



**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets – June 30, 2005	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2005	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2005	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Required By <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying 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, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Urbana Community School, Champaign County, as of June 30, 2005, and the changes in financial position and 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 February 7, 2006, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 7, 2006

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets were \$75,276 at June 30, 2005.
- The School's total assets were \$244,146 and total liabilities were \$168,870.
- The School had operating revenues of \$230,236 and operating expenses of \$263,158 for fiscal year 2005.
- The School also received \$108,000 in federal and state grants during the year and \$198 in interest revenue.
- Total change in net assets for fiscal year 2005 was an increase of \$75,276.

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 asks the question, "How did we do financially during 2005?" 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, 2005
UNAUDITED
(Continued)**

The table below provides a summary of the School's net assets for fiscal year 2005. Since this is the first year that the School has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Net Assets

	<u>2005</u>
Assets	
Current assets	<u>\$244,146</u>
Total assets	<u>244,146</u>
Liabilities	
Current Liabilities	<u>168,870</u>
Total Liabilities	<u>168,870</u>
Net Assets	
Restricted	3,000
Unrestricted (deficit)	<u>72,276</u>
Total net assets	<u><u>\$75,276</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School's net assets totaled \$75,276.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

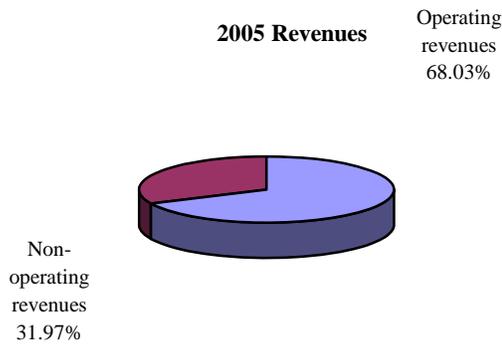
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below shows the changes in net assets for fiscal year 2005. Since this is the first year that the School has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	2005
Operating Revenues:	
State foundation	230,236
Total operating revenue	230,236
Operating Expenses:	
Purchased services	259,766
Materials and supplies	1,725
Capital outlay	1,667
Total operating expenses	263,158
Non-operating revenues:	
Federal and state grants	108,000
Interest income	198
Total non-operating revenues	108,198
 Change in net assets	 \$75,276

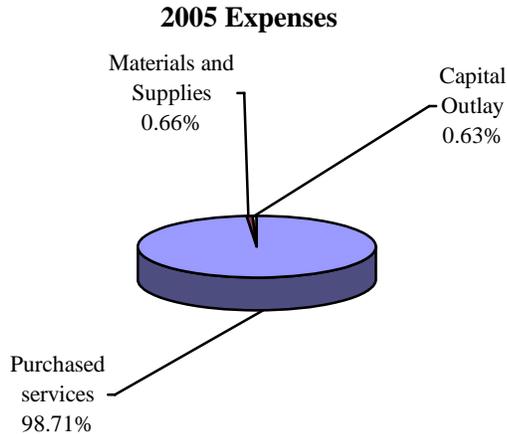
The chart below illustrates the revenues for the School during fiscal 2005.



**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The charts below illustrate the expenses for the School for fiscal year 2005.



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. The School has begun to receive the second round of the Federal Sub-Grant.

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 Community 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.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current assets:

Equity in pooled cash and cash equivalents \$160,687

Receivables:

 Due from Other Governments 83,459

Total assets 244,146

Liabilities:

Due to Other Governments 168,870

Net Assets:

Restricted for:

 State funded programs 3,000

Unrestricted 72,276

Total net assets \$75,276

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, 2005**

Operating revenues:	
State foundation	\$230,236
Total operating revenue	<u>230,236</u>
Operating expenses:	
Purchased services	259,766
Materials and supplies	1,725
Capital outlay	1,667
Total operating expenses	<u>263,158</u>
Operating income	<u>(32,922)</u>
Non-operating revenues:	
Federal and state grants	108,000
Interest income	198
Total non-operating revenues	<u>108,198</u>
Change in net assets	75,276
Net assets at beginning of year	
Net assets at end of year	<u><u>\$75,276</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, 2005**

Cash flows from operating activities:	
Cash received from State foundation	\$226,777
Cash payments to suppliers for goods and services	(174,288)
	<hr/>
Net cash provided by operating activities	52,489
	<hr/>
Cash flows from noncapital financing activities:	
Federal and state grants	108,000
	<hr/>
Net cash provided by noncapital financing activities	108,000
	<hr/>
Cash flows from investing activities:	
Interest received	198
	<hr/>
Net cash provided by investing activities	198
	<hr/>
Net increase in cash and cash equivalents	160,687
Cash and cash equivalents at beginning of year	<hr/>
Cash and cash equivalents at end of year	<u>160,687</u>
	<hr/>
Reconciliation of operating income to net cash provided by operating activities:	
operating activities:	
Operating income	(32,922)
	<hr/>
Changes in assets and liabilities:	
Increase in due from other governments	(83,459)
Increase in due to other governments	168,870
	<hr/>
Net cash provided by operating activities	<u>\$52,489</u>
	<hr/>

See accompanying notes to the financial statements.

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**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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, 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 offers students the choice of online or correspondence schooling. 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.

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 person who represents the interest of parents and students served by the School.
- (d) The final person is a community member and parent of students(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.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(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.

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, 2005.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(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. Federal and State grants for the fiscal year 2005 received by the School was \$108,000.

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 CASH EQUIVALENTS

At June 30, 2005, the carrying amount of the School's deposits was \$160,687. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$60,687 of the School's bank balance of \$160,687 was exposed to custodial risk as discussed below, while \$100,000 was covered by 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.

4. RECEIVABLES

Receivables at June 30, 2005 consisted of amounts Due from Other Governments. These included \$80,000 from the Sponsor, Urbana City School District, for federal start-up grants and \$3,459 from Ohio Department of Education for foundation adjustment.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

5. COMPREHENSIVE SERVICES AGREEMENT WITH TRECA

The School entered into a contract on August 26, 2004, for fiscal year 2005, with Tri-Rivers Educational 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. In exchange for the services and support (including equipment) provided by TRECA, the School shall pay to TRECA a fee of \$25,000 for the 2004-2005 school year.
7. The School shall pay to TRECA \$3,550 per full-time student in grades 9-12 and \$2,550 per full-time K-8 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 2005, \$94,288 was paid to TRECA and no payables were due to TRECA at June 30, 2005.

To obtain TRECA's audited June 30, 2005 financial statements, please contact Scott Armstrong at scott@treca.org

6. 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, 2005, the School owed the Sponsor \$34,506 for payments remitted to the Correspondence School on behalf of the School.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

7. 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 2005, the School was named on the Sponsor's policy for property and general liability insurance.

8. PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

TRECA Services	\$94,288
American Correspondence Tuition	34,506
Director's Expense	82,776
Sponsor Services	48,196
Total	<u><u>\$259,766</u></u>

9. 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, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred on November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education (ODE) 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. In January 2006, the FTE adjustment was made. The result was a receivable in the amount of \$3,459, which would be received from ODE in February 2006.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

10. 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.



**Auditor of State
Betty Montgomery**

**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 Board of Directors:

We have audited the financial statements of Urbana Community School, Champaign County, (the School), a component unit of Urbana City School District, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 7, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School's management dated February 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated February 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Board of Directors. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 7, 2006

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

Unrecorded Financial Activity

The Urbana City School District (the District) sponsors the Urbana Community School (the School). Since the Community School received start-up grants prior to the School's formal existence, the District created an Agency fund to report and account for revenues and expenses. The District, itself, also made expenditures on behalf of the School. However, when the School became legally separate, the Agency funds were not deposited in the School's bank account. During the fiscal year, the District's Agency Fund reported activity including \$105,000 federal revenue, \$25,000 purchased service expense, and remaining balance of \$80,000. The \$80,000 was due back to the District for services and expenses incurred by the District on behalf of the Community School. The School also owed \$88,870 to the District for fiscal year 2005 services. The District did not invoice the Community School for its fiscal years 2003 through 2005 until January 2006. To properly report the Community School's revenues, expenses, receivables, and payables, audit adjustments have been made to the financial statements.

To improve financial reporting and accountability, the Community School should implement procedures to determine all invoices from the District are received timely and all related financial activity is presented in the financial statements.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
APRIL 4, 2006**