,001</u>	<u>1,059,239</u>	<u>314,099</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	406,709	(67,792)	(47,834)	-
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	(278,500)	-	-	-
Total Other Financing Sources (Uses)	<u>(278,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	128,209	(67,792)	(47,834)	-
Fund Balance at Beginning of Year, As Restated	1,192,545	136,547	30,975	-
Fund Balance at End of Year	<u>\$ 1,320,754</u>	<u>\$ 68,755</u>	<u>\$ (16,859)</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

Capital Improvement Fund	Perpetual Investment Fund	Other Governmental Funds	Total Governmental Funds
\$ 903,348	\$ -	\$ 361,339	\$ 5,057,941
-	-	99,977	570,680
451,916	-	1,833,072	4,642,730
-	-	374,397	1,088,467
-	-	217,128	830,347
-	-	2,446	49,439
166,115	-	165,161	411,264
<u>1,521,379</u>	<u>-</u>	<u>3,053,520</u>	<u>12,650,868</u>
-	-	407,323	4,873,257
-	-	195,798	237,672
-	-	-	267,898
-	50,000	759,239	809,239
206,976	-	946,376	1,153,352
145,439	-	91,616	1,862,344
884,737	-	651,245	2,919,873
81,297	-	315,000	396,297
38,242	-	101,173	139,415
<u>1,356,691</u>	<u>50,000</u>	<u>3,467,770</u>	<u>12,659,347</u>
164,688	(50,000)	(414,250)	(8,479)
1,350	-	-	1,350
-	-	278,500	278,500
-	-	-	(278,500)
<u>1,350</u>	<u>-</u>	<u>278,500</u>	<u>1,350</u>
166,038	(50,000)	(135,750)	(7,129)
509,283	1,877,353	939,336	4,686,039
<u>\$ 675,321</u>	<u>\$ 1,827,353</u>	<u>\$ 803,586</u>	<u>\$ 4,678,910</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (7,129)

*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.

Capital Outlays	2,716,429
Depreciation Expense	(1,175,899)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	406,224
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.	472,696
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Governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Amortization of bond issuance costs	(14,648)
Amortization of premium on bonds	4,729

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	46,092
Accrued interest	(3,202)

Change in Net Assets of Governmental Activities	\$ 2,445,292
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See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water Revenue	Sewer Revenue	Recycling Program	Total Enterprise Funds
Assets				
Current Assets:				
Pooled Cash and Investments	\$ 276,769	\$ 229,885	\$ 51,345	\$ 557,999
Receivables:				
Accounts	244,966	375,927	4,283	625,176
Inventory	74,082	37,427	-	111,509
Prepaid Assets	2,628	6,356	-	8,984
Total Current Assets	<u>598,445</u>	<u>649,595</u>	<u>55,628</u>	<u>1,303,668</u>
Noncurrent Assets:				
Depreciable Capital Assets, Net	9,292,702	5,125,848	-	14,418,550
Non-Depreciable Capital Assets	624,420	601,591	-	1,226,011
Deferred Bond Issuance Costs	-	120	-	120
Total Noncurrent Assets	<u>9,917,122</u>	<u>5,727,559</u>	<u>-</u>	<u>15,644,681</u>
Total Assets	<u>10,515,567</u>	<u>6,377,154</u>	<u>55,628</u>	<u>16,948,349</u>
Liabilities				
Current Liabilities:				
Accounts Payable	182,227	139,454	12,771	334,452
Accrued Wages and Benefits	11,762	16,452	-	28,214
Due to Other Governments	19,802	24,582	-	44,384
Accrued Interest payable	91,150	66,028	-	157,178
Accrued Vacation and Sick Leave	24,289	45,467	-	69,756
Retainage Payable	1,961	-	-	1,961
Bonds Payable	109,749	19,105	-	128,854
Loan Payable	296,639	563,062	-	859,701
Total Current Liabilities	<u>737,579</u>	<u>874,150</u>	<u>12,771</u>	<u>1,624,500</u>
Noncurrent Liabilities:				
Accrued Vacation and Sick Leave	21,279	38,292	-	59,571
Bonds Payable	569,551	474,494	-	1,044,045
Loan Payable	6,241,332	2,852,533	-	9,093,865
Total Noncurrent Liabilities	<u>6,832,162</u>	<u>3,365,319</u>	<u>-</u>	<u>10,197,481</u>
Total Liabilities	<u>7,569,741</u>	<u>4,239,469</u>	<u>12,771</u>	<u>11,821,981</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,699,851	1,818,245	-	4,518,096
Unrestricted	245,975	319,440	42,857	608,272
Total Net Assets	<u>\$ 2,945,826</u>	<u>\$ 2,137,685</u>	<u>\$ 42,857</u>	<u>\$ 5,126,368</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water Revenue	Sewer Revenue	Recycling Program	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 1,770,253	\$ 2,511,104	\$ 163,155	\$ 4,444,512
Total Operating Revenues	1,770,253	2,511,104	163,155	4,444,512
Operating Expenses				
Personal Services	389,084	572,363	-	961,447
Contractual Services	537,925	535,325	169,439	1,242,689
Supplies and Materials	22,997	105,343	-	128,340
Administrative Fees	330,383	227,645	-	558,028
Depreciation	300,890	176,081	-	476,971
Total Operating Expenses	1,581,279	1,616,757	169,439	3,367,475
Operating Income	188,974	894,347	(6,284)	1,077,037
Nonoperating Revenues (Expenses)				
Other Non-Operating Revenue	81,592	9,421	-	91,013
Interest Expense	(210,482)	(168,031)	-	(378,513)
Total Non-Operating Revenues (Expenses)	(128,890)	(158,610)	-	(287,500)
Change in Net Assets	60,084	735,737	(6,284)	789,537
Net Assets at Beginning of Year	2,885,742	1,401,948	49,141	4,336,831
Net Assets at End of Year	\$ 2,945,826	\$ 2,137,685	\$ 42,857	\$ 5,126,368

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water Revenue	Sewer Revenue	Recycling Program	
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,753,753	\$ 2,482,148	\$ 163,068	\$ 4,398,969
Cash paid to employees	(413,379)	(548,808)	-	(962,187)
Cash paid to suppliers	(601,236)	(644,960)	(156,668)	(1,402,864)
Cash paid for other expenses	(325,502)	(226,912)	-	(552,414)
Net cash flows from operating activities	<u>413,636</u>	<u>1,061,468</u>	<u>6,400</u>	<u>1,481,504</u>
Cash Flows from Noncapital Financing Activities				
Other Non-Operating Receipts	81,592	9,421	-	91,013
Net cash flows from noncapital financing activities	<u>81,592</u>	<u>9,421</u>	<u>-</u>	<u>91,013</u>
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(32,287)	(117,920)	-	(150,207)
Payment of debt	(390,886)	(635,623)	-	(1,026,509)
Payment of interest	(219,933)	(172,610)	-	(392,543)
Proceeds from loans	-	85,149	-	85,149
Net cash flows from capital and related financing activities	<u>(643,106)</u>	<u>(841,004)</u>	<u>-</u>	<u>(1,484,110)</u>
Net change in cash	(147,878)	229,885	6,400	88,407
Cash and cash equivalents at beginning of year	424,647	-	44,945	469,592
Cash and cash equivalents at end of year	<u>\$ 276,769</u>	<u>\$ 229,885</u>	<u>\$ 51,345</u>	<u>\$ 557,999</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:				
Operating income	\$ 188,974	\$ 894,347	\$ (6,284)	\$ 1,077,037
Add depreciation expense	300,890	176,081	-	476,971
(Increase)/Decrease in current assets				
Accounts receivable	(16,500)	(28,956)	(87)	(45,543)
Prepaid items	(466)	(1,114)	-	(1,580)
Material and supply inventory	(17,641)	(5,766)	-	(23,407)
Increase/(Decrease) in current liabilities				
Accounts payable	(17,326)	3,321	12,771	(1,234)
Accrued wages and benefits	(4,728)	3,002	-	(1,726)
Accrued vacation and sick Leave	(13,634)	19,077	-	5,443
Due to other governments	(5,933)	1,476	-	(4,457)
Net Cash Flows from Operating Activities	<u>\$ 413,636</u>	<u>\$ 1,061,468</u>	<u>\$ 6,400</u>	<u>\$ 1,481,504</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2011**

	<u>Agency Funds</u>
Assets	
Pooled Cash and Investments	\$ 130,598
Total Assets	<u>130,598</u>
Liabilities	
Due to Others	130,598
Total Liabilities	<u>\$ 130,598</u>

See accompanying notes to the basic financial statements

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 1 – REPORTING ENTITY

The City of Urbana, Ohio (City) is a political unit 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 City was incorporated in 1868, and has a Council-Mayor form of government. The City provides the following services: public safety (police and fire), highways and streets, water, sewer, recycling, recreation, planning and zoning and general administrative services.

For financial reporting purposes, the City includes in this report all funds, agencies, boards, commissions, and departments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 criteria for determining the entity and component units. Under the provisions of GASB Statement No. 14, the City of Urbana is the primary government, since it is a general purpose government that has a separate elected governing body; functions as a separate legal entity; and is fiscally independent of other state and local governments. As used in GASB Statement No. 14, fiscally independent means that the City may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue debt. As required by generally accepted accounting principles, these basic financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data is combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally separate from the government. There are no blended or discretely presented component units at December 31, 2011.

Certain units of local governments, over which the City exercises no authority, such as the Champaign County Library, Champaign County Health District and Ohio Hi-Point Joint Vocational School, are other local governmental and non-profit entities with independent elected officials and are excluded from the accompanying basic financial statements. The City is not a component unit of any other entity. Other local governmental entities that overlap the City's boundaries are Champaign County and the Urbana City School District. These entities do not meet the reporting entity criteria and, therefore, are not included in the City's financial reports.

Jointly Governed Organizations

Champaign Countywide Public Safety Communications System Council of Governments

The City entered into an agreement in April 2005 with the Champaign Countywide Public Safety Communications System Council of Governments (COG) whereby Champaign County and the City created the COG for the purpose of operating an enhanced 911 system. The COG contracted with Champaign County to serve as its fiscal agent. Financial information may be obtained by writing to 1512 South Highway 68, Suite A100, Urbana, Ohio 43078.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Interfund activity, and related interfund receivables and payables, have been eliminated in the government-wide statements. These eliminations remove the duplicating effect on assets, liabilities, revenues, expenses that would otherwise occur. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough after to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Taxes, intergovernmental revenues, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Police and Fire Tax Levy Fund - To account for the 3/10% income tax for additional patrolmen and firefighters that the General Fund can not financially support.

Fox River Development Fund - To account for revenues and expenditures associated with the acquisition, clean up and remediation of the former Fox River property.

North Main Improvement Fund – To account for grant revenues and expenditures associated with the reconstruction of Main Street, including paving, curbs, sidewalks, street lighting, and widening.

Capital Improvement Fund – To account for the income tax resources earmarked for capital improvements used for general improvement of all City facilities and operations.

Perpetual Investment Fund - To account for the proceeds from the sale of the City's Gas Lines in 1982. The Fund currently accounts for monies assigned for capital projects.

The proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City reports the following major proprietary funds:

Water Fund – Accounts for the operation of the waterworks distribution system and related expenses, including capital improvement and debt service. The operation is exclusively financed by customer user charges.

Sewer Fund – Accounts for the operation of the sanitary sewer collection and treatment system and related expenses, including capital improvement and debt service. The operation is exclusively financed by customer user charges.

Recycling Program Fund - Accounts for the operation of the recycling service provided by the City. The operation is exclusively financed by customer user charges.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds consist of the Champaign County Municipal Court fund and employee supplemental health insurance fund.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) *Cash and Cash Equivalents and Investments*

The City pools cash and investments of various funds to improve investment performance. Each fund's position in the pool is reflected in the participating fund as Pooled Cash and Investments. Interest earnings from cash and investments are allocated to the General Fund, except for funds derived from contract, trust agreement or City ordinance which require crediting otherwise.

For purposes of the statement of cash flows, the City's proprietary funds consider cash equivalents to be pooled cash and investments, cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as certificates of deposit are reported at cost.

(d) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements and outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account to indicate that they do not constitute available financial resources and therefore are not available for appropriation.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Notes Receivable

Notes receivable represent the right to receive repayment for a mortgage note made by the City. This note is based upon a written agreement between the City and the note recipient.

(f) Inventory and Prepaid Assets

Inventory is valued at cost (first-in, first-out). In both the governmental and proprietary funds, inventories are recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

In the governmental funds, inventories and prepaid items are offset by a nonspendable fund balance account to indicate that they do not constitute available financial resources and therefore are not available for appropriation.

(g) Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported in the governmental activities) the City chose to include all such items acquired from January 1, 1980 through the present. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and recorded at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities, if significant, is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Life (Years)</u>
Land improvements	25
Buildings and improvements	25
Machinery and equipment	5 to 20
Infrastructure	25-50

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Bond Issuance Costs

Bond issuance costs for proprietary fund types are deferred and amortized over the terms of the bonds using methods that approximate the effective interest method.

(i) Compensated Absences

Vested vacation and sick leave is recorded as an expense in the government-wide and proprietary fund financial statements in the period in which such leave was earned. In the governmental funds, an expenditure is recorded for only the portion of vested vacation and sick leave that is expected to be liquidated with expendable available resources. Payment of vacation and sick leave recorded in the government-wide financial statements is dependent upon many factors; therefore, timing of future payments is not readily determinable. Management believes that sufficient resources will be made available when payment is due.

(j) Long Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) Fund Balance

GASB Statement No. 54, *Fund Balance Reporting* became effective for years beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

In accordance with this guidance, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The City may use the following categories:

Nonspendable - resources that are not in a spendable form (inventory, prepaids, and advances) or have legal or contractual requirements to maintain the balance intact.

Restricted - resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed - resources that can be used only for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's highest level of decision-making authority (City Council).

Assigned - resources that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. This includes the residual balance of all governmental funds other than the General Fund that were not classified elsewhere above.

Unassigned - residual fund balance within the General Fund not classified elsewhere above and all other governmental fund balances which have a negative fund balance.

The City applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted fund balance/net assets are available. The City considers committed, assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

(l) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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.

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

(m) Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenditure/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

Negative Cash Balances

Ohio Rev. Code Section 5705.10(H) states money paid into any fund shall be used only for the purpose for which such fund is established. Negative fund cash balances indicate money from one fund was used to cover the expenses of another fund.

At December 31, 2011, the City had the following negative cash fund balances:

S.R.T.S. ODOT Fund	\$ (1,370)
Safer Grant	(24,948)

Deficit Fund Balances

The following individual fund had deficit fund balances/net assets at December 31, 2011:

Oak Dale Cemetery Fund	\$ (2,392)
Fox River Development Fund	(16,859)
S.R.T.S. ODOT Fund	(1,370)
COAF Project Fund	(194,633)
Safer Grant Fund	(35,572)
Masoleum Trust Fund	(17,745)

These deficit fund balances are primarily the result of accrued liabilities recorded with the application of generally accepted accounting principles. The general fund is responsible for fund deficits, however, transfers are recorded when cash is needed rather than when the accruals occurs.

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City 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 City treasury, in commercial accounts payable or can be withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 2 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 division (1) or (2) 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 bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any 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 noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, 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 investment to the Treasurer, or qualified trustee, unless the securities are not represented by a certificate, in which payment may be made upon receipt of confirmation of transfer from the custodian.

Deposits - At year-end, the carrying amount of the City's deposits was \$4,093,503, which includes certificates of deposit totaling \$1,967,330 and petty cash totaling \$959, and the bank balance was \$4,512,744. Of the bank balance, \$678,135 was covered by federal depository insurance, and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions in amounts equal to at least 105% of the City's carrying value of deposits. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As mentioned above, at year end, \$3,834,609 of the City's bank balance was exposed to custodial credit risk because it was uninsured and collateralized by securities held by a pledging financial institution's trust department or agent, but not in the City's name.

NOTE 5- NOTES RECEIVABLE

During 2011, the City loaned Sarica/Hughley and Phillips LLC, \$950,000, to assist in financing the cost to retain and expand their company within the City. In consideration of the repayment of the note, monthly payments of \$4,806 began on July 1, 2011 and continue on the first day of each month until June 1, 2031 when the remaining principal at that time on the note shall become due and payable in full. Sarica/Hughley and Phillips LLC made seven payments, totaling \$22,671 during 2011. At December 31, 2011, the balance of the notes receivable was \$927,329.

NOTE 6 – INCOME TAXES

Municipalities within the State of Ohio are permitted by state statute to levy an income tax up to a maximum rate of 1% subject to the approval of the local legislative body. Any rate in excess of 1% requires the approval of a majority of the eligible voters residing within the municipal corporation. The City of Urbana levies a tax on all wages, salaries, commissions and other compensation paid by employers and the net profits from a business or professional person earned within the City, excluding income from intangible personal property. In addition, City residents pay city income tax on income earned outside the City; net of a credit limited to 1% for income taxes paid to other municipalities. In 1992 the City Council ordered mandatory income tax filing.

The tax rate applied in 2011 was 1.4% of which 1% was unvoted and 0.4% was voted. The additional 0.4% tax became effective January 1, 1992, and is designated to fund fire and police personnel and capital improvement costs.

Twenty-five percent (25%) of all income tax revenues are required to be used for the purpose of financing capital improvements, including debt service charges on notes and bonds issued for capital improvements. This portion of income tax revenues is distributed to the Capital Improvement Fund from which capital improvements and related debt service charges are financed.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 7 – PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. All property is required to be revalued every six years with equalization adjustments in the third year following reappraisal. The last revaluation was completed in 2008.

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

Public utility property taxes are assessed on tangible personal property as well as land and improvements at 88% of true value (50% of cost) with certain exceptions. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes.

The assessed value of the City for tax years 2010 and 2009, upon which the 2011 and 2010 levies were based, were \$181,775,670 and \$193,772,340, respectively.

The Champaign County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Urbana. The County Auditor periodically advances to the City its portion of the taxes collected. Property taxes may be paid on either an annual or semi-annual basis.

The assessed valuations of the City for tax year 2010, which were used to collect taxes in calendar year 2011, are as follows:

	<u>Amount</u>	<u>Percent</u>
Real Estate (Other Than Public Utility)	\$176,794,160	97.3 %
Public Utility	<u>4,981,510</u>	<u>2.7 %</u>
Total Assessed Value	<u>\$181,775,670</u>	<u>100.0%</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 8 – CAPITAL ASSETS

A summary of capital asset activity for Governmental Activities for the fiscal year follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 4,805,250	\$ 1,092,727	\$ -	\$ 5,897,977
Construction in Progress	75,598	1,105,291		1,180,889
Total Nondepreciable Assets	<u>4,880,848</u>	<u>2,198,018</u>	<u>-</u>	<u>7,078,866</u>
Depreciable Capital Assets				
Building and Improvements	15,475,723	381,936	-	15,857,659
Machinery and Equipment	4,125,473	136,475	(49,472)	4,212,476
Infrastructure	17,053,147	-	-	17,053,147
Total Depreciable Assets	<u>36,654,343</u>	<u>518,411</u>	<u>(49,472)</u>	<u>37,123,282</u>
Less accumulated depreciation				
Building and Improvements	10,944,560	527,240	-	11,471,800
Machinery and Equipment	3,118,923	234,001	(49,472)	3,303,452
Infrastructure	3,898,326	414,658		4,312,984
Total accumulated depreciation	<u>17,961,809</u>	<u>1,175,899</u>	<u>(49,472)</u>	<u>19,088,236</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>18,692,534</u>	<u>(657,488)</u>	<u>-</u>	<u>18,035,046</u>
Total Capital Assets, Net	<u>\$ 23,573,382</u>	<u>\$ 1,540,530</u>	<u>\$ -</u>	<u>\$ 25,113,912</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 240,797
Public Safety	201,367
Transportation	565,731
Health	55,735
Leisure Activities	112,269
Total depreciation expense	<u>\$ 1,175,899</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 8 – CAPITAL ASSETS (Continued)

Business Type Activities

Water Revenue Fund	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Land	\$ 460,028	-	-	-	\$ 460,028
Work in Progress	-	164,392	-	-	164,392
Total Nondepreciable Assets	<u>460,028</u>	<u>164,392</u>	<u>-</u>	<u>-</u>	<u>624,420</u>
Depreciable Capital Assets					
Buildings	10,555,736	-	-	-	10,555,736
Equipment	2,745,377	32,486	(9,550)	-	2,768,313
Infrastructure	8,897,746	-	-	-	8,897,746
Total Depreciable Assets	<u>22,198,859</u>	<u>32,486</u>	<u>(9,550)</u>	<u>-</u>	<u>22,221,795</u>
Less accumulated depreciation					
Buildings	10,407,346	73,581	-	-	10,480,927
Equipment	2,101,275	49,354	(9,550)	-	2,141,079
Infrastructure	129,132	177,955	-	-	307,087
Total accumulated depreciation	<u>12,637,753</u>	<u>300,890</u>	<u>(9,550)</u>	<u>-</u>	<u>12,929,093</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>9,561,106</u>	<u>(268,404)</u>	<u>-</u>	<u>-</u>	<u>9,292,702</u>
Total Capital Assets, Net	<u>\$ 10,021,134</u>	<u>\$(104,012)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,917,122</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 8 – CAPITAL ASSETS (Continued)

Sewer Revenue Fund	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Land	\$ 489,768	\$ -	\$ -	\$ -	\$ 489,768
Work in Progress	-	111,823	-	-	111,823
Total Nondepreciable Assets	<u>489,768</u>	<u>111,823</u>	<u>-</u>	<u>-</u>	<u>601,591</u>
Depreciable Capital Assets					
Buildings	20,955,065	-	-	-	20,955,065
Equipment	3,674,598	29,591	-	-	3,704,189
Infrastructure	2,068,428	-	-	-	2,068,428
Total Depreciable Assets	<u>26,698,091</u>	<u>29,591</u>	<u>-</u>	<u>-</u>	<u>26,727,682</u>
Less accumulated depreciation					
Buildings	19,942,724	150,517	-	-	20,093,241
Equipment	1,425,663	11,689	-	-	1,437,352
Infrastructure	57,366	13,875	-	-	71,241
Total accumulated depreciation	<u>21,425,753</u>	<u>176,081</u>	<u>-</u>	<u>-</u>	<u>21,601,834</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>5,272,338</u>	<u>(146,490)</u>	<u>-</u>	<u>-</u>	<u>5,125,848</u>
Total Capital Assets, Net	<u>\$ 5,762,106</u>	<u>\$ (34,667)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,727,439</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 9 – LONG TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2011:

<i>Governmental Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Municipal Bldg Renovation GO Bonds 2006-2015 3.25%-4% Police & Fire Capital Improve. Fund	\$ 1,335,000	-	(250,000)	1,085,000	255,000
Refunding Bonds Premium 2006-2015	23,648	-	(4,729)	18,919	-
9-1-1 Radio Equipment GO Bonds 2006-2016 4.25%-4.3% Police & Fire Capital Improve. Fund	325,000	-	(50,000)	275,000	50,000
2010 Various Purpose Bonds GO Bonds 2011-2030 2.0-5.0%	560,000	-	(22,899)	537,101	21,146
Mausoleum Refunding Bonds 2011-2030 6.75%	525,000	-	(15,000)	510,000	15,000
HB300 Energy Savings	390,738	-	(58,398)	332,340	60,936
Total	<u>3,159,386</u>	<u>-</u>	<u>(401,026)</u>	<u>2,758,360</u>	<u>402,082</u>
Compensated Absences	935,233	295,770	(358,065)	872,938	363,571
Landfill Post Closure Liability	1,163,042	-	(70,451)	1,092,591	91,765
Unfunded P & F Pension Obligation Police & Fire Pension Levy Fund	252,201	-	(5,948)	246,253	6,200
Total Governmental Activities Long Term Liabilities	<u>\$ 5,509,862</u>	<u>\$ 295,770</u>	<u>\$ (835,490)</u>	<u>\$ 4,970,142</u>	<u>\$ 863,618</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 9 – LONG TERM LIABILITIES (Continued)

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2011:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Fund:					
GO Bonds 2006-2015 4%-4.75% Water System Improvements	525,000	-	(95,000)	430,000	100,000
OPWC 0% Interest Loan- CK26C	256,611	-	(22,314)	234,297	22,314
OPWC 0% Interest Loan Well Field	80,474	-	(4,734)	75,740	4,734
OWDA Loan 2008-2029 3.36% North 29 Water System Improvement	5,484,246	-	(208,592)	5,275,654	217,535
OPWC 0% Interest Loan Well Field	925,000	-	(50,000)	875,000	50,000
OPWC 0% Interest Loan- CT Communication Utility Extension	79,336	-	(2,056)	77,280	2,056
2010 Various Purpose Bonds 2011-2030 2.0-5.0%	260,000	-	(10,700)	249,300	9,749
Accrued Vacation and Sick Leave	59,202	19,746	(33,380)	45,568	24,289
Total Business-Type Activities	<u>\$ 7,669,869</u>	<u>\$ 19,746</u>	<u>\$ (426,776)</u>	<u>\$ 7,262,839</u>	<u>\$ 430,677</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 9 – LONG TERM LIABILITIES (Continued)

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sewer Fund:					
OWDA Loan 1995-2012 4.56% Refinanced 1995 Upgrade	315,290	-	(207,815)	107,475	107,454
OWDA Loan 1995-2015 4.56% N-Viro Project	212,582	-	(14,703)	197,879	44,923
OWDA Loan 1996-2016 4.04% N-Viro Project	325,451	-	(48,966)	276,485	50,964
OPWC 0% Interest Loan	165,000	-	(30,000)	135,000	30,000
OWDA Loan 2008-2018 4.11% Sludge Handling Improvements	1,154,364	-	(129,484)	1,024,880	140,584
OWDA Loan 2008-2029 3.95% Sludge Handling Facility	583,064	-	(63,303)	519,761	65,829
OWDA Loan 2008-2018 4.78% Septage Receiving Facility	458,179	-	(48,261)	409,918	50,596
OWDA Loan 2008-2018 4.78% Septage Receiving Facility	544,449	-	(58,045)	486,404	60,656
OPWC 0% Northwest Sanitary	185,000	-	(10,000)	175,000	10,000
OPWC 0% CT Communication Utility Extension	85,149	-	(2,056)	83,093	2,056
2010 Various Purpose Bonds 2011-2030 2.0-5.0%	515,000	-	(21,401)	493,599	19,105
Deferred Amount on Refunding	(1,745)	-	1,445	(300)	-
Accrued Vacation and Sick Leave	64,682	29,896	(10,819)	83,759	45,467
Total Business-Type Activities	<u>\$ 4,606,465</u>	<u>\$ 29,896</u>	<u>\$ (643,408)</u>	<u>\$ 3,992,953</u>	<u>\$ 627,634</u>

In 2010, the City paid off Bond Anticipation Notes and issued Various Purpose Bonds in the amount of \$1,335,000. The Bonds mature in 2030 and have interest rates ranging from 2.0 to 5.0 percent during the life of the Bonds.

The City also issued \$525,000 in bonds for the re-finance of the Mausoleum Building. The bonds mature in 2031 and have an interest rate of 6.75 percent.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 9 – LONG TERM LIABILITIES (Continued)

Annual requirements to pay principal and interest on long-term debt at December 31, 2011:

	Governmental Activities		Business Type-Activities			
			Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	402,082	124,955	408,444	205,682	584,244	141,669
2013	419,558	108,390	420,804	193,606	494,743	121,209
2014	434,420	91,255	434,398	172,926	515,232	102,263
2015	452,304	73,503	447,276	167,460	539,963	82,424
2016	175,312	54,967	340,422	153,584	485,995	62,299
2017-2021	240,037	216,310	1,841,099	629,073	900,377	113,762
2022-2026	306,011	145,820	1,999,682	367,236	209,438	52,473
2027-2031	309,717	47,798	1,325,146	75,047	178,649	17,263
2032	-	-	-	-	853	-
Total	2,739,441	862,998	7,217,271	1,964,614	3,909,494	693,362

The Ohio Revised Code provides that the net debt of a municipal corporation whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations of debt are measured by a direct ratio of net debt to tax valuation in terms of a percentage. On December 31, 2011, the City's total net debt amounted to 7.6% of the total assessed value of all property within the City. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with Champaign County and the Urbana City School District. As of December 31, 2011, these entities have complied with the requirement that overlapping debt must not exceed 1% (10 mills) of the assessed property value.

NOTE 10 – ADVANCE REFUNDINGS

On February 1, 1995, the City of Urbana advance-refunded the 1991 Wastewater Treatment Plant Upgrade Bonds with an Ohio Water Department Authority (OWDA) Loan. The City signed a loan agreement for \$2,600,000 from the OWDA to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered defeased and the liability has been removed from the City's financial statements. The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$105,661. This difference reported in the accompanying financial statements is being charged to operations through the year 2012 using the effective interest method. The advanced refund was taken to reduce total debt service payments over the remaining 17 years by \$655,522 and to obtain an economic gain (difference between present value of the debt service payments of the refunded and refunding bonds) of \$414,214. As of December 31, 2011, the debt service requirement to maturity of the defeased bonds was \$0.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 10 – ADVANCE REFUNDINGS (Continued)

On July 1, 1995, the City issued \$4.885 million in General Obligation Bonds to finance a municipal building upgrade (\$3.6 million) and advance refund the 1979 Water Mortgage Revenue Bonds (\$1,545,000). The bonds were issued with interest rates ranging from 3.9% to 5.5%, compared to the refunded bonds having an interest rate of 6.75%.

The net proceeds of the refunding bonds (\$1,662,373) plus \$341,172 of the 1979 Revenue Bonds' sinking funds were used to purchase U.S. government securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the 1979 revenue bonds are considered defeased and the liability for those bonds has been removed from the City's financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$191,833. This difference, reported in the accompanying financial statements, is being charged to operations through the year 2009 using the effective interest method. The advance refunding reduces its total debt service over the next 14 years by \$655,262 and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$120,593. As of December 31, 2011, the debt service requirement to maturity of the defeased bonds was \$0.

On August 1, 2005, the City issued \$2.645 million in General Obligation Bonds to currently refund the 1995 Municipal Building Bonds, Airport Runway Realignment Bonds, and Water Tower Maintenance Bonds. The net proceeds of the refunding bonds were used to purchase U.S. Government Securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the 1995 Municipal Building Bonds, Airport Runway Realignment Bonds, and Water Tower Maintenance Bonds are considered defeased and the liability for those bonds has been removed from the City's financial statements. The current refunding reduced resulting in net present value cash flow savings of \$156,649. As of December 31, 2011, the debt service requirement to maturity of the defeased bonds was \$0.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 11 – RISK MANAGEMENT

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

PEP retains casualty risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured with APEEP up to \$2,000,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation. If the losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

PEP retains property risks, including automobile physical damage up to \$150,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$150,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000. The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the City.

PEP's Financial Statements (most current available and audited by other accountants) conform with generally accepted accounting principles, and reported the following:

<u>Casualty & Property Coverage</u>	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	\$14,320,812	\$15,256,862
Net Assets	\$20,631,198	\$21,118,036

The City pays an annual premium to PEP for this coverage. The agreement provides that PEP will be self sustaining through member premiums and the purchase of excess and stop-loss insurance. The deductible per occurrence for all types of claims is \$1,000. Liability had a per-occurrence retention limit of \$500,000. After the retention limits are reached, excess insurance will cover up to the limits stated below.

General Liability (including law enforcement)	\$2,000,000 per occurrence
Automobile Liability	\$2,000,000 per occurrence
Public Officials Liability	\$2,000,000 per occurrence
Boiler and Machinery	BLANKET COVERAGE
Property	BLANKET COVERAGE

There were no significant reductions in insurance coverage during the year in any category of risk. Settled claims did not exceed insurance coverage in the past three years.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 12 – PENSION BENEFITS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2011 member contribution rate for City employees was 10.00% of covered payroll. The 2011 employer contribution rate for the City was 14.00% of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$361,429, \$365,838, and \$368,525 respectively. The full amount has been contributed for 2010 and 2009. 89.0 percent has been contributed for 2011 with the remainder being reported as a fund liability.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 12 – PENSION BENEFITS (Continued)

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2011, 2010, and 2009 were \$646,142, \$599,053, and \$629,638, respectively. The full amount has been contributed for 2010 and 2009. 72.5 percent has been contributed for 2011 with the remainder being reported as a fund liability.

The City also makes payments to OP&F for its portion of past service cost determined at the time the fund was established in the mid-1930's. As of December 31, 2011, the unfunded liability is payable, including principal and interest, in annual installments for \$16,666 through the year 2035. The principal balance of \$246,253 is accounted for as a non-current liability in the governmental activities column of the Statement of Net Assets. The State of Ohio assumed the liability for past service cost at the time PERS was established.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 4.0% for 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions to OPERS for post-employment benefits for the years ending December 31, 2011, 2010, and 2009 were \$103,260, \$132,751, and \$153,691, respectively. The full amount has been contributed for 2010 and 2009. 89.0 percent has been contributed for 2011 with the remainder being reported as a fund liability.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multi-employer defined postemployment health care plan administered by OP&F. OP&F provide healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F for the years ending December 31, 2011, 2010, and 2009 were \$646,142, \$599,053 and \$629,638, respectively, of which \$197,887, \$184,617 and \$194,266, respectively, was allocated to the healthcare plan.

NOTE 14 – LANDFILL CLOSURE/ POST CLOSURE COSTS

State and Federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill for thirty years after closure. The City stopped accepting waste at the landfill in 1987. The Ohio EPA approved the final closure and post closure plan in January 1988. With the assistance of Arcadis Engineering, the geological engineers, the \$1,092,591 reported as landfill post closure liability at December 31, 2011, represents the estimated costs to maintain and monitor the landfill through 2018. Actual costs may change due to inflation, changes in technology, or changes in regulations.

NOTE 15 – INTERFUND BALANCES

Interfund balances at December 31, 2011 consisted of the following:

<u>Fund</u>	<u>Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Balance</u>
General	141,460	20,000	(69,460)	92,000
Capital Improvement	(141,460)	-	69,460	(72,000)
Mausoleum Trust	-	(20,000)	-	(20,000)

In accordance with City financial policies, the City's General Fund allocates administrative costs to various other funds. The Capital Improvement Fund amount noted above represents the Capital Improvement Funds' share of administrative costs not yet paid to the General Fund.

The Mausoleum Trust Fund amount noted above represents monies advanced from the General Fund to pay debt service on the bonds that were issued to construct the mausoleum.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 16 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 278,500
Street	178,500	-
Oakdale Cemetery	100,000	-
	<u>\$ 278,500</u>	<u>\$ 278,500</u>

Transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in accordance with Ohio Revised Code and grant requirements.

NOTE 17 – SIGNIFICANT CONSTRUCTION COMMITMENTS

In cooperation with the Ohio Department of Transportation, the City will participate by providing 20 percent of the project funding for the resurfacing of several State and United States Routes in the City through 2014. State Route 29 (North Oakland Street) was completed in 2011 at approximate cost to the City of \$47,000. In 2012, US Route 36 West (Miami Street) and US Route 68 (from Reynolds Street to Laurel Oak Street) will be completed at an approximate cost to the city of \$150,000. In 2013, US Route 68 (from State Route 55 to Reynolds Street) will be completed at an approximate cost to the city of \$60,000. In 2014, US Route 68 (from Laurel Oak Street to the northern corporation limits) will be completed at an approximate cost to the city of \$95,000.

In 2011, the City continued with improvements to Dugan Run (Ditch). The second phase of this project (Russell Street/Dugan Ditch Improvements) involved the installation of 250 feet of 96-inch Reinforced Concrete Pipe, 100 feet of 84-inch galvanized steel pipe, and cleaning of approximately 7,700 feet of ditch between Edgewood Avenue and the Mad River. Construction on Russell Street/Dugan Ditch Improvements was completed in 2011 at a cost of \$586,545. Also, in 2011, construction started on the third phase of improvements to Dugan Run (Ditch). When this project (Dugan Ditch, Phase 2) is completed in 2012, the total construction cost will be approximately \$325,000.

Furthermore, construction of a water main on South Main Street (US Route 68) started in late 2011. This project involves the replacement of approximately 1800 feet of existing 4-inch and 6-inch water main with new 12-inch main and extending a new 12-inch main south an additional 4200 feet. Construction will be completed by mid-2012 at an approximate cost of \$402,000.

Lastly, construction started in 2011 on a bike trail extension from behind the Depot on Miami Street to the northern corporation limits. This extension is the first phase of a larger project to connect Urbana and Bellefontaine with a bike trail. Construction will be completed in mid-2012 at an approximate cost of \$440,000.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

NOTE 18 – CONTINGENT LIABILITIES

The City was a defendant in a few lawsuits pertaining to matters that are incidental to performing routine governmental and other functions. Legal counsel cannot estimate exact exposure, if any, in these suits. All cases are being defended vigorously by the City. It is the opinion of management and the City's legal counsel that sufficient resources will be available for the payment of such claims, if any, upon ultimate settlement or covered by insurance.

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES

Due to the implementation of GASB 54, the City's Supplemental Investment Fund was reclassified as part of the General Fund. This fund was classified as an Other Governmental Fund in the prior year. Also, the Street Fund did not meet the definition of a major fund during 2011. Therefore, the fund was reclassified as Other Governmental Funds.

The effect of this reclassification is presented below:

	General Fund	Street Fund	Other Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Fund Balances, December 31, 2010	\$ 805,037	\$ 49,601	\$ 1,277,243
GASB 54 Reclassifications:			
Supplemental Investment	387,508	-	(387,508)
Major Fund Reclassifications:			
Street	-	(49,601)	49,601
	<u> </u>	<u> </u>	<u> </u>
Fund Balances, January 1, 2011	<u>\$ 1,192,545</u>	<u>\$ -</u>	<u>\$ 939,336</u>

Although included with the General Fund in the financial statement presentation, the City will not include the Supplemental Investment Fund in the Budgetary Schedule of this report.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Revenues:				
Income Taxes	\$ 2,411,000	\$ 2,411,000	\$ 2,671,966	\$ 260,966
Property Taxes	537,100	537,100	476,540	(60,560)
Intergovernmental	635,000	635,000	1,057,374	422,374
Charges for Services	844,500	844,500	737,343	(107,157)
Fines, Licenses, and Permits	640,400	640,400	611,903	(28,497)
Interest	150,000	150,000	61,047	(88,953)
Miscellaneous	44,000	44,000	89,175	45,175
Reimbursements	781,000	781,000	746,592	(34,408)
Total Revenues	6,043,000	6,043,000	6,451,940	408,940
Expenditures:				
Current:				
General Government				
City Council				
Personal Services	72,470	75,570	75,536	34
Supplies, Materials and Other	3,229	3,229	2,500	729
Total City Council	75,699	78,799	78,036	763
Mayor/Administration				
Personal Services	237,526	246,026	247,736	(1,710)
Supplies, Materials and Other	23,833	86,833	76,036	10,797
Total Mayor/Administration	261,359	332,859	323,772	9,087
Municipal Court				
Personal Services	573,427	563,427	556,388	7,039
Supplies, Materials and Other	71,280	71,280	64,959	6,321
Total Municipal Court	644,707	634,707	621,347	13,360
Engineering				
Personal Services	153,038	164,088	164,038	50
Supplies, Materials and Other	5,653	5,653	4,792	861
Total Engineering	158,691	169,741	168,830	911
Code Enforcement				
Personal Services	91,279	85,974	83,352	2,622
Supplies, Materials and Other	6,097	8,237	8,286	(49)
Total Code Enforcement	97,376	94,211	91,638	2,573
Public Works				
Supplies, Materials and Other	121,825	141,325	136,556	4,769
Total Public Works	121,825	141,325	136,556	4,769
Finance Accounting				
Personal Services	195,865	202,215	201,540	675
Supplies, Materials and Other	21,173	21,173	17,172	4,001
Total Finance Accounting	217,038	223,388	218,712	4,676

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Finance Income Tax				
Personal Services	87,440	90,405	90,865	(460)
Supplies, Materials and Other	25,110	28,315	22,180	6,135
Total Finance Income Tax	<u>112,550</u>	<u>118,720</u>	<u>113,045</u>	<u>5,675</u>
Finance Utility Billing				
Personal Services	77,471	74,471	72,538	1,933
Supplies, Materials and Other	55,702	52,702	47,525	5,177
Total Basic Utilities	<u>133,173</u>	<u>127,173</u>	<u>120,063</u>	<u>7,110</u>
Law Department				
Personal Services	111,937	147,177	141,498	5,679
Supplies, Materials and Other	12,000	12,000	11,333	667
Total Law Department	<u>123,937</u>	<u>159,177</u>	<u>152,831</u>	<u>6,346</u>
Non-Departmental				
Supplies, Materials and Other	122,537	251,037	248,207	2,830
Total Non-Departmental	<u>122,537</u>	<u>251,037</u>	<u>248,207</u>	<u>2,830</u>
Compost and Mulch				
Personal Services	-	18,295	18,264	31
Supplies, Materials and Other	-	1,550	1,400	150
Total Compost and Mulch	<u>-</u>	<u>19,845</u>	<u>19,664</u>	<u>181</u>
Total General Government	2,068,892	2,350,982	2,292,701	58,281
Security of Person and Property				
Police Services				
Personal Services	1,368,245	1,436,245	1,403,710	32,535
Supplies, Materials and Other	107,678	127,678	134,725	(7,047)
Total Police Services	<u>1,475,923</u>	<u>1,563,923</u>	<u>1,538,435</u>	<u>25,488</u>
Fire Services				
Personal Services	1,589,644	1,637,444	1,631,541	5,903
Supplies, Materials and Other	53,063	66,373	85,721	(19,348)
Total Fire Services	<u>1,642,707</u>	<u>1,703,817</u>	<u>1,717,262</u>	<u>(13,445)</u>
Ambulance Services				
Personal Services	9,857	11,132	11,025	107
Supplies, Materials and Other	44,477	63,642	59,352	4,290
Total Ambulance Services	<u>54,334</u>	<u>74,774</u>	<u>70,377</u>	<u>4,397</u>
Total Security of Person and Property	3,172,964	3,342,514	3,326,074	16,440
Health				
Supplies, Materials and Other	41,915	41,915	41,914	1
Total Health	<u>41,915</u>	<u>41,915</u>	<u>41,914</u>	<u>1</u>

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Leisure Activities				
Recreation Administration				
Personal Services	50,578	50,578	46,412	4,166
Supplies, Materials and Other	16,048	16,048	17,103	(1,055)
Total Recreation Administration	<u>66,626</u>	<u>66,626</u>	<u>63,515</u>	<u>3,111</u>
Recreation Programs				
Supplies, Materials and Other	12,000	15,550	14,652	898
Total Recreation Programs	<u>12,000</u>	<u>15,550</u>	<u>14,652</u>	<u>898</u>
Recreation-Pool				
Personal Services	44,589	44,589	36,937	7,652
Supplies, Materials and Other	35,755	36,755	43,639	(6,884)
Total Recreation-Pool	<u>80,344</u>	<u>81,344</u>	<u>80,576</u>	<u>768</u>
Recreation Parks				
Personal Services	64,855	70,605	70,812	(207)
Supplies, Materials and Other	32,887	42,392	40,515	1,877
Total Recreation Parks	<u>97,742</u>	<u>112,997</u>	<u>111,327</u>	<u>1,670</u>
Total Leisure Activities	256,712	276,517	270,070	6,447
Total Expenditures	<u>5,540,483</u>	<u>6,011,928</u>	<u>5,930,759</u>	<u>81,169</u>
Excess of Revenues Over/(Under) Expenditures	502,517	31,072	521,181	490,109
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(278,500)	(278,500)	(278,500)	-
Advances In	-	-	27,989	27,989
Advances Out	(20,000)	(20,000)	(46,318)	(26,318)
Total Financing Sources (Uses)	<u>(298,500)</u>	<u>(298,500)</u>	<u>(296,829)</u>	<u>1,671</u>
Net Change in Fund Balance	204,017	(267,428)	224,352	491,780
Fund Balance January 1, 2011	374,630	374,630	374,630	-
Prior Year Encumbrances	33,362	33,362	33,362	-
Fund Balance December 31, 2011	<u>\$ 612,009</u>	<u>\$ 140,564</u>	<u>\$ 632,344</u>	<u>\$ 491,780</u>

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
POLICE AND FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/(Under)</u>
<u>Revenues:</u>				
Income Taxes	\$ 964,300	\$ 1,159,300	\$ 1,067,977	\$ (91,323)
Total Revenues	<u>964,300</u>	<u>1,159,300</u>	<u>1,067,977</u>	<u>(91,323)</u>
<u>Expenditures:</u>				
Current:				
Public Safety				
Personal Services	1,189,147	1,139,647	1,122,310	17,337
Supplies, Materials and Other	81,611	61,611	57,730	3,881
Total Security of Persons and Property	<u>1,270,758</u>	<u>1,201,258</u>	<u>1,180,040</u>	<u>21,218</u>
Net Change in Fund Balance	(306,458)	(41,958)	(112,063)	(70,105)
Fund Balance January 1, 2011	105,263	105,263	105,263	-
Prior Year Encumbrances	8,555	8,555	8,555	-
Fund Balance December 31, 2011	<u>\$ (192,640)</u>	<u>\$ 71,860</u>	<u>\$ 1,755</u>	<u>\$ (70,105)</u>

CITY OF URBANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - BUDGETARY PROCESS

The City follows procedures prescribed by State law in establishing the budgetary data reflected in the financial statements as follows:

- (1) The City must submit a tax budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following year, January 1 through December 31.
- (2) The County Budget Commission certifies its actions by September 1 and issues an Official Certificate of Estimated Resources, (the "Certificate") limiting the maximum amount the City may expend from a given fund during the year to the estimated resources available.
- (3) About January 1, the Certificate is amended to reflect the actual unencumbered balances from the preceding year. The City must prepare its appropriations so that the total contemplated expenditures from any fund will not exceed the amount stated in the initial or amended Certificate.
- (4) A temporary appropriation measure may be passed to control cash disbursements for the period January 1 through March 31. Before April 1, a permanent appropriation measure must be passed for the period January 1 through December 31. The budget identifies specific expenditure amounts by object for each division within each fund.
- (5) Unencumbered appropriations lapse at year end. State Statute provides that no contract, agreement or other obligation involving the expenditure of money shall be entered into unless the Director of Finance first certifies that the money required for such contract, agreement, obligation or expenditure is in the treasury, or is anticipated to come into the treasury, before the maturity of such contract.
- (6) Several City funds are deemed appropriated by local ordinance or City Charter and are therefore exempt from the budget process. The City adopts budgets for the following governmental funds: General Fund, Street, Police and Fire Income Tax Levy, Airport, Oak Dale Cemetery, Highway, Police and Fire Pension Levy, Supplemental Investment, CDBG Program Income, Cemetery Trust Income, Fire Trust, Fire Safety Trust, and Police Trust.

The Mayor acts as budget officer for the City and submits a proposed operating budget to the City Council on an annual basis. Public hearings are held to obtain taxpayer comments. The Council enacts the budget through passage of an ordinance. The appropriation ordinance controls expenditures at the object level. Council can amend the budget at functional expense lines, through the passage of supplemental ordinances. Management can amend appropriations below this level without council approval. Supplemental appropriations to the original appropriations ordinance were made during the year.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental funds. Encumbrances outstanding at year end are reported as an assigned fund balance, since they do not constitute expenditures or liabilities. During 2011, the City did not properly encumber all expenditures as required by Ohio Revised Code Section 5705.41 (D).

CITY OF URBANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - BUDGETARY PROCESS (Continued)

While reporting financial position, results of operations and changes in fund balances 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. Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual are presented on the budgetary basis in the Required Supplementary Information to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (1) Revenues are recorded when received in cash (budget) as opposed to when they are both measurable and available (GAAP).
- (2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- (3) Encumbrances are recorded as the equivalent of expenditures (budget) as opposed to an assigned fund balance (GAAP).
- (4) Due to the implementation of GASB 54, some funds were reclassified to the General Fund. These funds are not required to be included in the General Fund Budgetary Statement. Therefore, the activity from these funds is excluded with an adjustment for their change in fund balance.

Reconciliation of the major differences between the budget basis and GAAP basis are as follows:

Net Change in Fund Balance		
	General Fund	Police & Fire Levy Fund
GAAP Basis	\$ 128,209	\$ (67,792)
Supplemental Investment Fund Change	(1,844)	-
Revenue Accruals	786,528	(15,232)
Expenditure Accruals	(628,074)	(27,688)
Other Financing	(18,329)	-
Encumbrances	(42,138)	(1,351)
Budget Basis	\$ 224,352	\$ (112,063)

CITY OF URBANA
CHAMPAIGN COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>(Passed through City of Bellefontaine and Ohio Department of Development)</i>			
Community Development Block Grants/State's Program	A-Z-08-2AL-1	14.228	\$18,239
	A-C-09-2EE-1		104,572
	A-F-10-2EE-1		42,113
Total Community Development Block Grants/State's Program			<u>164,924</u>
Home Investment Partnerships Program	A-C-09-2EE-2	14.239	312,549
Total U.S. Department of Housing and Urban Development			<u>477,473</u>
U.S. DEPARTMENT OF JUSTICE			
<i>(Passed through Ohio Attorney General)</i>			
Crime Victims Assistance	2011VAGENE591	16.575	15,632
	2012VAGENE591		4,698
Total Crime Victims Assistance			<u>20,330</u>
<i>(Direct)</i>			
Bulletproof Vest Partnership Program	10-052833	16.607	1,797
ARRA - Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	2009-SB-B9-2328	16.804	2,737
Total U.S. Department of Justice			<u>24,864</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>(Direct - Federal Aviation Administration)</i>			
Airport Improvement Program	AIP-3-39-0080-1509	20.106	29,114
	AIP-3-39-0080-1610		23,963
	AIP-3-39-0080-1711		4,402
Total Airport Improvement Program			<u>57,479</u>
<i>(Passed through Ohio Department of Transportation)</i>			
Highway Planning and Construction	PID 88380	20.205	1,370
Total U.S. Department of Transportation			<u>58,849</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>(Direct)</i>			
Assistance to Firefighters Grant	EMW-2010-FH-01048	97.044	99,973
Total U.S. Department of Homeland Security			<u>99,973</u>
Total Federal Financial Assistance			<u>\$661,159</u>

The accompanying notes to this schedule are an integral part of the schedule.

**CITY OF URBANA
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Urbana's (the City's federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The federal Department of Housing and Urban Development (HUD) grants money for these loans to the City. The initial loan of this money is recorded as a disbursement on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

These loans are collateralized by second mortgages on the property.

Activity in the CDBG revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011	\$29,645
Loans made:	
Uncollectible loan principal	5,209
Loan principal repaid	<u>3,780</u>
Ending loans receivable balance as of December 31, 2011	\$20,656
Cash balance on hand in the revolving loan fund as of December 31, 2011	\$57,111
Administrative costs expended during 2011	1,514

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2011, the City estimates \$0 to be uncollectible and \$6,503 is more than 90 days past due.

The uncollectible loan principal was approved by City Council on September 13, 2011 and is the balance received as a result of foreclosure proceedings.

NOTE C - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 16, 2012, wherein we noted the City adopted the provision of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and restated fund balances. 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 City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-04 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-01 described in the accompanying schedule of findings to be a significant deficiency.

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Compliance and Other Matters

As part of reasonably assuring whether the City'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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01, 2011-02, and 2011-03.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 16, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, City Council, pass-through entities, and others within the City. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

August 16, 2012



Dave Yost • Auditor of State

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

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

Compliance

We have audited the compliance of the City of Urbana, Champaign County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal programs. The City'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 opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 City's compliance with these 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 City's compliance with these requirements.

As described in finding 2011-05 in the accompanying schedule of findings, the City did not comply with requirements regarding cash management applicable to its Community Development Block Grant major federal program. Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Urbana complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The City'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 City's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-05 to be a material weakness.

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

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



Dave Yost
Auditor of State

August 16, 2012

**CITY OF URBANA
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA 14.228 - Community Development Block Grants/State's Program CFDA 14.239 - Home Investment Partnerships Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2011-01

NONCOMPLIANCE/SIGNIFICANT DEFICIENCY

Ohio Rev. Code § 5705.41(D)(1) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.
 - Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.
2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not extending beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

The City did not properly encumber 3 of 38 expenditures tested or approximately 8 percent.

**FINDING NUMBER 2011-01
(Continued)**

In addition, unrecorded encumbrances were identified in the General Fund (\$73,572) and Remaining Fund Information (\$21,379) opinion units for 2011 thus resulting in immaterial misclassifications of fund balance. Additionally, \$8,717 and \$6,508 in transactions were not properly certified in the Sewer and Water Funds, respectively; however encumbrances are not included on the financial statements for proprietary funds and therefore had no impact on the statements.

To improve financial reporting, controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, the City should certify that the funds are or will be available prior to the obligation. When prior certification is not possible, "then and now" certification should be used.

Official's Response:

We agree that expenditures should be encumbered for the three expenditures noted in the audit report to reduce potential budgetary control issues. Whenever feasible, the City of Urbana will incorporate the use of "Then and Now" certifications for future encumbrances.

FINDING NUMBER 2011-02

NONCOMPLIANCE

Ohio Rev. Code § 5705.10(H) states money paid into any fund shall be used only for the purpose for which such fund is established. Negative fund cash balances indicate money from one fund was used to cover the expenses of another fund.

At December 31, 2011, the City had the following negative cash fund balances:

S.R.T.S ODOT Fund (242)	(\$1,370)
Safer Grant (276)	(\$24,948)

The City should implement procedures to review cash fund balances prior to year end to ensure negative fund balances do not occur. This will help ensure the City is not spending unauthorized funds.

Official's Response:

We agree that negative fund balances should be eliminated at year-end, and we have procedures to control negative balances. These two particular funds are reimbursable Grants, and as such were reimbursed during Q1, 2012. Timing of reimbursements created the negative position, and we will strive to find a solution via inter-fund advances in the future.

FINDING NUMBER 2011-03

NONCOMPLIANCE

Ohio Revised Code § 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt, if the total amount of such moneys received exceeds \$1,000.

This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

**FINDING NUMBER 2011-03
(Continued)**

The Airport failed to deposit 17 percent of tested receipts timely in 2011. The receipts were deposited four to twelve days after the receipt date.

The Airport Manager and the City should implement procedures to ensure deposits are made timely. The deposits can be made either to the Finance Director or directly to the bank. These procedures will improve the receipting process and decrease the chance of missing funds.

Official's Response:

We agree that public funds should be deposited the next business day at the latest for receipts for funds greater than \$1,000. We will reinforce the daily deposit requirements for funds received from the Airport Management greater than \$1,000; and for funds less than \$1,000, we will reinforce the BTE (not to exceed) three business day requirement.

FINDING NUMBER 2011-04

MATERIAL WEAKNESS – Notes Receivable

The City records the repayment of principal on notes receivable to the cash accounting ledgers as miscellaneous revenue in the Perpetual Investment fund. The compiler of the annual financial statements converts these payments of principal as credits to its notes receivable in the Perpetual Investment fund as required by generally accepted accounting principles (GAAP). The compiler did not identify a repayment of principal in the amount of \$3,255 from the cash accounting ledgers resulting in an overstatement of miscellaneous revenue, overstatement to fund balance, and an overstatement of the notes receivable.

The failure to identify the \$3,255 repayment of principal resulted in an adjustment to the accompanying financial statements. Failure to properly account for the principle balance of the notes receivable could cause the improper calculation of interest due and paid, materially misstated financial statements, and could cause the improper amounts of principal repaid to the City.

As part of the annual financial statement preparation, the City should review the principal balance of the notes receivable with the compiler. The principal balance should be agreed to the repayment schedule, the annual financial statement, and to the City's cash accounting records. Discrepancies identified should be investigated and corrected.

Official's Response:

We agree that the \$3,255 note receivable should have been reviewed with the compiler, and will be in the future. This was the first year-end note repayment experienced with this particular investment, and corrective action between the City of Urbana and the compiler has already been established.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2011-05
CFDA Title and Number	CFDA #14.228 – Community Development Block Grant/State’s Program
Federal Award Number / Year	A-C-09-190-1/2011
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

NONCOMPLIANCE/MATERIAL WEAKNESS

24 C.F.R Section 85.21(c) states grantees and sub-grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or sub-grantee. **Section (A)(3)(f) of the Ohio Department of Development, Office of Housing and Community Partnership’s Financial Management Rules and Regulations Handbook,** require grantees to develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds. This rule states that fund draw downs should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt.

Grant A-C-09-190-1 balance at February 28, 2011 was \$8,590, thereafter, the balance of the grant at month end from March through September ranged from a low of \$5,848 to a high of \$54,163.

The failure to comply with the cash management requirements per the Ohio Department of Development Rules and Regulations could result in a loss of grant funding.

Procedures should be implemented by the Administration and Finance Offices to monitor Ohio Department of Development cash management requirements. A cash management system should be developed to monitor the fifteen day rule regarding the prompt disbursement of funds. Requests for Payments should be submitted for current cash needs. Procedures should be established to monitor the receipts, disbursements, and balances of the Community Development Block Grant funds to avoid excessive federal fund cash balances.

Official’s Response:

We understand and agree that CDBG funds disbursed should draw down to a \$5,000 floor level within 15 days and will strive to comply with the rule.

**CITY OF URBANA
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC 5705.41(D)(1) – expenditures were not properly encumbered	No	Repeated as Finding 2011-01
2010-002	Ohio Rev. Code Section 5705.10(H) – Negative fund cash balances	No	Repeated as Finding 2011-02

**CITY OF URBANA
CHAMPAIGN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-005	<p>For the future, we will not request funds until we are under contract and we will do our best to expend the funds in a timely manner. Furthermore, the City of Urbana files quarterly with ODOD for any funds that reside longer than 15 days and reports any interest that may accrue after the 15 day period. The City of Urbana did not exceed the \$100 allowable interest during the Grant period. Another corrective action we will investigate is to “front” the contractor payments from the City of Urbana, and then repay them when the Grant monies are disbursed. That recommendation short of asking for a 30 day cycle like all the other Grants is our only real alternative for a sustainable solution</p>	August 14, 2012	Amy Schocken

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Dave Yost • Auditor of State

CITY OF URBANA

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
SEPTEMBER 4, 2012