



Mary Taylor, CPA  
Auditor of State



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

February 23, 2007

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)**

The discussion and analysis of the Urbana City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$416,588 which represents a 4.91% decrease from 2005.
- General revenues accounted for \$18,400,450 in revenue or 84.50% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,244,749 or 14.90% of all revenues. The District also had an extraordinary item for insurance reimbursement in the amount of \$129,629 that accounted for .60% of total revenues of \$21,774,828.
- The District had \$22,191,416 in expenses related to governmental activities; \$3,244,749 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,400,450 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$18,482,273 in revenues, including \$129,629 extraordinary item for insurance reimbursement and \$18,776,813 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance decreased \$294,540 from \$4,089,149 to \$3,794,609.

**Using these Basic Financial Statements**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

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

**Fund Financial Statements**

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

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**Proprietary Funds**

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-54 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>
<b>Assets</b>		
Current and other assets	\$18,751,090	\$19,569,846
Capital assets	3,508,429	3,700,756
<b>Total assets</b>	<u>22,259,519</u>	<u>23,270,602</u>
<b>Liabilities</b>		
Current liabilities	11,346,758	11,412,574
Long-term liabilities	2,846,094	3,374,773
<b>Total liabilities</b>	<u>14,192,852</u>	<u>14,787,347</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,478,429	2,430,756
Restricted	2,575,403	3,083,407
Unrestricted	<u>3,012,835</u>	<u>2,969,092</u>
<b>Total net assets</b>	<u><u>\$8,066,667</u></u>	<u><u>\$8,483,255</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$8,066,667. Of this total, \$3,012,835 is unrestricted in use.

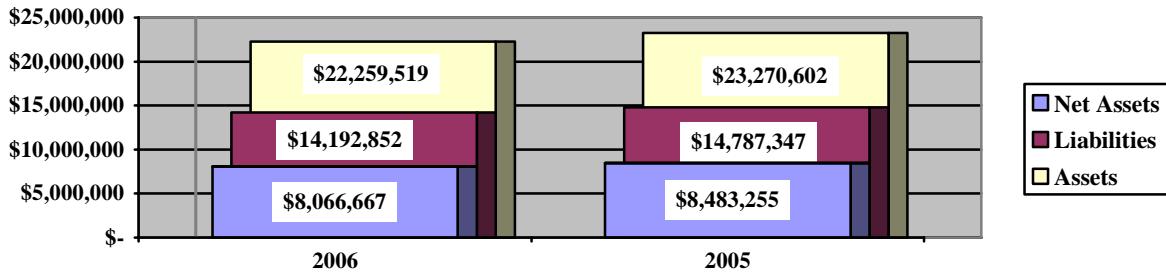
**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

At year-end, capital assets represented 15.76% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$2,478,429. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,575,403, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,012,835 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services and sales	\$1,375,133	\$1,545,883
Operating grants and contributions	1,869,616	1,886,648
<b>General revenues:</b>		
Property taxes	8,282,844	9,600,395
Grants and entitlements	9,516,715	8,980,593
Investment earnings	417,418	184,646
Other	183,473	32,334
<b>Total revenues</b>	<b>21,645,199</b>	<b>22,230,499</b>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

	<b>Change in Net Assets</b>	
	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>
<b>Expenses</b>		
<b>Program expenses:</b>		
<b>Instruction:</b>		
Regular	\$9,908,551	\$9,654,599
Special	3,023,054	3,034,243
Vocational	244,991	270,131
Other	175,379	43,816
<b>Support services:</b>		
Pupil	1,146,415	1,247,783
Instructional staff	496,950	351,752
Board of education	30,024	43,500
Administration	1,874,695	1,810,046
Fiscal	253,363	268,538
Business	351,488	343,054
Operations and maintenance	2,067,512	1,793,063
Pupil transportation	742,672	665,880
Central	197,277	235,173
Food service operations	799,215	710,238
Operations of non-instructional services	166,296	145,780
Extracurricular activities	651,186	642,157
Interest and fiscal charges	62,348	50,486
<b>Total expenses</b>	<u>22,191,416</u>	<u>21,310,239</u>
<b>Excess (deficiency) before extraordinary item</b>	<u>(546,217)</u>	<u>920,260</u>
<b>Extraordinary item</b>	<u>129,629</u>	
<b>Change in net assets</b>	(416,588)	920,260
<b>Net assets at beginning of year</b>	<u>8,483,255</u>	<u>7,562,995</u>
<b>Net assets at end of year</b>	<u><u>\$8,066,667</u></u>	<u><u>\$8,483,255</u></u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$416,588. Total governmental expenses of \$22,191,416 were offset by program revenues of \$3,244,749 and general revenues of \$18,400,450. Program revenues supported 14.62% 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 84.5% of total governmental revenue.

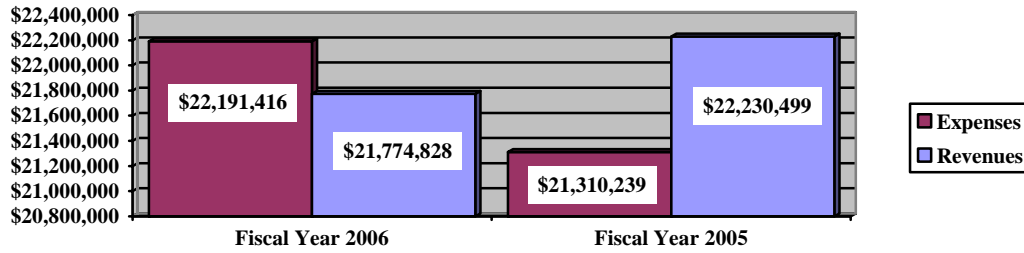
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,351,975 or 60.17% of total governmental expenses for fiscal 2006.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

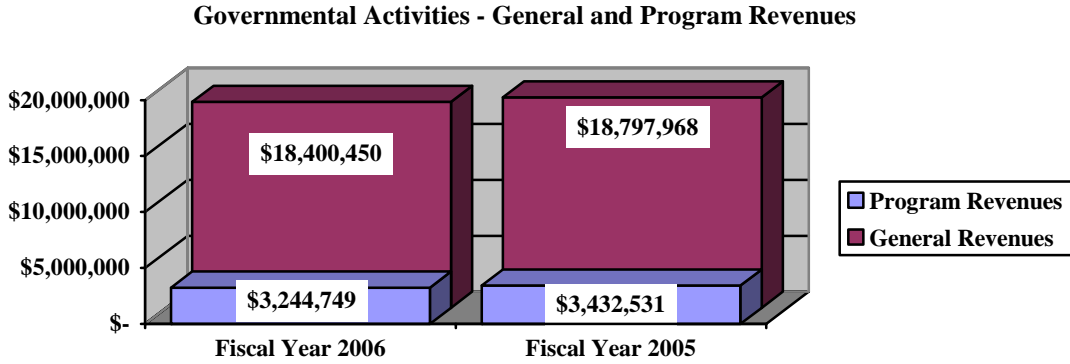
	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2006</b>	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2005</b>
<b>Program expenses:</b>				
<b>Instruction:</b>				
Regular	\$9,908,551	\$8,980,582	\$9,654,599	\$8,672,327
Special	3,023,054	2,110,393	3,034,243	2,124,483
Vocational	244,991	244,991	270,131	267,768
Other	175,379	175,379	43,816	43,816
<b>Support services:</b>				
Pupil	1,146,415	1,046,598	1,247,783	1,135,802
Instructional staff	496,950	483,378	351,752	333,328
Board of education	30,024	30,024	43,500	43,500
Administration	1,874,695	1,841,929	1,810,046	1,753,420
Fiscal	253,363	253,363	268,538	268,538
Business	351,488	208,808	343,054	160,869
Operations and maintenance	2,067,512	2,048,110	1,793,063	1,792,977
Pupil transportation	742,672	738,254	665,880	660,322
Central	197,277	197,277	235,173	232,771
Food service operations	799,215	25,215	710,238	(6,002)
Operations of non-instructional services	166,296	103,561	145,780	(8,486)
Extracurricular activities	651,186	396,457	642,157	351,789
Interest and fiscal charges	62,348	62,348	50,486	50,486
<b>Total expenses</b>	<b>\$22,191,416</b>	<b>\$18,946,667</b>	<b>\$21,310,239</b>	<b>\$17,877,708</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 86.21% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.38%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$5,661,613, which is lower than last year's total of \$6,312,896. The beginning funds balances at June 30, 2005 have been restated. See Note 3.B for detail. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Restated Fund Balance June 30, 2005</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$3,794,609	\$4,089,149	(\$294,540)	(7.20) %
Other Governmental	1,867,004	2,223,747	(356,743)	(16.04) %
<b>Total</b>	<u><u>\$5,661,613</u></u>	<u><u>\$6,312,896</u></u>	<u><u>(\$651,283)</u></u>	<u><u>(10.32) %</u></u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

**General Fund**

The District's general fund balance decreased \$294,540. The decrease in fund balance can be attributed to expenditures increasing over revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Taxes	\$7,898,846	\$9,160,960	(\$1,262,114)	(13.78) %
Tuition	470,823	617,399	(146,576)	(23.74) %
Earnings on investments	376,934	173,330	203,604	117.47 %
Other revenues	322,762	121,460	201,302	165.74 %
Intergovernmental	9,283,279	8,804,944	478,335	5.43 %
Total	<u>18,352,644</u>	<u>18,878,093</u>	<u>(525,449)</u>	<u>(2.78) %</u>
<b>Expenditures</b>				
Instruction	11,955,754	11,747,289	208,465	1.77 %
Support services	6,263,266	6,061,152	202,114	3.33 %
Non-instructional services	78,755	51,001	27,754	54.42 %
Extracurricular activities	398,366	385,424	12,942	3.36 %
Capital outlay		151,478	(151,478)	(100.00) %
Total	<u>\$18,696,141</u>	<u>\$18,396,344</u>	<u>\$299,797</u>	<u>1.63 %</u>

**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 2006, the District amended its general fund budget twice. For the general fund, original budgeted revenues and other financing sources were \$18,685,622 and final budgeted revenues and other financing sources were \$19,261,041. Actual revenues and other financing sources for fiscal 2006 was \$19,255,203. This represents a \$5,838 decrease over final budgeted revenues. The decrease in revenues is attributed to a decrease in tax revenue.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$20,811,807 and \$22,029,814, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$20,037,157, which was \$774,650 less than the original appropriations and \$1,992,657 less than final budget appropriations.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2006, the District had \$3,508,429 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
Land	\$1,127,575	\$1,127,575
Land improvements	139,375	158,625
Building and improvements	1,324,080	1,386,509
Furniture and equipment	569,066	603,040
Vehicles	288,832	363,173
Infrastructure	59,501	61,834
<b>Total</b>	<b><u>\$3,508,429</u></b>	<b><u>\$3,700,756</u></b>

The overall decrease in capital assets of \$192,327 is due to depreciation expense of \$312,584 and total disposals \$1,695 (net of accumulated depreciation) exceeding capital outlay of \$121,952 in the fiscal year.

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

**Debt Administration**

At June 30, 2006, the District had \$50,000 in general obligation bonds and \$195,000 in energy conservation notes outstanding. Of this total, \$35,000 is due within one year and \$210,000 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>
	General obligation bonds	\$50,000
Energy conservation notes	195,000	215,000
<b>Total</b>	<b><u>\$245,000</u></b>	<b><u>\$280,000</u></b>

At June 30, 2006, the District's overall legal debt margin was \$25,592,502, and an unvoted energy conservation debt margin of \$2,369,250.

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(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.

The biggest challenge facing the future of Urbana City Schools is the affect of HB66 including the complete elimination of all tangible personal property tax. This included the inventory tax which had already begun phasing out and the \$10,000 exempt personal property tax which had also began a phase-out. This loss will be devastating for Urbana City Schools, as this is 47% of the schools' tax base and 25% of the general fund revenue. Urbana Schools rank #52 out of 612 districts in the state in reliance on tangible personal property tax. The district will receive full reimbursement from the state through 2010 and will phase out at the rate of 14.29% through 2017 at which point the district will lose its full \$3,000,000 per year in revenue from this tax.

The school district is facing a deficit in 2008. It is hoped that a combination of cost-saving measurers and passage of a levy will eliminate this deficit.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 43% approved project costs even though this state share will not be available to the district for the next 8-10 years. In order to proceed with the needs with the District, the Board has been approved by the state for the Expedited Local Partnership Program which allows us to pass our local 57% share and build some new buildings with the understanding that the state share will pay for remaining needs when it is time to receive that share. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers and at the same time proceed to meet district needs. In 2004, the Board proceeded to put their local share on the ballot with Phase I including a new PK-5 building and a 6-8 building. The high school was slated to be Phase II, built with state funds. Phase I failed in 2004 and again in 2005. With the tax rate increasing because of deflating property values (complete loss of \$60,000,000 in tangible personal valuation) and community concerns, the Board decided to split Phase I and build a PK-5 with Phase I, build a 6-8 middle school with Phase II and make the high school OSFC project, Phase III. Phase I will be on the ballot in November of 2006 with less millage.

The District formed a community school during fiscal 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function well in the regular school system or who were not able to achieve academic success. The Urbana Community School opened its doors July 1, 2004 with approximately 25 students enrolled and enrolled 68 students as of June 30, 2006. It remains a conversion community school as a separate autonomy with a board of directors, but under the wings of Urbana City Schools' administration and governance. It is our hope that these students who continue to reside in our school district will achieve academic success through this type of school.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

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

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

**Contacting the District's Financial Management**

This financial report is designed to provide our 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.

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**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Urbana Community School</b>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	\$9,036,302	\$350,509
<b>Receivables:</b>		
Taxes	9,321,288	
Accounts	94,820	
Intergovernmental	199,638	
Accrued interest	9,511	
Due from component unit	89,531	
<b>Capital assets:</b>		
Land	1,127,575	
Depreciable capital assets, net	2,380,854	
Capital assets, net	3,508,429	
Total assets	22,259,519	350,509
<b>Liabilities:</b>		
Accounts payable	72,944	
Contracts payable	15,849	
Accrued wages and benefits	1,767,516	
Pension obligation payable	431,761	
Intergovernmental payable	56,438	25,668
Deferred revenue	8,644,408	
Accrued interest payable	5,021	
Claims payable	352,821	
Due to primary government		89,531
<b>Long-term liabilities:</b>		
Due within one year	585,080	
Due in more than one year	2,261,014	
Total liabilities	14,192,852	115,199
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,478,429	
<b>Restricted for:</b>		
Capital projects	507,290	
Locally funded programs	34,464	
State funded programs	293,772	6,000
Federally funded programs	167,858	
Student activities	45,909	
Other purposes	1,526,110	
Unrestricted	3,012,835	229,310
Total net assets	<b>\$8,066,667</b>	<b>\$235,310</b>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Government	Component Unit
				Governmental Activities	Urbana Community School
<b>Governmental activities:</b>					
<b>Instruction:</b>					
Regular	\$9,908,551	\$557,741	\$370,228	(\$8,980,582)	
Special	3,023,054		912,661	(2,110,393)	
Vocational	244,991			(244,991)	
Other	175,379			(175,379)	
<b>Support services:</b>					
Pupil	1,146,415		99,817	(1,046,598)	
Instructional staff	496,950	1,514	12,058	(483,378)	
Board of education	30,024			(30,024)	
Administration	1,874,695		32,766	(1,841,929)	
Fiscal	253,363			(253,363)	
Business	351,488	142,680		(208,808)	
Operations and maintenance	2,067,512		19,402	(2,048,110)	
Pupil transportation	742,672		4,418	(738,254)	
Central	197,277			(197,277)	
<b>Operation of non-instructional services:</b>					
Food service operations	799,215	418,469	355,531	(25,215)	
Other non-instructional services	166,296		62,735	(103,561)	
Extracurricular activities	651,186	254,729		(396,457)	
Interest and fiscal charges	62,348			(62,348)	
Total governmental activities	22,191,416	1,375,133	1,869,616	(18,946,667)	
<b>Component Unit:</b>					
Community school	\$183,903		\$3,000		(\$180,903)
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes				7,746,621	
Capital projects				536,223	
Grants and entitlements not restricted to specific programs				9,516,715	339,503
Investment earnings				417,418	1,434
Miscellaneous				183,473	
Total general revenues				18,400,450	340,937
<b>Extraordinary item:</b>					
Reimbursement of insurance claims				129,629	
Total general revenues and extraordinary item				18,530,079	340,937
Change in net assets				(416,588)	160,034
Net assets at beginning of year				8,483,255	75,276
Net assets at end of year				\$8,066,667	\$235,310

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash, cash equivalents and investments	\$4,582,701	\$1,928,107	\$6,510,808
<b>Receivables:</b>			
Taxes	8,710,530	610,758	9,321,288
Accounts	93,220	1,600	94,820
Intergovernmental		199,638	199,638
Accrued interest	9,511		9,511
Interfund receivable	58,854		58,854
Due from component unit	89,531		89,531
<b>Restricted assets:</b>			
Equity in pooled cash and cash equivalents	817,256		817,256
<b>Total assets</b>	<u>14,361,603</u>	<u>2,740,103</u>	<u>17,101,706</u>
<b>Liabilities:</b>			
Accounts payable	39,254	33,690	72,944
Contracts payable		15,849	15,849
Accrued wages and benefits	1,654,259	113,257	1,767,516
Compensated absences payable	120,729	28,736	149,465
Pension obligation payable	403,830	27,931	431,761
Intergovernmental payable	45,392	11,046	56,438
Interfund payable		58,854	58,854
Deferred revenue	8,303,530	583,736	8,887,266
<b>Total liabilities</b>	<u>10,566,994</u>	<u>873,099</u>	<u>11,440,093</u>
<b>Fund Balances:</b>			
Reserved for encumbrances	525,057	184,620	709,677
Reserved for tax revenue unavailable for appropriation	413,166	30,024	443,190
Reserved for budget stabilization	113,449		113,449
Reserved for loans to other funds	58,854		58,854
Reserved for textbooks	674,702		674,702
Reserved for school bus purchases	29,105		29,105
<b>Unreserved, reported in:</b>			
Designated for budget stabilization	253,159		253,159
<b>Undesignated, reported in:</b>			
General fund	1,727,117		1,727,117
Special revenue funds		1,283,074	1,283,074
Capital projects funds		369,286	369,286
<b>Total fund balances</b>	<u>3,794,609</u>	<u>1,867,004</u>	<u>5,661,613</u>
<b>Total liabilities and fund balances</b>	<u>\$14,361,603</u>	<u>\$2,740,103</u>	<u>\$17,101,706</u>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

<b>Total governmental fund balances</b>		<b>\$5,661,613</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,508,429
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$233,690	
Interest revenue	6,166	
Intergovernmental revenue	3,002	
Total	242,858	242,858
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,355,417
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(5,021)
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	(1,511,431)	
General obligation bonds	(50,000)	
Energy conservation notes	(195,000)	
Capital lease obligation	(940,198)	
Total	(2,696,629)	(2,696,629)
<b>Net assets of governmental activities</b>		<b>\$8,066,667</b>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
<b>From local sources:</b>			
Taxes	\$7,898,846	\$546,091	\$8,444,937
Tuition	470,823		470,823
Transportation fees	23,476		23,476
Charges for services		418,469	418,469
Earnings on investments	376,934	16,391	393,325
Extracurricular		367,691	367,691
Classroom materials and fees		86,918	86,918
Other local revenues	114,202	74,027	188,229
Other revenue	185,084	3,000	188,084
Intergovernmental - State	9,283,279	379,571	9,662,850
Intergovernmental - Federal		1,632,173	1,632,173
Total revenue	<u>18,352,644</u>	<u>3,524,331</u>	<u>21,876,975</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	9,351,456	568,818	9,920,274
Special	2,182,751	901,473	3,084,224
Vocational	246,168		246,168
Other	175,379		175,379
<b>Support services:</b>			
Pupil	1,038,673	107,586	1,146,259
Instructional staff	471,890	25,206	497,096
Board of education	30,024		30,024
Administration	1,932,332	48,820	1,981,152
Fiscal	251,878		251,878
Business	172,036	174,674	346,710
Operations and maintenance	1,560,590	43,404	1,603,994
Pupil transportation	608,566	65,415	673,981
Central	197,277		197,277
<b>Operation of non-instructional services:</b>			
Food service operations		781,677	781,677
Other non-instructional services	78,755	91,093	169,848
Extracurricular activities	398,366	241,358	639,724
Facilities acquisition and construction		532,255	532,255
<b>Debt service:</b>			
Principal retirement		308,781	308,781
Interest and fiscal charges		64,006	64,006
Total expenditures	<u>18,696,141</u>	<u>3,954,566</u>	<u>22,650,707</u>
Excess (deficiency) of revenues over (under)	<u>(343,497)</u>	<u>(430,235)</u>	<u>(773,732)</u>
<b>Other financing sources (uses):</b>			
Transfers in		80,672	80,672
Transfers (out)	<u>(80,672)</u>		<u>(80,672)</u>
Total other financing sources (uses)	<u>(80,672)</u>	<u>80,672</u>	
<b>Extraordinary item:</b>			
Reimbursement of insurance claims	<u>129,629</u>		<u>129,629</u>
Net change in fund balances	(294,540)	(349,563)	(644,103)
<b>Fund balances at beginning of year (restated)</b>	4,089,149	2,223,747	6,312,896
<b>Decrease in reserve for inventory</b>		<u>(7,180)</u>	<u>(7,180)</u>
<b>Fund balances at end of year</b>	<u>\$3,794,609</u>	<u>\$1,867,004</u>	<u>\$5,661,613</u>

*The notes to the financial statements are an integral part of this statement.*

**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, 2006**

**Net change in fund balances - total governmental funds** (\$644,103)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$121,952	
Current year depreciation	(312,584)	

Total		(190,632)
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,695)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (7,180)

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

Taxes	(162,093)	
Intergovernmental revenue	(93,776)	
Accrued interest	6,166	
Total		(249,703)

Repayment of bonds, notes and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 308,781

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. 1,658

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 11,826

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities. 354,460

**Change in net assets of governmental activities** (\$416,588)

*The notes to the financial statements are an integral part of this statement.*



**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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
<b>From local sources:</b>				
Taxes	\$8,155,070	\$8,410,856	\$8,408,260	(\$2,596)
Tuition	620,625	640,090	639,893	(197)
Transportation fees	22,769	23,483	23,476	(7)
Earnings on investments	299,724	309,125	309,030	(95)
Other local revenues	62,039	63,985	63,965	(20)
Other revenue	181,846	187,550	187,492	(58)
Intergovernmental - State	9,003,742	9,286,145	9,283,280	(2,865)
Total revenue	<u>18,345,815</u>	<u>18,921,234</u>	<u>18,915,396</u>	<u>(5,838)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	10,104,157	10,695,500	9,728,064	967,436
Special	2,413,020	2,554,241	2,323,203	231,038
Vocational	293,598	310,781	282,670	28,111
Other	212,833	225,289	204,911	20,378
<b>Support services:</b>				
Pupil	1,140,002	1,206,720	1,097,569	109,151
Instructional staff	496,183	525,222	477,714	47,508
Board of education	32,081	33,959	30,887	3,072
Administration	2,157,515	2,283,783	2,077,209	206,574
Fiscal	269,720	285,506	259,681	25,825
Business	182,792	193,490	175,988	17,502
Operations and maintenance	1,700,458	1,799,977	1,637,164	162,813
Pupil transportation	655,749	694,127	631,341	62,786
Central	234,424	248,143	225,698	22,445
Operation of non-instructional services	73,849	78,171	71,100	7,071
Extracurricular activities	416,715	441,103	401,204	39,899
Total expenditures	<u>20,383,096</u>	<u>21,576,012</u>	<u>19,624,403</u>	<u>1,951,609</u>
Excess of revenues over (under) expenditures	<u>(2,037,281)</u>	<u>(2,654,778)</u>	<u>(709,007)</u>	<u>1,945,771</u>
<b>Other financing sources (uses):</b>				
Transfers in	332,082	332,082	332,082	
Transfers (out)	(428,711)	(453,802)	(412,754)	41,048
Advances in	7,725	7,725	7,725	
Total other financing sources (uses)	<u>(88,904)</u>	<u>(113,995)</u>	<u>(72,947)</u>	<u>41,048</u>
Net change in fund balance	(2,126,185)	(2,768,773)	(781,954)	1,986,819
<b>Fund balance at beginning of year (restated)</b>	5,303,070	5,303,070	5,303,070	
<b>Prior year encumbrances appropriated</b>	214,980	214,980	214,980	
<b>Fund balance at end of year</b>	<u>\$3,391,865</u>	<u>\$2,749,277</u>	<u>\$4,736,096</u>	<u>\$1,986,819</u>

The notes to the financial statements are an integral part of this statement.

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Equity in pooled cash, cash equivalents and investments	<u>\$1,708,238</u>
Total assets	<u>1,708,238</u>
<b>Liabilities:</b>	
Claims payable	<u>352,821</u>
Total liabilities	<u>352,821</u>
<b>Net assets:</b>	
Unrestricted	<u>1,355,417</u>
Total net assets	<u><u>\$1,355,417</u></u>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services	\$2,341,271
Total operating revenues	<u>2,341,271</u>
<b>Operating expenses:</b>	
Claims and administrative services	2,004,738
Total operating expenses	<u>2,004,738</u>
Operating income	<u>336,533</u>
<b>Nonoperating revenues:</b>	
Interest revenue	<u>17,927</u>
Total nonoperating revenues	<u>17,927</u>
Change in net assets	354,460
<b>Net assets at beginning of year</b>	<u>1,000,957</u>
<b>Net assets at end of year</b>	<u><u>\$1,355,417</u></u>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services	\$2,341,271
Cash payments for claims and administrative services.	<u>(1,944,201)</u>
Net cash provided by operating activities	<u>397,070</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>17,927</u>
Net cash provided by investing activities	<u>17,927</u>
Net increase in cash and cash equivalents	414,997
<b>Cash and cash equivalents at beginning of year</b>	<u>1,293,241</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>1,708,238</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	336,533
Changes in liabilities:	
Increase in claims payable	<u>60,537</u>
Net cash provided by operating activities	<u><u>\$397,070</u></u>

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	<u>\$81,642</u>	<u>\$72,770</u>
Total assets	<u>81,642</u>	<u>72,770</u>
<b>Liabilities:</b>		
Accounts payable		1,151
Due to students		<u>71,619</u>
Total liabilities		<u>\$72,770</u>
<b>Net Assets:</b>		
Held in trust for scholarships	<u>81,642</u>	
Total net assets	<u>\$81,642</u>	

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest	\$2,955
Gifts and contributions	4,350
Total additions	7,305
<b>Deductions:</b>	
Scholarships awarded	9,605
Change in net assets	(2,300)
Net assets at beginning of year	83,942
Net assets at end of year	\$81,642

*The notes to the financial statements are an integral part of this statement.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 235<sup>th</sup> largest in the State of Ohio among 615 public school districts in terms of enrollment. It currently operates 3 elementary schools, 1 intermediate, 1 junior high and 1 high school. The District is staffed by 85 non-certified and 180 certificated personnel to provide services to approximately 2,316 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has one component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). 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, 2006  
(Continued)**

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

**1. Discretely Presented Component Unit**

**The Urbana Community School**

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

The District's services provided to the School are reimbursed from the School to the District. The School also owed \$89,531 for District-incurred expenses on behalf of the School for fiscal year 2006 services. This amount is shown on the government wide statement of net assets as due to primary government and due from component unit. Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

**2. Jointly Governed Organizations**

**Western Ohio Computer Organization**

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, 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 Educational Council**

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The governing board of MEC consists of one voting representative from each member district. The District paid \$201,300 to MEC during fiscal year 2006. Financial information is available from Elmo Kallner, Director, 2100 Citygate Drive, Columbus, Ohio 43219.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

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

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

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

**3. Insurance Purchasing Pool**

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

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

**2. Proprietary Fund**

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

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

**3. Fiduciary Funds**

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

**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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

**2. Fund Financial Statements**

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

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

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

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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

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

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

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

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

**2. 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, 2006, but which were levied to finance fiscal year 2007 operations, 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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**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 2006 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.
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 original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds or alter total function appropriations within the general fund or permanent improvement fund must be approved by the Board of Education.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, Money Market Mutual Funds, Federal Home Loan Bank Notes (FHLB), Federal National Mortgage Association Notes (FNMA), and Federal Home Loan Mortgage Corporation Notes (FHLMN). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and a Fifth Third Bank government money market are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$376,934, which includes \$97,833 assigned from other funds.

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

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$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
Infrastructure	25 - 50 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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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, 2006, 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, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, 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/Designations**

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, property tax revenue unavailable for appropriation, budget stabilization, loans to other funds, textbooks and school bus purchase allowance. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. The amount set-aside by the School Board for budget stabilization is reported as a designation of fund balance in the general fund.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**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. As of June 30, 2006, net assets restricted by enabling legislation were \$454,091 in the statement of net assets.

**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 non-operating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District incurred an extraordinary item in the amount of \$129,629 for reimbursement of insurance claims.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Restatement of Fund Balance**

The fund balance of the general fund, and other non-major governmental funds have been restated at June 30, 2005 to account for cash adjustments made from a previous fiscal year. This adjustment had no effect on the beginning balance of net assets.

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

	<b>General</b>	<b>Other Non-major Governmental Funds</b>	<b>Total Governmental Funds</b>
Fund balance as previously reported	\$3,967,437	\$2,345,459	\$6,312,896
Adjustment to correct errors	121,712	(121,712)	
Restated fund balance as of July 1, 2005	\$4,089,149	\$2,223,747	\$6,312,896

In addition, the June 30, 2005 unencumbered balance of the general fund statement of revenues, expenditures, and changes in fund balance – budget and actual, has been restated from \$5,181,358 to \$5,303,070 to account for this adjustment.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**C. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Non-major Funds</u>	<u>Deficit</u>
Food Service	\$7,945
Disadvantaged Pupil Impact Aid	294
Title VI	21
Class Size Reduction	13,747

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 resulted from adjustments for accrued liabilities.

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

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

**4. DEPOSITS AND INVESTMENTS (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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$6,871,169 Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$6,849,370 of the District's bank balance of \$7,103,496 was exposed to custodial risk as discussed below, while \$254,126 was covered by Federal Deposit Insurance Corporation.

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

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

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

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturity			
		6 months or less	7 to 12 Months	13 to 18 Months	19 to 24 Months
Money market mutual funds	\$ 4,837	\$ 4,837	\$ -	\$ -	\$ -
FNMA	466,212	-	466,212	-	-
FHLB	1,576,744	494,530	-	593,439	488,775
FHLMN	246,652	-	246,652	-	-
STAR Ohio	25,000	25,000	-	-	-
	<u>\$ 2,319,445</u>	<u>\$ 524,367</u>	<u>\$ 712,864</u>	<u>\$ 593,439</u>	<u>\$ 488,775</u>

The weighted average maturity of investments is 1.07 years.

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

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

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk:** The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

Investment type	Fair Value	% of Total	Credit Rating
Money market mutual funds	\$4,837	0.21	Standard & Poor's A-1+
FNMA	466,212	20.10	Moody's Aaa
FHLB	1,576,744	67.98	Moody's Aaa
FHLMN	246,652	10.63	Moody's Aaa
STAR Ohio	25,000	1.08	Standard & Poor's AAA
	<u>\$2,319,445</u>	<u>100.00</u>	

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<b>Cash and Investments per footnote</b>	
Carrying amount of deposits	\$6,871,169
Investments	2,319,445
Cash on hand	100
Total	\$9,190,714

<b>Cash and investments per Statement of Net Assets</b>	
Governmental activities	\$9,036,302
Private-purpose trust funds	81,642
Agency funds	72,770
Total	\$9,190,714

**5. INTERFUND TRANSACTIONS**

A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following long-term loans to other funds.

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

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
<b>Transfers to Non-major Governmental funds from:</b>	
General Fund	\$80,672

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

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

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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.

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

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 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, 2006 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.

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

**6. PROPERTY TAXES (Continued)**

The amount available as an advance at June 30, 2006 was \$413,166 in the general fund and \$30,024 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$922,580 in the general fund and \$65,610 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 2006 taxes were collected are:

	<b>2005 Second Half Collections</b>		<b>2006 First Half Collections</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$220,540,550	78.61	\$225,534,570	79.16
Public Utility Personal	12,800,730	4.56	11,903,020	4.18
Tangible Personal Property	<u>47,231,819</u>	<u>16.83</u>	<u>47,479,096</u>	<u>16.66</u>
Total	<u><u>\$280,573,099</u></u>	<u><u>100.00</u></u>	<u><u>\$284,916,686</u></u>	<u><u>100.00</u></u>
Tax rate per \$1,000 of assessed valuation	\$60		\$60	

**7. RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities</b>	
Taxes	\$9,321,288
Accounts	94,820
Accrued interest	9,511
Intergovernmental	<u>199,638</u>
Total receivables	<u><u>\$9,625,257</u></u>

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



**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$1,127,575			\$1,127,575
Total capital assets, not being depreciated	<u>1,127,575</u>			<u>1,127,575</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	553,300			553,300
Buildings and improvements	4,482,552			4,482,552
Furniture and equipment	3,070,093	\$117,852	(\$68,645)	3,119,300
Vehicles	1,222,653	4,100		1,226,753
Infrastructure	70,000			70,000
Total capital assets, being depreciated	<u>9,398,598</u>	<u>121,952</u>	<u>(68,645)</u>	<u>9,451,905</u>
Less: accumulated depreciation				
Land improvements	(394,675)	(19,250)		(413,925)
Buildings and improvements	(3,096,043)	(62,429)		(3,158,472)
Furniture and equipment	(2,467,053)	(150,131)	66,950	(2,550,234)
Vehicles	(859,480)	(78,441)		(937,921)
Infrastructure	(8,166)	(2,333)		(10,499)
Total accumulated depreciation	<u>(6,825,417)</u>	<u>(312,584)</u>	<u>66,950</u>	<u>(7,071,051)</u>
Governmental activities capital assets, net	<u>\$3,700,756</u>	<u>(\$190,632)</u>	<u>(\$1,695)</u>	<u>\$3,508,429</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$146,853
Special	4,447
Vocational	1,279
<b>Support Services:</b>	
Pupil	4,328
Instructional staff	8,255
Administration	5,590
Fiscal	1,205
Business	402
Operations and maintenance	42,428
Pupil transportation	78,843
Food Service Operations	13,754
Extracurricular activities	5,200
Total depreciation expense	<u>\$312,584</u>

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

**9. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During prior years, the District entered into capitalized leases for modular classrooms, land 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 and land have been capitalized in the amount of \$1,423,200 and equipment has been capitalized in the amount of \$219,256. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Principal payments in fiscal year 2006 totaled \$273,781 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, 2006:

<u>Fiscal Year Ending June 30,</u>		
2007	\$	318,737
2008		319,112
2009		237,143
2010		29,732
2011		29,746
2012 - 2014		<u>90,571</u>
Total minimum lease payments		1,025,041
Less: amount representing interest		<u>(84,843)</u>
Total	\$	<u>940,198</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, 2006:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Notes			Notes
				<u>Outstanding June 30, 2005</u>	<u>Issued in Fiscal 2006</u>	<u>Retired in Fiscal 2006</u>	<u>Outstanding June 30, 2006</u>
Energy conservation note	5.60%	12/01/99	06/01/14	\$ 215,000	-	\$ (20,000)	\$ 195,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(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:

Year Ending June 30	Principal on Energy Conservation Notes	Interest on Energy Conservation Notes	Total
2007	\$ 20,000	\$ 10,497	\$ 30,497
2008	20,000	9,438	29,438
2009	20,000	8,353	28,353
2010	25,000	7,102	32,102
2011	25,000	5,690	30,690
2012 - 2014	<u>85,000</u>	<u>7,814</u>	<u>92,814</u>
Total	<u>\$ 195,000</u>	<u>\$ 48,894</u>	<u>\$ 243,894</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, 2006:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds</u>			<u>Bonds</u>
				<u>Outstanding June 30, 2005</u>	<u>Issued in Fiscal 2006</u>	<u>Retired in Fiscal 2006</u>	<u>Outstanding June 30, 2006</u>
Facilities improvement	5.501%	07/06/99	06/01/09	<u>\$65,000</u>	<u>\$0</u>	<u>(\$15,000)</u>	<u>\$50,000</u>

**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>
2007	\$15,000	\$2,400	\$17,400
2008	15,000	1,574	16,574
2009	<u>20,000</u>	<u>575</u>	<u>20,575</u>
Total	<u>\$50,000</u>	<u>\$4,549</u>	<u>\$54,549</u>

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

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

E. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<b>Balance Outstanding June 30, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Outstanding June 30, 2006</b>	<b>Amounts Due in One Year</b>
<b>Governmental Activities:</b>					
General obligation bonds	\$65,000		(\$15,000)	\$50,000	\$15,000
Energy conservation notes	215,000		(20,000)	195,000	20,000
Capital lease obligation	1,213,979		(273,781)	940,198	287,490
Compensated absences	1,880,794	\$276,521	(496,419)	1,660,896	262,590
Total long-term obligations, governmental activities	<u>\$3,374,773</u>	<u>\$276,521</u>	<u>(\$805,200)</u>	<u>\$2,846,094</u>	<u>\$585,080</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, 2006 are a voted debt margin of \$25,592,502, an unvoted debt margin of \$234,917, and an unvoted energy conservation debt margin of \$2,369,250.

**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 2006. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**11. RISK MANAGEMENT (Continued)**

The claims liability of \$352,821 reported in the internal service fund at June 30, 2006, 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>
2006	\$ 292,284	\$ 2,004,738	\$ (1,944,201)	\$ 352,821
2005	259,969	1,793,648	(1,761,333)	292,284

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 2005.

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

**B. Workers' Compensation**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**12. PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [ohsers.org](http://ohsers.org).

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(Continued)**

**12. PENSION PLANS (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$204,595, \$202,626, and \$216,624, respectively; 40.31 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$122,124 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The 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 of 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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**12. PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,274,355, \$1,231,143, and \$1,341,563, respectively; 83.47 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$210,596 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$14,087 made by the School District and \$21,884 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Education elected Social Security. The District's liability is 6.2% of wages paid.

**13. POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$98,027 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$300,690,000 and STRS Ohio had 119,184 eligible benefit recipients.

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$98,703.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

**14. BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

	<b>General Fund</b>
Budget basis	(\$781,954)
Net adjustment for revenue accruals	(562,752)
Net adjustment for expenditure accruals	375,509
Net adjustment for other sources/uses	121,904
Adjustment for encumbrances	552,753
GAAP basis	(\$294,540)



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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. Contingent Liability**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$3,912 per year. A portion of the refund may be recovered from additional State entitlement payments.

**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, 2006, 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, 2005	\$600,362	(\$988,602)	\$113,449
Current year set-aside requirement	332,082	332,082	
Current year offsets		(581,677)	
Qualifying disbursements	(257,742)		
Total	<u>674,702</u>	<u>(1,238,197)</u>	<u>113,449</u>
Cash balance carried forward to FY 2007	<u>\$674,702</u>	<u>(\$1,238,197)</u>	<u>\$113,449</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The balance in the budget stabilization reserve at June 30, 2006 was \$113,449 and \$253,159 in the designation.

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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**16. STATUTORY RESERVES (Continued)**

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, 2006 follows:

Amount restricted for instructional materials	\$674,702
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>29,105</u>
Total restricted assets	<u><u>\$817,256</u></u>

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education</i>						
Food Donation Program	N/A	10.550		\$49,025		\$49,025
Nutrition Cluster:						
School Breakfast Program	05-PU-05	10.553	\$7,110		\$7,110	
	05-PU-06		47,751		47,751	
Total School Breakfast Program			54,861		54,861	
National School Lunch Program	LL-P4-05	10.555	37,414		37,414	
	LL-P4-06		178,231		178,231	
Total National School Lunch Program			215,645		215,645	
Summer Food Service Program for Children	23-PU-05	10.559	4,416		4,416	
	24-PU-05		436		436	
Total Summer Food Service Program for Children			4,852		4,852	
Total Nutrition Cluster			275,358		275,358	
Total U.S. Department of Agriculture			<b>275,358</b>	<b>49,025</b>	<b>275,358</b>	<b>49,025</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-05	84.010	61,958		82,024	
	C1-S1-06		384,369		313,283	
Total Title I Grants to Local Educational Agencies			446,327		395,307	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-05	84.027	43,436		124,610	
	6B-SF-06		523,752		456,011	
Total Special Education Grants to States			567,188		580,621	
<i>Passed through Madison-Champaign Educational Service Center</i>						
Special Education Preschool Grants	N/A	84.173	35,057		35,057	
Total Special Education Cluster:			602,245		615,678	
<i>Passed Through Ohio Department of Education</i>						
Safe and Drug Free Schools and Communities State Grants	DR-S1-05	84.186	2,034		6,010	
	DR-S1-06		13,287		10,846	
			15,321		16,856	
Twenty-First Century Community Learning Centers	T1-S1-05	84.287	78,615		102,680	
	T1-S1-06		95,174		52,754	
			173,789		155,434	
State Grants for Innovative Programs	C2-S1-05	84.298	6,079		6,079	
	C2-S1-06		6,971		6,971	
			13,050		13,050	
Education Technology State Grants	TJ-S1-05	84.318	6,234		13,269	
	TJ-S1-06		7,040		5,812	
			13,274		19,081	
Improving Teacher Quality State Grants	TR-S1-05	84.367	9,318		17,244	
	TR-S1-06		121,410		114,666	
Total Improving Teacher Quality State Grants			130,728		131,910	
Total U.S. Department of Education			<b>1,394,734</b>		<b>1,347,316</b>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	69,202		66,795	
State Children's Insurance Program	N/A	93.767	12,614		12,614	
Total U.S. Department of Health and Human Services			<b>81,816</b>		<b>79,409</b>	
<b>Total</b>			<b>\$1,751,908</b>	<b>\$49,025</b>	<b>\$1,702,083</b>	<b>\$49,025</b>

The accompanying notes are an integral part of this schedule.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

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



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

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Urbana City School District  
Champaign County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Required By *Government Auditing Standards*  
Page 2

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

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

**Mary Taylor, CPA**  
Auditor of State

February 23, 2007



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Urbana City School District, Champaign County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



**Mary Taylor, CPA**  
Auditor of State

February 23, 2007



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**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 noncompliance 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, CFDA # 84.027 and #84.173
<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.





**Mary Taylor, CPA**  
Auditor of State

URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MAY 10, 2007