



**Auditor of State  
Betty Montgomery**



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis For the Year Ended June 30, 2003.....	3
Statement of Net Assets As of June 30, 2003.....	14
Statement of Activities For the Year Ended June 30, 2003.....	15
Balance Sheet Governmental Funds For the Year Ended June 30, 2003.....	16
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities - For the Year Ended June 30, 2003.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds - For the Year Ended June 30, 2003.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2003.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Year Ended June 30, 2003.....	20
Statement of Net Assets – Proprietary Fund - As of June 30, 2003.....	21
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund For the Year Ended June 30, 2003.....	22
Statement of Cash Flows – Proprietary Fund For the Year Ended June 30, 2003.....	23
Statement of Fiduciary Net Assets – Fiduciary Funds As of June 30, 2003.....	24
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds For the Year Ended June 30, 2003.....	25

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

TABLE OF CONTENTS  
(Continued)

TITLE	PAGE
Notes to the Financial Statements .....	27
Schedule of Federal Awards Expenditures For the Year Ended June 30, 2003.....	55
Notes to Schedule of Federal Awards Expenditures .....	56
Independent Accountants' Report on Compliance and on Internal Controls Required By <i>Government Auditing Standards</i> .....	57
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59
Schedule of Findings.....	61
Schedule of Prior Audit Findings.....	62



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements and schedules based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



**Betty Montgomery**  
Auditor of State

March 30, 2004

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of the Urbana City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$994,026 which represents a 15.55% increase from 2002.
- General revenues accounted for \$17,554,444 in revenue or 87.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,513,356 or 12.52% of total revenues of \$20,067,800.
- The District had \$19,073,774 in expenses related to governmental activities; \$2,513,356 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,554,444 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$16,918,976 in revenues and \$15,538,789 in expenditures. During fiscal 2003, the general fund's fund balance increased \$1,380,187 from \$2,485,487 to \$3,865,674.

**Using these Basic Financial Statements**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major governmental fund begins on page 16. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

**Governmental Funds**

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



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	<b>Net Assets</b>
	<b>Governmental Activities 2003</b>
	<u>2003</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 17,060,986
Capital assets	<u>3,075,527</u>
Total assets	<u>20,136,513</u>
<b><u>Liabilities</u></b>	
Current liabilities	10,463,879
Long-term liabilities	<u>2,287,611</u>
Total liabilities	<u>12,751,490</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	2,417,335
Restricted	1,703,510
Unrestricted	<u>3,264,178</u>
Total net assets	<u>\$ 7,385,023</u>

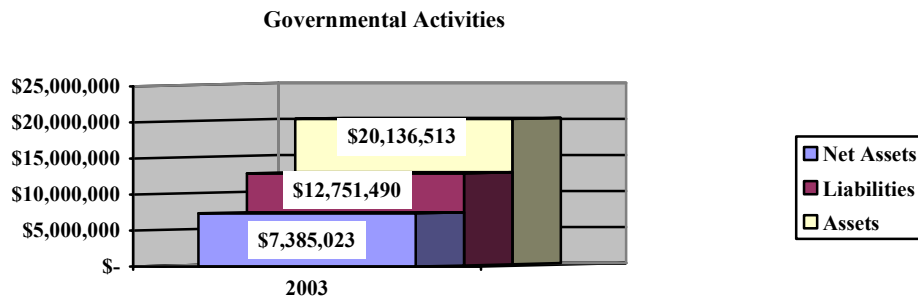
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$7,385,023. Of this total, \$3,264,178 is unrestricted in use.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

At year-end, capital assets represented 15.27% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$2,417,335. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,703,510, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,264,178 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	<b>Governmental Activities 2003</b>
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$ 957,982
Operating grants and contributions	1,555,374
General revenues:	
Property taxes	8,713,577
Grants and entitlements	8,628,165
Investment earnings	93,597
Other	119,105
Total revenues	<u>20,067,800</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

	<b>Change in Net Assets</b>
<u>Expenses</u>	<u>Governmental Activities 2003</u>
Program expenses:	
Instruction:	
Regular	\$ 8,316,803
Special	2,453,781
Vocational	253,990
Other	52,063
Support services:	
Pupil	1,221,368
Instructional staff	435,260
Board of education	26,954
Administration	1,582,904
Fiscal	172,284
Business	368,405
Operations and maintenance	1,944,021
Pupil transportation	617,429
Central	156,768
Food service operations	718,029
Operations of non-instructional services	37,409
Extracurricular activities	594,023
Intergovernmental	87,043
Interest and fiscal charges	35,240
Total expenses	<u>19,073,774</u>
Increase in net assets	<u>\$ 994,026</u>

**Governmental Activities**

Net assets of the District's governmental activities increased by \$994,026. Total governmental expenses of \$19,073,774 were offset by program revenues of \$2,513,356 and general revenues of \$17,554,444. Program revenues supported 13.18% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.42% of total governmental revenue.

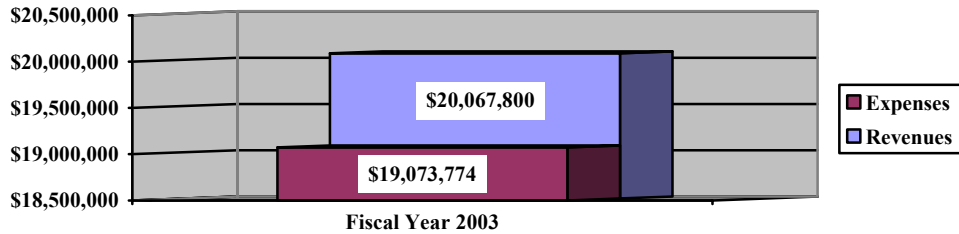
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,076,637 or 58.07% of total governmental expenses for fiscal 2003.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

**Governmental Activities**

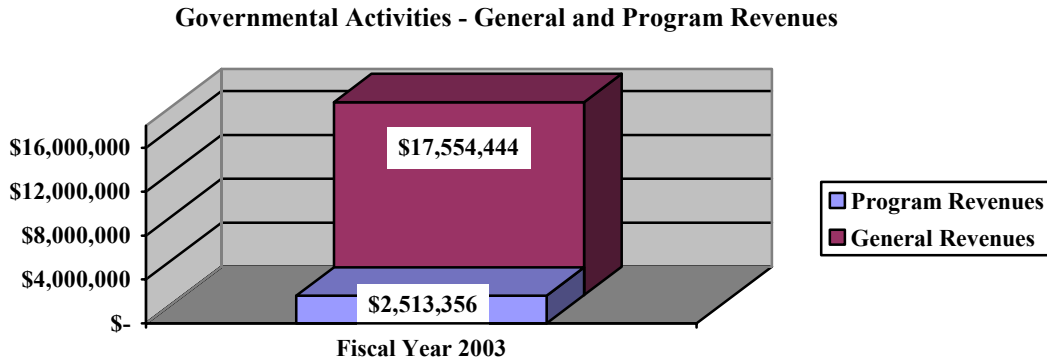
	<b>Total Cost of Services 2003</b>	<b>Net Cost of Services 2003</b>
<b>Program expenses</b>		
Instruction:		
Regular	\$ 8,316,803	\$ 7,827,875
Special	2,453,781	1,849,086
Vocational	253,990	251,361
Other	52,063	52,063
Support services:		
Pupil	1,221,368	1,179,799
Instructional staff	435,260	413,963
Board of education	26,954	26,954
Administration	1,582,904	1,503,600
Fiscal	172,284	172,284
Business	368,405	133,597
Operations and maintenance	1,944,021	1,934,500
Pupil transportation	617,429	601,090
Central	156,768	156,768
Operations of non-instructional services:		
Food service operations	718,029	21,756
Other non-instructional services	37,409	30,769
Extracurricular activities	594,023	343,131
Intergovernmental	87,043	26,582
Interest and fiscal charges	35,240	35,240
<b>Total expenses</b>	<b>\$ 19,073,774</b>	<b>\$ 16,560,418</b>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 90.10% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.82%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$5,398,158, which is higher than last year's total of \$4,329,371. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance June 30, 2003</u>	<u>Fund Balance June 30, 2002</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 3,865,674	\$ 2,485,487	\$ 1,380,187	55.53%
Other Governmental	<u>1,532,484</u>	<u>1,843,884</u>	<u>(311,400)</u>	(16.89)%
Total	<u>\$ 5,398,158</u>	<u>\$ 4,329,371</u>	<u>\$ 1,068,787</u>	24.69%

**General Fund**

The District's general fund balance increased by \$1,380,187 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in revenues over the previous year was due to an increase in school foundation, including parity aide by \$367,015 more than originally budgeted, reimbursements from previous summer school, and Medicaid. The District did not purchase new computers for the elementary buildings, but leased them from the Apple Computer Company, thus saving the expense in capital outlay, but will have a debt service payment for the next three years of \$75,000 each year.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 8,078,962	\$ 7,787,919	\$ 291,043	3.74%
Tuition	44,194	52,811	(8,617)	(16.32)%
Earnings on investments	85,844	128,342	(42,498)	(33.11)%
Other revenues	191,981	123,319	68,662	55.68%
Intergovernmental	<u>8,488,897</u>	<u>7,800,124</u>	<u>688,773</u>	8.83%
Total	<u>\$ 16,889,878</u>	<u>\$ 15,892,515</u>	<u>\$ 997,363</u>	6.28%
<b><u>Expenditures</u></b>				
Instruction	\$ 9,614,400	\$ 8,723,817	\$ 890,583	10.21%
Support services	5,286,110	5,371,054	(84,944)	(1.58)%
Non-instructional services	5,861	168	5,693	3388.69%
Extracurricular activities	357,418	331,209	26,209	7.91%
Capital outlay	-	213,771	(213,771)	(100)%
Debt service	<u>-</u>	<u>75,001</u>	<u>(75,001)</u>	(100)%
Total	<u>\$ 15,263,789</u>	<u>\$ 14,715,020</u>	<u>\$ 548,769</u>	3.73%

**General Fund Budgeting Highlights**

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

During the course of fiscal 2003, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$16,793,988 and final budgeted revenues and other financing sources were \$17,184,360. Actual revenues and other financing sources for fiscal 2003 was \$17,190,333. This represents a \$396,345 increase over original budgeted revenues. The increase in revenues is attributed to an increase in school foundation, reimbursements from previous summer school and Medicaid.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$17,112,951 and \$17,102,513, respectively. The actual budget basis expenditures for fiscal year 2003 totaled \$16,213,379, which was \$899,572 less than the original appropriations and \$889,134 less than final budget appropriations. Even though a new 3-year contract was settled with the teachers union, that amount was budgeted. Health insurance increased 13% and was budgeted for that. It was anticipated that the English, Language Arts textbooks and supplemental material would be purchased this year for all grade levels at a total cost of about \$500,000. However, these materials were purchased only for the junior high and high school. The elementary series will be purchased in the next fiscal year at an estimated cost of \$400,000.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2003, the District had \$3,075,527 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. See Note 8 to the basic financial statements for detail on capital assets. The following table shows fiscal 2003 balances compared to 2002:

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

	<b>Governmental Activities</b>	
	<b>2003</b>	<b>2002</b>
Land	\$ 206,575	\$ 206,575
Land improvements	197,755	217,005
Building and improvements	1,537,165	1,622,392
Furniture and equipment	745,265	900,248
Vehicles	322,267	300,215
Textbooks	66,500	68,833
<b>Total</b>	<b><u>\$ 3,075,527</u></b>	<b><u>\$ 3,315,268</u></b>

The overall decrease in capital assets of \$239,741 is due to depreciation expense of \$405,124 exceeding capital outlays of \$165,383 in the fiscal year.

**Debt Administration**

At June 30, 2003, the District had \$95,000 in general obligation bonds and \$250,000 in energy conservation notes outstanding. Of this total, \$30,000 is due within one year and \$315,000 is due within greater than one year. See Note 10 to the basic financial statements for detail on long-term obligations. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	<b>Governmental Activities 2003</b>	<b>Governmental Activities 2002</b>
	General obligation bonds	\$ 95,000
Energy conservation notes	250,000	265,000
<b>Total</b>	<b><u>\$ 345,000</u></b>	<b><u>\$ 375,000</u></b>

On July 6, 1999, the District issued general obligation bonds for building improvements. The bonds were issued for a twenty year period with final maturity during fiscal year 2009 and have an interest rate of 5.501%.

On December 1, 1999, the District issued energy conservation notes to upgrade buildings and reduce energy consumption. The bonds mature in fiscal year 2014 and have an annual interest rate of 5.60%.

At June 30, 2003, the District's overall legal debt margin was \$24,062,103, and an unvoted debt margin of \$173,228.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Current Related Financial Activities**

The District is facing future challenges in the area of state funding. The State of Ohio was found by the Ohio Supreme Court in March of 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future state funding and on its financial operations.

Concerns regarding the effects of House Bill 95, passed in June 2003, on the District finances are facing the Board and Administration also. House Bill 95 eliminated three-year averaging of average daily membership (ADM) counts. It is anticipated that the District will lose over \$300,000 due to the loss of the three-year average of ADM, and the loss could be more as the ripple affect of the ADM affects the parity aide and excess costs supplement. If the District continues to have declining enrollment, the effects of the loss of the three-year average could be devastating. It is difficult to determine at this time the true impact to the District of the increased phase-out of the Personal Tangible Inventory Tax, since these returns are private and little information is available through the State Department of Taxation. By using the estimated 1998 tables, it is estimated that the District will lose \$1,500,000 over the next ten years due to the loss of tangible personal inventory tax. The \$150,000 per year loss compounded will begin with fiscal year 2004.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board has developed a "Steps to Success" committee to develop a plan for school building replacement/renovation, grade configuration, building numbers and locations. The Board and administration will be working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 39% approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers.

The District formed a community school during fiscal 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function well in the regular school system. As it does not have the minimum enrollment of 25 students, the state and federal grant funds were deposited in an agency fund of the District and expended for planning services during the school year. It is anticipated that the Urbana Community School will attain the 25 students it needs to open, and will have its own fiscal accountability.

The District has committed itself to educational and financial excellence for many years. The budgeting and internal controls utilized by the District are well regarded by the Auditor of State, as noted in the audit opinions that have been received. Each challenge identified in this section is viewed as an opportunity to continue its commitment to excellence. The District is committed to living within its financial means and working with the community it serves in order to maintain adequate resources to support the educational program.

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



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Contacting the District's Financial Management**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2003**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$7,802,997
Receivables:	
Taxes	9,212,173
Accounts	1,793
Intergovernmental	32,249
Accrued interest	5,294
Materials and supplies inventory	6,480
Capital assets:	
Land	206,575
Depreciable capital assets, net	2,868,952
Capital assets, net	3,075,527
 Total assets	 20,136,513
 <b>Liabilities:</b>	
Accounts payable	141,520
Contracts payable	5,354
Accrued wages and benefits	1,521,619
Pension obligation payable	365,843
Intergovernmental payable	75,362
Deferred revenue	8,099,691
Accrued interest payable	3,461
Claims payable	251,029
Long-term liabilities:	
Due within one year	540,620
Due within more than one year	1,746,991
Total liabilities	12,751,490
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt	2,417,335
Restricted for:	
Capital projects	502,302
Debt service	13,102
Other purposes	1,188,106
Unrestricted	3,264,178
Total net assets	\$7,385,023

*See accompanying notes to the basic financial statements.*



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$4,614,204	\$1,612,483	\$6,226,687
Receivables:			
Taxes	8,641,941	570,232	9,212,173
Accounts	619	1,174	1,793
Intergovernmental	7,555	24,694	32,249
Interfund loans	15,185		15,185
Accrued interest	5,294		5,294
Materials and supplies inventory		6,480	6,480
Restricted assets:			
Equity in pooled cash and cash equivalents	<u>674,907</u>		<u>674,907</u>
 Total assets	 <u>13,959,705</u>	 <u>2,215,063</u>	 <u>16,174,768</u>
<b>Liabilities:</b>			
Accounts payable	120,930	20,590	141,520
Contracts payable		5,354	5,354
Accrued wages and benefits	1,458,151	63,468	1,521,619
Compensated absences payable	20,756	13,179	33,935
Pension obligation payable	242,686	8,078	250,764
Intergovernmental payable	69,947	5,415	75,362
Interfund loan payable		15,185	15,185
Deferred revenue	<u>8,181,561</u>	<u>551,310</u>	<u>8,732,871</u>
 Total liabilities	 <u>10,094,031</u>	 <u>682,579</u>	 <u>10,776,610</u>
<b>Fund Balances:</b>			
Reserved for encumbrances	465,381	281,971	747,352
Reserved for materials and supplies inventory		6,480	6,480
Reserved for tax revenue unavailable for appropriation	460,380	32,980	493,360
Reserved for budget stabilization	113,449		113,449
Reserved for textbooks	474,431		474,431
Reserved for school bus purchases	87,027		87,027
Designated for budget stabilization	252,599		252,599
Unreserved, undesignated, reported in:			
General fund	2,012,407		2,012,407
Special revenue funds		967,733	967,733
Debt service fund		16,563	16,563
Capital projects funds		<u>226,757</u>	<u>226,757</u>
 Total fund balances	 <u>3,865,674</u>	 <u>1,532,484</u>	 <u>5,398,158</u>
 Total liabilities and fund balances	 <u>\$13,959,705</u>	 <u>\$2,215,063</u>	 <u>\$16,174,768</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003**

<b>Total governmental fund balances</b>		<b>\$5,398,158</b>
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,075,527
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$619,122	
Intergovernmental revenue	<u>14,058</u>	
Total		633,180
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		650,374
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,595,484	
Pension obligation payable	115,079	
General obligation bonds	95,000	
Energy conservation notes	250,000	
Capital lease obligation	313,192	
Accrued interest payable	<u>3,461</u>	
Total		<u>(2,372,216)</u>
<b>Net assets of governmental activities</b>		<b><u>\$7,385,023</u></b>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
From local sources:			
Taxes	\$8,078,962	\$523,686	\$8,602,648
Tuition	44,194	2,338	46,532
Charges for services		373,293	373,293
Earnings on investments	85,844	1,629	87,473
Extracurricular		395,067	395,067
Other local revenues	48,057	138,083	186,140
Other revenue	143,924	70,526	214,450
Intergovernmental - State	8,488,897	364,796	8,853,693
Intergovernmental - Federal		1,085,739	1,085,739
<b>Total revenue</b>	<b>16,889,878</b>	<b>2,955,157</b>	<b>19,845,035</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	7,634,090	423,450	8,057,540
Special	1,676,177	755,790	2,431,967
Vocational	252,070		252,070
Other	52,063		52,063
Support services:			
Pupil	1,149,843	48,526	1,198,369
Instructional staff	382,897	23,949	406,846
Board of education	26,527		26,527
Administration	1,331,552	202,172	1,533,724
Fiscal	164,103		164,103
Business	152,745	203,520	356,265
Operations and maintenance	1,288,367	82,616	1,370,983
Pupil transportation	640,469	5,152	645,621
Central	149,607	7,161	156,768
Operation of non-instructional services:			
Food service operations		658,478	658,478
Other non-instructional services	5,861	15,798	21,659
Extracurricular activities	357,418	248,181	605,599
Facilities acquisition and construction		585,329	585,329
Intergovernmental pass through		87,043	87,043
Debt service:			
Principal retirement		148,483	148,483
Interest and fiscal charges		39,145	39,145
<b>Total expenditures</b>	<b>15,263,789</b>	<b>3,534,793</b>	<b>18,798,582</b>
Excess of revenues under expenditures	1,626,089	(579,636)	1,046,453
<b>Other financing sources (uses):</b>			
Transfers in		334,879	334,879
Transfers (out)	(275,000)	(59,879)	(334,879)
Proceeds from sale of capital assets	29,098	50	29,148
<b>Total other financing sources (uses)</b>	<b>(245,902)</b>	<b>275,050</b>	<b>29,148</b>
Net change in fund balances	1,380,187	(304,586)	1,075,601
<b>Fund balances at beginning of year (restated)</b>	<b>2,485,487</b>	<b>1,843,884</b>	<b>4,329,371</b>
<b>Decrease in reserve for inventory</b>		<b>(6,814)</b>	<b>(6,814)</b>
<b>Fund balances at end of year</b>	<b>\$3,865,674</b>	<b>\$1,532,484</b>	<b>\$5,398,158</b>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Net change in fund balances - total governmental funds** \$1,075,601

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period. (239,741)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (6,814)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 119,609

Repayment of bonds, notes and captal leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 148,483

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 3,905

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (113,541)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 6,524

**Change in net assets of governmental activities** \$994,026

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Over (Under)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
<b>Revenues:</b>				
From local sources:				
Taxes	\$7,851,235	\$8,037,348	\$8,026,212	(\$11,136)
Tuition	43,230	44,255	44,194	(61)
Earnings on investments	84,342	86,341	86,221	(120)
Other local revenues	46,459	47,560	47,495	(65)
Other revenue	138,889	142,181	141,984	(197)
Intergovernmental - State	8,303,833	8,500,675	8,488,897	(11,778)
Total revenue	<u>16,467,988</u>	<u>16,858,360</u>	<u>16,835,003</u>	<u>(23,357)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	7,532,108	8,007,014	7,779,205	227,809
Special	1,637,837	1,741,104	1,691,568	49,536
Vocational	267,195	284,042	275,961	8,081
Other	78,978	83,958	81,569	2,389
Support services:				
Pupil	1,310,725	1,289,306	1,173,133	116,173
Instructional staff	410,779	404,067	367,659	36,408
Board of education	30,839	30,335	27,602	2,733
Administration	1,516,672	1,491,888	1,357,462	134,426
Fiscal	194,181	191,008	173,797	17,211
Business	175,977	173,102	157,504	15,598
Operations and maintenance	1,466,416	1,442,454	1,312,482	129,972
Pupil transportation	795,804	782,800	712,266	70,534
Central	174,112	171,267	155,835	15,432
Operation of non-instructional services			5,982	(5,982)
Extracurricular activities	350,168	360,168	346,614	13,554
Total expenditures	<u>15,941,791</u>	<u>16,452,513</u>	<u>15,618,639</u>	<u>833,874</u>
Excess of revenues over (under) expenditures	<u>526,197</u>	<u>405,847</u>	<u>1,216,364</u>	<u>810,517</u>
<b>Other financing sources (uses):</b>				
Transfers in	319,000	319,000	319,740	740
Transfers (out)	(1,150,336)	(638,443)	(594,740)	43,703
Advances (out)	(20,824)	(11,557)		11,557
Refund of prior year expenditure	6,000	6,000	6,492	492
Proceeds from sale of capital assets	1,000	1,000	29,098	28,098
Total other financing sources (uses)	<u>(845,160)</u>	<u>(324,000)</u>	<u>(239,410)</u>	<u>84,590</u>
Net change in fund balance	(318,963)	81,847	976,954	895,107
<b>Fund balance at beginning of year (restated)</b>	3,566,821	3,566,821	3,566,821	
<b>Prior year encumbrances appropriated</b>	256,791	256,791	256,791	
<b>Fund balance at end of year</b>	<u>\$3,504,649</u>	<u>\$3,905,459</u>	<u>\$4,800,566</u>	<u>\$895,107</u>

See accompanying notes to the basic financial statements.



URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2003

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$901,403
Total assets	901,403
<b>Liabilities:</b>	
Claims payable	251,029
Total liabilities	251,029
<b>Net assets:</b>	
Unrestricted	650,374
Total net assets	<u>\$650,374</u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services	\$1,461,646
Total operating revenues	1,461,646
<b>Operating expenses:</b>	
Claims and administrative services	1,461,891
Total operating expenses	1,461,891
Operating loss	(245)
<b>Nonoperating revenues:</b>	
Interest revenue	6,769
	6,769
Change in net assets	6,524
<b>Net assets at beginning of year</b>	643,850
<b>Net assets at end of year</b>	\$650,374

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services	\$1,461,646
Cash payments for claims and administrative services	<u>(1,396,256)</u>
Net cash provided by operating activities	<u>65,390</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>6,769</u>
Net cash provided by investing activities	<u>6,769</u>
Net increase in cash and cash equivalents	72,159
<b>Cash and cash equivalents at beginning of year</b>	<u>829,244</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>901,403</u></u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss	(245)
Changes in liabilities:	
Increase in claims payable	<u>65,635</u>
Net cash provided by operating activities	<u><u>\$65,390</u></u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003**

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$85,751	\$46,975
Receivables:		
Interest	71	
	85,822	46,975
<b>Total assets</b>	<b>85,822</b>	<b>46,975</b>
<b>Liabilities:</b>		
Accounts payable	101	176
		1,013
Due to students		45,786
	101	46,975
<b>Total liabilities</b>	<b>101</b>	<b>\$46,975</b>
<b>Net Assets:</b>		
Held in trust for scholarships	85,721	
	85,721	
<b>Total net assets</b>	<b>\$85,721</b>	

*See accompanying notes to the basic financial statements.*

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$1,356
Gifts and contributions	<u>14,000</u>
Total additions	<u>15,356</u>
<b>Deductions:</b>	
Scholarships awarded	<u>12,720</u>
Change in net assets	2,636
Net assets at beginning of year	<u>83,085</u>
Net assets at end of year	<u><u>\$85,721</u></u>

*See accompanying notes to the basic financial statements.*

**This page intentionally left blank.**

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

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

The District is the 222<sup>nd</sup> largest in the State of Ohio among 740 public and community school districts in terms of enrollment. It currently operates 3 elementary school, 1 intermediate, 1 junior high, and 1 high school. The District is staffed by 91 non-certified and 175 certificated personnel to provide services to approximately 2,388 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**1. Jointly Governed Organizations**

**Western Ohio Computer Organization**

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

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

**Metropolitan Education Council**

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

**Ohio Hi-Point Joint Vocational School District**

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

**West Central Ohio Special Education Regional Resource Center**

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



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**2. Insurance Purchasing Pool**

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

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

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

**B. Fund Accounting**

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

**1. Governmental Funds**

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

**General Fund**

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

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

**2. Proprietary Fund**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**Internal Service Fund**

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

**3. Fiduciary Funds**

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

**C. Basis of Presentation and Measurement Focus**

**1. Government-wide Financial Statements**

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

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

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

**2. Fund Financial Statements**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

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

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

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

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Non-exchange Transactions**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

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

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**3. Expenses/Expenditures**

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

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures for all funds except the general fund and the permanent improvement funds, the District has elected to present budgetary statements comparisons at the fund and function level of expenditures for all governmental funds.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds other than the general fund, or alter total function appropriations within the general fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**F. Cash and Investments**

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

During fiscal year 2003, investments were limited to STAR Ohio, certificates of deposit and a Fifth Third Bank government money market. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and a Fifth Third Bank government money market are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$85,844, which includes \$23,446 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. During fiscal year 2003, the District increased its capitalization threshold from \$500 to \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District possesses underground wastewater equipment.

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2003, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

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

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

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, and property tax revenue unavailable for appropriation, budget stabilization, instructional materials and bus purchase allowance. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Operating Revenues and Expenses**

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

**N. Net Assets**

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

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



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**O. Estimates**

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

**P. Restricted Assets**

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

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparison for the general fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

**Governmental Activities - Fund Reclassification and Restatement of Fund Balance -** Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<b>General</b>	<b>Nonmajor</b>	<b>Total</b>
Fund balance June 30, 2002	\$2,463,247	\$1,715,558	\$4,178,805
Fund reclassifications	1,101	128,326	129,427
Implementation of GASB Interpretation No. 6	21,139	-	21,139
Restated fund balance, June 30, 2002	<b>\$2,485,487</b>	<b>\$1,843,884</b>	<b>\$4,329,371</b>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<b>Total</b>
Restated fund balance, June 30, 2002	\$4,329,371
GASB 34 adjustments:	
Long-term (deferred) assets	513,571
Capital assets	3,315,268
Accrued interest payable	(7,366)
Pension obligation	(90,056)
Long-term liabilities	(2,313,641)
Internal service fund	643,850
Governmental activities net assets, June 30, 2002	<b>\$6,390,997</b>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2003 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$15,739
Title VI	5,157

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Deposits:** At year-end, the carrying amount of the District's deposits was \$6,354,746 and the bank balance was \$6,657,645 (both amounts include \$42,428 in non-negotiable certificates of deposit). Of the bank balance:

1. \$418,236 was covered by federal depository insurance deposited with the District; and
2. \$6,239,409 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	<b>Category 3</b>	<b>Reported Amount</b>	<b>Fair Value</b>
Fifth Third Bank government money market	<u>\$1,555,777</u>	<u>\$1,555,777</u>	<u>\$1,555,777</u>
Total	<u>\$1,555,777</u>		
Investment in STAR Ohio		<u>25,000</u>	<u>25,000</u>
Total investments		<u>\$1,580,777</u>	<u>\$1,580,777</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	<u>\$7,935,723</u>	<u>\$0</u>
Investments of the cash management pool:		
Fifth Third Bank government money market	(1,555,777)	1,555,777
Investment in STAR Ohio	(25,000)	25,000
Cash on hand	<u>(200)</u>	<u>-</u>
GASB Statement No. 3	<u>\$6,354,746</u>	<u>\$1,580,777</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**5. INTERFUND TRANSACTIONS**

A. Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$15,185

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the Statement of Net Assets.

B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General Fund	\$275,000

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**6. PROPERTY TAXES (Continued)**

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$460,380 in the general fund and \$32,980 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$407,630 in the general fund and \$40,132 in the permanent improvement fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	<b>2002 Second Half Collections</b>		<b>2003 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/residential and other real estate	\$204,744,180	77.78	\$206,553,970	77.01
Public utility personal	11,588,480	4.40	12,482,320	4.65
Tangible personal property	46,882,954	17.82	49,191,715	18.34
<b>Total</b>	<b>\$263,215,614</b>	<b>100.00</b>	<b>\$268,228,005</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation	\$58.30		\$60.30	

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**7. RECEIVABLES**

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<u><b>Governmental Activities</b></u>	
Property taxes	\$9,212,173
Accounts	1,793
Intergovernmental	32,249
Accrued interest	<u>5,294</u>
Total receivables	<u><u>\$9,251,509</u></u>

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

**8. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (See Note 2.H. for detail) and to include land values not reported in the prior year:

	<u><b>Balance 6/30/02</b></u>	<u><b>Adjustments</b></u>	<u><b>Restated Balance 6/30/02</b></u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$0	\$206,575	\$206,575
Total capital assets, not being depreciated	<u>-</u>	<u>206,575</u>	<u>206,575</u>
Capital assets, being depreciated:			
Land improvements	618,701	(65,401)	553,300
Buildings and improvements	7,735,449	(3,102,107)	4,633,342
Furniture and equipment	3,889,173	(1,033,698)	2,855,475
Vehicles	735,761	204,125	939,886
Infrastructure	-	70,000	70,000
Total capital assets, being depreciated	<u>12,979,084</u>	<u>(3,927,081)</u>	<u>9,052,003</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(5,943,310)</u>	<u>(5,943,310)</u>
Governmental activities capital assets, net	<u><u>\$12,979,084</u></u>	<u><u>(\$9,663,816)</u></u>	<u><u>\$3,315,268</u></u>



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**8. CAPITAL ASSETS (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance 06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/03</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$206,575	\$0	\$0	\$206,575
Total capital assets, not being depreciated	<u>206,575</u>			<u>206,575</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	553,300			553,300
Buildings and improvements	4,633,342			4,633,342
Furniture and equipment	2,855,475	71,542		2,927,017
Vehicles	939,886	93,841		1,033,727
Textbooks	70,000			70,000
Total capital assets, being depreciated	<u>9,052,003</u>	<u>165,383</u>		<u>9,217,386</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(336,295)	(19,250)		(355,545)
Buildings and improvements	(3,010,950)	(85,227)		(3,096,177)
Furniture and equipment	(1,955,227)	(226,525)		(2,181,752)
Vehicles	(639,671)	(71,789)		(711,460)
Textbooks	(1,167)	(2,333)		(3,500)
Total accumulated depreciation	<u>(5,943,310)</u>	<u>(405,124)</u>		<u>(6,348,434)</u>
Governmental activities capital assets, net	<u>\$3,315,268</u>	<u>(\$239,741)</u>	<u>\$0</u>	<u>\$3,075,527</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$219,385
Special	5,688
Vocational	1,916
<b>Support Services:</b>	
Pupil	10,170
Instructional staff	17,431
Administration	9,368
Fiscal	1,205
Business	402
Operations and maintenance	45,054
Pupil transportation	72,191
Noninstructional	15,486
Extracurricular activities	6,828
Total depreciation expense	<u>\$405,124</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**9. CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

Capital assets consisting of buildings have been capitalized in the amount of \$502,200 and equipment have been capitalized in the amount of \$213,771. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2003 totaled \$118,483 paid by the debt service fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

<u>Fiscal Year Ending June 30,</u>	
2004	<u>\$326,347</u>
Total minimum lease payments	326,347
Less: amount representing interest	<u>(13,155)</u>
Total	<u><u>\$313,192</u></u>

**10. LONG-TERM OBLIGATIONS**

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2003:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding July 1, 2002</u>	<u>Issued in Fiscal 2003</u>	<u>Retired in Fiscal 2003</u>	<u>Notes Outstanding June 30, 2003</u>
Energy conservation note	5.60%	12/01/99	06/01/14	\$265,000	\$0	(\$15,000)	\$250,000
Total				<u>\$265,000</u>	<u>\$0</u>	<u>(\$15,000)</u>	<u>\$250,000</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

<u>Year Ending June 30</u>	<u>Principal on Energy Conservation Notes</u>	<u>Interest on Energy Conservation Notes</u>	<u>Total</u>
2004	\$15,000	\$12,750	\$27,750
2005	20,000	13,365	33,365
2006	20,000	12,135	32,135
2007	20,000	11,095	31,095
2008	20,000	10,010	30,010
2009 - 2013	125,000	31,625	156,625
2014	30,000	1,785	31,785
Total	<u>\$250,000</u>	<u>\$92,765</u>	<u>\$342,765</u>

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

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

The following is a description of the District's general obligation bonds outstanding as of June 30, 2003:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding July 1, 2002</u>	<u>Issued in Fiscal 2003</u>	<u>Retired in Fiscal 2003</u>	<u>Bonds Outstanding June 30, 2003</u>
Facilities improvement	5.501%	07/06/99	06/01/09	\$110,000	\$0	(\$15,000)	\$95,000
Total				<u>\$110,000</u>	<u>\$0</u>	<u>(\$15,000)</u>	<u>\$95,000</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$15,000	\$4,988	\$19,988
2005	15,000	4,200	19,200
2006	15,000	3,575	18,575
2007	15,000	2,750	17,750
2008	15,000	1,960	16,960
2009	<u>20,000</u>	<u>1,150</u>	<u>21,150</u>
Total	<u>\$95,000</u>	<u>\$18,623</u>	<u>\$113,623</u>

E. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased from \$1,438,390 to \$1,478,696 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$101,692 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$61,386 from \$2,346,757 to \$2,285,371. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	<u>Restated Balance Outstanding 06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/03</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$110,000	\$0	(\$15,000)	\$95,000	\$15,000
Energy conservation notes	265,000		(15,000)	250,000	15,000
Capital lease obligation	431,675		(118,483)	313,192	313,192
Compensated absences	<u>1,478,696</u>	<u>326,871</u>	<u>(176,148)</u>	<u>1,629,419</u>	<u>197,428</u>
Total long-term obligations, governmental activities	<u>\$2,285,371</u>	<u>\$326,871</u>	<u>(\$324,631)</u>	<u>\$2,287,611</u>	<u>\$540,620</u>

**F. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that un-voted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$24,062,103 (including available funds of \$16,583), an unvoted debt margin of \$173,228, and an unvoted energy conservation debt margin of \$2,164,052.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**11. RISK MANAGEMENT**

**A. Comprehensive and Employee Health**

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

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

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

The District provides medical/surgical benefits through a self-insurance program. The District maintains a self-insurance internal service fund to account for and finance its required reserves for this program to its employees. Monthly premiums and claims are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$60,000 per employee per year, and \$1.0 million group aggregate for fiscal 2003. The premiums are paid by the District at a rate of 100% for all employees. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

The claims liability of \$251,029 reported in the internal service fund at June 30, 2003, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the District's third party administrator.

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

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$185,394	\$1,461,891	(\$1,396,256)	\$251,029
2002	194,096	909,080	(917,782)	185,394

The District continues to carry commercial insurance for all others risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2002.

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**11. RISK MANAGEMENT**

**B. Worker's Compensation**

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**12. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 8.17% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$287,568, \$267,756 and \$271,968, respectively; 66.3% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$146,484, represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,182,516, \$1,116,180, \$1,029,420, respectively; 85.5% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$201,936, represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.20 percent of wages paid.

**13. POST-EMPLOYMENT BENEFITS**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**13. POST EMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$94,425 during fiscal 2003.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$165,452 during the 2003 fiscal year.

**14. BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**14. BUDGETARY BASIS OF ACCOUNTING (Continued)**

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

**Net Change in Fund Balance**

	<b>General Fund</b>
Budget basis	\$976,954
Net adjustment for revenue accruals	54,875
Net adjustment for expenditure accruals	(133,695)
Net adjustment for other sources/uses	(6,492)
Adjustment for encumbrances	488,545
GAAP basis	\$1,380,187

**15. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. State School Funding Decision**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**16. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of July 1, 2002	\$361,662	(\$263,336)	\$350,271
Current year set-aside requirement	319,740	319,740	-
Additional money set-aside	-	-	15,777
Current year offsets	-	(530,838)	-
Qualifying disbursements	(206,971)	-	-
Total	<u>\$474,431</u>	<u>(\$474,434)</u>	<u>\$366,048</u>
Cash balance carried forward to FY 2004	<u>\$474,431</u>	<u>(\$474,434)</u>	<u>\$366,048</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. Additional monies of \$15,777 were set-aside by the school board during fiscal 2003 for budget stabilization. The balance in the budget stabilization at June 30, 2003 was \$366,048.

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

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

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for instructional materials	\$474,431
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>87,027</u>
Total restricted assets	<u>\$674,907</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. Department of Agriculture</b>						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A		\$67,239		\$67,239
School Breakfast Program	10.553	05-PU-03	\$41,736		\$41,736	
National School Lunch Program	10.555	LL-P4-02	51,715		51,715	
		LL-P4-03	177,456		177,456	
Total National School Lunch Program			<u>229,171</u>		<u>229,171</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			270,907	67,239	270,907	67,239
<b>U.S. Department of Education</b>						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-02			86,385	
		C1-S1-03	318,680		280,041	
Total Title I Grants to Local Educational Agencies			<u>318,680</u>		<u>366,426</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-02-P	1,440		146,341	
		6B-SD-03-P	45,000		36,124	
		6B-SF-03-P	311,336		311,336	
Total Special Education Grants to States			<u>357,776</u>		<u>493,801</u>	
<i>(Passed through Madison-Champaign Educational Service )</i>						
Special Education - Preschool Grants	84.173	PG-S1-1P	28,243		28,243	
Total Special Education Cluster			386,019		522,044	
<i>(Passed through Ohio Department of Education)</i>						
Safe and Drug Free Schools and Communities State Grant	84.186	DR-S1-02			1,610	
		DR-S1-03	12,146		8,633	
Total Safe and Drug Free Schools and Communities State Grant			<u>12,146</u>		<u>10,243</u>	
Goals 2000	84.276	G2-S2-02			5,679	
		G2-S8-02			11,687	
Total Goals 2000					<u>17,366</u>	
Eisenhower Professional Development State Grants	84.281	MS-S1-01			2,211	
		MS-S1-02	1,404		4,252	
Total Eisenhower Professional Development State Grants			<u>1,404</u>		<u>6,463</u>	
Innovative Education Program Strategies	84.298	C2-S1-02			10,437	
		C2-S1-03	2,725		1,781	
Total Innovative Education Program Strategies			<u>2,725</u>		<u>12,218</u>	
Education Technology State Grants	84.318	TJ-S1-03	6,656		5,759	
School Renovation, IDEA and Technology	84.352A	AT-S2-02	790			
		AT-S3-02	1,877			
Total School Renovation, IDEA and Technology			<u>2,667</u>			
Title VI-R - Class Reduction Grant	84.340	CR-S1-02	2,534		2,534	
Improving Teacher Quality State Grants	84.367	TR-S1-03	120,562		108,429	
Total U.S. Department of Education			<u>853,393</u>		<u>1,051,482</u>	
<b>U.S. Department of Health and Human Services</b>						
<i>(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
CAFS - Medicaid	93.778	N/A	89,409		89,409	
Total U. S. Department of Health and Human Services			<u>89,409</u>		<u>89,409</u>	
Total Federal Financial Assistance			<u>\$1,213,709</u>	<u>\$67,239</u>	<u>\$1,411,798</u>	<u>\$67,239</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 30, 2004, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 30, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 30, 2004.

Urbana City School District  
Champaign County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 30, 2004



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Urbana City School District, Champaign County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Urbana City School District, Champaign County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

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

**Internal Control Over Compliance  
(Continued)**

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

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



**Betty Montgomery**  
Auditor of State

March 30, 2004



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
FISCAL YEAR ENDED JUNE 30, 2003**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster: 84.027 – Special Education Grants to States 84.173 – Special Education – Preschool Grants
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

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

None

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**FISCAL YEAR ENDED JUNE 30, 2003  
SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><u>Explain:</u></b>
2002-10311-001	Revised Code 5705.41 (B) – expenditures exceeded appropriations at the legal level of control	Partially	Reported in a separate letter to management of the District.
2002-10311-002	Fixed asset addition listing incorrectly stated	Partially	Reported in a separate letter to management of the District.



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**URBANA CITY SCHOOL DISTRICT**

**CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 29, 2004**