



Mary Taylor, CPA
Auditor of State

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Urbana Community School
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Executive Director:

We have audited the accompanying basic financial statements of the Urbana Community School, Champaign County, (the School), a component unit of the Urbana City School District, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School'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 financial position of the business-type activities of Urbana Community School, Champaign County, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008, on our consideration of the School'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.

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

Mary Taylor, CPA
Auditor of State

January 29, 2008

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

The discussion and analysis of the Urbana Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were \$448,837 at June 30, 2007.
- The School's total assets were \$584,883 and total liabilities were \$136,046.
- The School had operating revenues of \$496,022 and operating expenses of \$287,757 for fiscal year 2007.
- The School also received \$3,000 in federal and state grants during the year and \$2,262 in interest revenue.
- Total change in net assets for fiscal year 2007 was an increase of \$213,527.

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 School's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The table below provides a summary of the School's net assets for fiscal years 2007 and 2006.

Net Assets		
	2007	2006
Assets		
Current assets	\$584,883	\$350,509
Total assets	584,883	350,509
Liabilities		
Current liabilities	136,046	115,199
Total Liabilities	136,046	115,199
Net Assets		
Restricted	9,000	6,000
Unrestricted	439,837	229,310
Total net assets	\$448,837	\$235,310

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School's net assets totaled \$448,837.

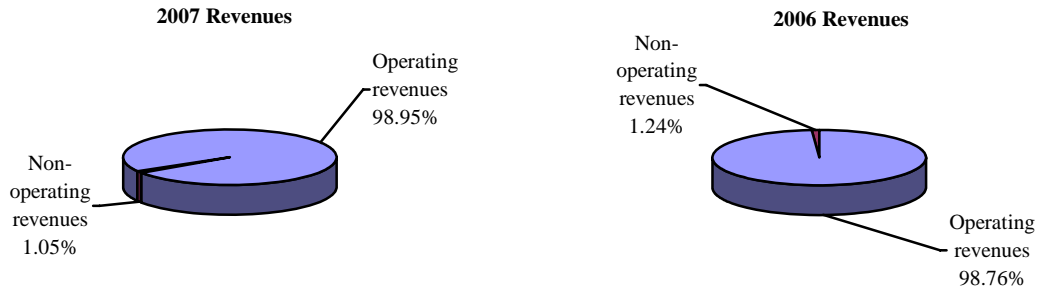
The table below shows the changes in net assets for fiscal year 2007 and 2006.

Changes in Net Assets		
	2007	2006
Operating Revenues:		
State foundation	\$496,022	\$339,503
Total operating revenue	496,022	339,503
Operating Expenses:		
Purchased services	285,834	175,609
Materials and supplies	1,923	8,294
Total operating expenses	287,757	183,903
Non-operating revenues:		
Federal and state grants	3,000	3,000
Interest income	2,262	1,434
Total non-operating revenues	5,262	4,434
Change in net assets	\$213,527	\$160,034

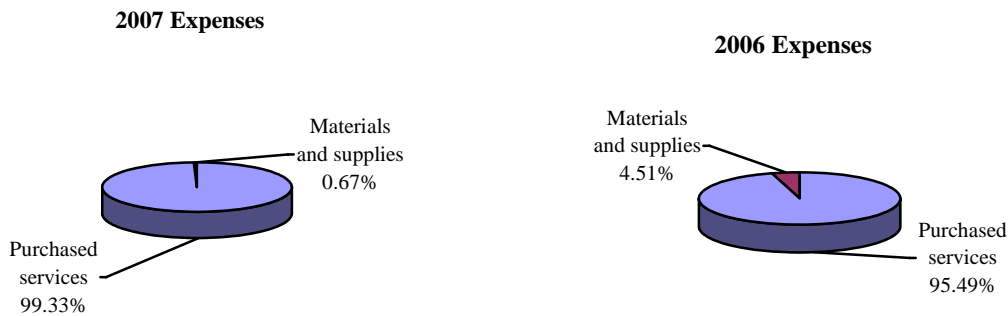
**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The charts below illustrate the revenues for the School during fiscal years 2007 and 2006.



The charts below illustrate the expenses for the School for fiscal years 2007 and 2006.



Current Financial Related Activities

The School is sponsored by Urbana City School District. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, online learning to students.

In order to continually provide online learning opportunities to the School's students, the School will apply for round three of the Federal Sub-Grant once round two monies are expended. It is the intent of the School to apply for other State and Federal funds that are made available.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School'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 Community School, 711 Wood Street, Urbana, OH 43078.

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URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:

Current assets:

Equity in pooled cash and cash equivalents	<u>\$584,883</u>
Total assets	<u>584,883</u>

Liabilities:

Due to other governments	23,231
Due to primary government	<u>112,815</u>
Total liabilities	<u>136,046</u>

Net Assets:

Restricted for:

State funded programs	9,000
Unrestricted	<u>439,837</u>
Total net assets	<u><u>\$448,837</u></u>

See accompanying notes to the basic financial statements.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Operating revenues:	
State foundation	\$496,022
Total operating revenue	<u>496,022</u>
Operating expenses:	
Purchased services	285,834
Materials and supplies	1,923
Total operating expenses	<u>287,757</u>
Operating income	<u>208,265</u>
Non-operating revenues:	
Federal and state grants	3,000
Interest income	2,262
Total non-operating revenues	<u>5,262</u>
Change in net assets	213,527
Net assets at beginning of year	235,310
Net assets at end of year	<u><u>\$448,837</u></u>

See accompanying notes to the basic financial statements.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cash flows from operating activities:	
Cash received from State foundation	\$481,413
Cash payments to suppliers for goods and services	<u>(252,301)</u>
Net cash provided by operating activities	<u>229,112</u>
Cash flows from noncapital financing activities:	
State grants	<u>3,000</u>
Net cash provided by non-capital financing activities	<u>3,000</u>
Cash flows from investing activities:	
Interest received	<u>2,262</u>
Net cash provided by investing activities	<u>2,262</u>
Net increase in cash and cash equivalents	234,374
Cash and cash equivalents at beginning of year	<u>350,509</u>
Cash and cash equivalents at end of year	<u><u>584,883</u></u>
Reconciliation of operating income to net cash provided by operating activities: operating activities:	
Operating income	208,265
Changes in assets and liabilities:	
Decrease in due to other governments	(91,968)
Increase in due to primary government	<u>112,815</u>
Net cash provided by operating activities	<u><u>\$229,112</u></u>

See accompanying notes to the basic financial statements.

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**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL

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

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

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

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

On March 27, 2007, six members of the Board of Directors resigned and were not replaced. The decision to resign was the result of conflicting legal advice as to whether employees of the Sponsor school could legally sit on the Board. As of the date of this report, new Board members have not been appointed and the School has operated nearly a year with no governing body.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented on the Statement of Net Assets as "Equity in Pooled Cash and Cash Equivalents".

E. Capital Assets and Depreciation

Capital assets are capitalized at (cost or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market value as of the date donated. The School maintains a capitalization threshold of \$500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School does not have any assets over the threshold at June 30, 2007.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Operating Revenues and Expenses

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

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State grants for the fiscal year 2007 received by the School was \$3,000.

H. Estimates

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

At June 30, 2007, the carrying amount of the School's deposits was \$584,883. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$486,353 of the School's bank balance of \$586,353 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

4. COMPREHENSIVE SERVICES AGREEMENT WITH TRECA

The School entered into a one-year contract on November 29, 2006, for fiscal year 2007, with Tri-Rivers Education Computer Association (TRECA). Under the contract, the following terms were agreed upon:

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

For fiscal year 2007, \$151,155 was paid to TRECA.

To obtain TRECA's audited June 30, 2007 financial statements, please contact Scott Armstrong at scott@treca.org.

5. AGREEMENT WITH AMERICAN CORRESPONDENCE SCHOOL

In addition to providing students with online technology classes, the School also permits students to enroll in the American Correspondence School (Correspondence School), in which students perform educational duties through mail correspondence. The School incurs the tuition costs for students enrolled in the Correspondence School and the tuition is not reimbursed by the students. The payments are remitted by the Sponsor and the School reimburses the Sponsor for the expenses. As of June 30, 2007, the School owed the Sponsor \$10,912 for payments remitted to the Correspondence School on behalf of the School. For fiscal year 2007, \$34,265 was paid to the Correspondence School.

6. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2007, the School was named on the Sponsor's policy for property and general liability insurance.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

7. PURCHASED SERVICES

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

TRECA Services	\$ 144,204
Sponsor Services	100,243
Director's Expense	7,122
American Correspondence Tuition	<u>34,265</u>
Total	<u>\$ 285,834</u>

8. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

B. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the School cannot presently be determined.

C. State Foundation Funding

The Ohio Department of Education conducts review of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. The School does not anticipate any material adjustments to state funding for fiscal year 2007 as a result of such review.

9. FISCAL AGENT

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

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$2,583, \$2,346, and \$1,618 respectively. The contributions were made by Urbana City Schools. Contributions for 2006 and 2005 have been made in full, and 2007 contributions are included as a liability to the primary government in the accompanying financial statements. The Urbana City Schools contributions, which include contributions for the Urbana Community Schools are paid through foundation payments.

B. State Teachers Retirement System

The School 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.strs.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 times 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.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, 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's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$6,356, \$5,301, and \$1,618 respectively. The contributions were made by Urbana City Schools. Contributions for 2006 and 2005 have been made in full, and 2007 contributions are included as a liability to the primary government in the accompanying financial statements. The Urbana City Schools contributions, which include contributions for the Urbana Community Schools are paid through foundation payments.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

11. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded 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 cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$489 for fiscal year 2007.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

11. POST-EMPLOYMENT BENEFITS (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal 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.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, 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, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$835.

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 year. Expenses for health care at June 30, 2006, (the latest information available), 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 benefits.



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 Community School
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Executive Director:

We have audited the financial statements of the Urbana Community School, Champaign County, (the School), a component unit of Urbana City School District, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 29, 2008. 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 School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted an internal control matter that we reported to the School's management in a separate letter dated January 29, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted a noncompliance matter that we reported to the School's management in a separate letter dated January 29, 2008.

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

We intend this report solely for the information and use of management and the Community School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 29, 2008

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness/Noncompliance Citation

The Community School/Sponsor Contract dated June 25, 2002, Governance and Administrative Plan for the Urbana Community School, and the Code of Regulations of the Urbana Community School Article II Section 2.02 state the Urbana Community School Board of Directors should include four administrators from the Sponsor School District as well as two non-District employees and one community member.

In addition, Ohio Rev. Code Section 3314.02(E)(1) requires that each new start-up community school shall be under the direction of a governing authority which shall consist of a board of not less than five individuals.

Exhibit 3 of the Community School Contract above states the Board of Directors shall be the final governing authority of the School and shall be responsible for:

- Helping create, approve, and monitor the school's annual budget
- Developing policies to guide the operation of the school
- Securing funding for the school
- Maintaining a commitment to the vision, mission, and belief statements the School and the children it serves.

On March 27, 2007, six members of the Board of Directors resigned and were not replaced. The decision to resign was the result of conflicting legal advice as to whether employees of the Sponsor school could legally sit on the Board. As of the date of this report, new Board members have not been appointed and the School has operated nearly a year with no governing body to perform the above functions. Of significance is the function of preparing, approving and monitoring the school's annual budget and expenditures.

To reduce the risk of operating without a budget, misappropriating funds, and spending in excess of resources, new members of the Board of Directors must be appointed. The Sponsor should seek a written legal opinion concerning the legality of the Community School/Sponsor Contract of June 25, 2002, Exhibit 3, Governance and Administrative Plan, and the Code of Regulations of Urbana Community School Article II Section 2.02 as they pertain to whether a Sponsor employee can sit on the Community School's governing board. The School should work together with the Ohio Department of Education to come to an agreeable conclusion. If necessary, the Code of Regulations and exhibit 3 of the Contract, above, should be amended before the new members of the Board of Directors are appointed. These actions should be resolved in a timely manner.

CLIENT RESPONSE:

The Superintendent of Urbana City Schools and Urbana Community Schools has contracted with Bricker and Eckler law firm to re-write the Sponsor Contract of Urbana City Schools with Urbana Community Schools to reconstruct the Board of Directors and attain advice as to whether sponsor employees can sit on the governing board of directors. We are awaiting that documentation. Questions can be directed to Susan Greenberger, Esquire, at the law firm of Bricker and Eckler.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Rev. Code 3317.022(C)(5) Failure to spend required amount of special education funding	No longer applicable to Community Schools	N/A



Mary Taylor, CPA
Auditor of State

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 18, 2008**