



Dave Yost • Auditor of State



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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# Dave Yost • 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Urbana City School District, Champaign County (the District), as of and for the fiscal year ended June 30, 2012, 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.

Ohio Administrative Code §117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Urbana City School District, Champaign County, as of June 30, 2012, and the respective changes in modified cash financial position, thereof and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

As discussed in Note 3, during the fiscal year ended June 30, 2012, the District changed the method of accounting for financial reporting which resulted in the restatement of beginning fund balances and net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, 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.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The federal awards expenditure schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it



**Dave Yost**  
Auditor of State

October 19, 2012

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$374,834 which represents a 4.84% decrease from 2011, as restated.
- General receipts accounted for \$20,241,247 in receipts or 77.79% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,779,215 or 22.21% of all receipts.
- The District had \$26,395,296 in cash disbursements related to governmental activities; \$5,779,215 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,241,247 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$22,059,709 in receipts and other financing sources and \$22,618,135 in disbursements and other financing uses. During fiscal 2012, the general fund's fund balance decreased \$558,426 from a restated balance of \$3,526,420 to a balance of \$2,967,994.
- The permanent improvement fund had \$633,099 in receipts and \$467,561 in disbursements. During fiscal 2012, the permanent improvement fund's fund balance increased \$165,538 from a restated balance of \$463,771 to a balance of \$629,309.

**Using the Cash Basis Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net assets – cash basis and statement of activities – cash basis provide information about the activities of the District as a whole, presenting an aggregate view of the District's cash-basis 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, there are two major funds. The general fund is the largest major fund.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

**Reporting the District as a Whole**

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

The statement of net assets – cash basis and the statement of activities – cash basis answer the question, “How did the District do financially during 2012?” These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

These two statements report the District’s net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis 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.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets – cash basis and statement of activities – cash basis, 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 13-14 of this report.

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

***Fund Financial Statements***

The analysis of the District’s major governmental funds begins on page 8. 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’ most significant funds. The District’s major governmental funds are the general fund and the permanent improvement 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 the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more of fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net assets – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

***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 20-21 of this report.

***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 – cash basis and changes in fiduciary net assets – cash basis on pages 22 and 23. 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 25-53 of this report.

**The District as a Whole**

The table below provides a summary of the District's net assets – cash basis at June 30, 2012 and June 30, 2011, as restated.

	<b>Net Assets</b>	
	<b>Governmental Activities 2012</b>	<b>Restated Governmental Activities 2011</b>
<b>Assets:</b>		
Equity in pooled cash and investments	\$7,375,769	\$7,750,603
<b>Net Cash Assets:</b>		
Restricted	951,211	1,667,274
Unrestricted	6,424,558	6,083,329
Total net cash assets	\$7,375,769	\$7,750,603

Total net assets of the District decreased \$374,834, which represents a 4.84% decrease from restated net assets at June 30, 2011. A portion of the District's net assets, \$951,211, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,424,558 may be used to meet the District's ongoing obligations to the students and creditors.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

The table below shows the change in cash basis net assets for fiscal years 2012 and 2011.

	<b>Change in Net Assets</b>	
	<b>Governmental Activities 2012</b>	<b>Restated Governmental Activities 2011</b>
<b>Receipts:</b>		
<b>Program revenues:</b>		
Charges for services and sales	\$1,577,280	\$1,572,785
Operating grants and contributions	4,201,935	5,125,343
<b>General revenues:</b>		
Property taxes	9,188,666	8,069,811
Grants and entitlements	10,721,549	11,265,226
Investment earnings	235,927	22,286
Other	95,105	34,322
Total receipts	<u>26,020,462</u>	<u>26,089,773</u>
<b>Disbursements:</b>		
<b>Program disbursements:</b>		
<b>Instruction:</b>		
Regular	11,314,957	12,470,147
Special	4,814,388	4,164,469
Vocational	364,769	345,275
Other	47,814	107,375
<b>Support services:</b>		
Pupil	1,221,904	1,311,159
Instructional staff	488,355	553,667
Board of education	23,961	21,930
Administration	1,973,635	2,007,821
Fiscal	255,762	249,216
Business	362,455	366,991
Operations and maintenance	1,660,279	1,671,736
Pupil transportation	804,585	774,536
Central	319,176	295,100
<b>Operations of non-instructional services:</b>		
Food service operations	1,124,766	925,000
Other non-instructional services	64,943	119,999
Extracurricular activities	730,720	774,746
Facilities acquisition and construction	374,782	298,209
<b>Debt service:</b>		
Principal retirement	399,613	402,288
Interest and fiscal charges	48,432	59,767
Total disbursements	<u>26,395,296</u>	<u>26,919,431</u>
Change in net assets	(374,834)	(829,658)
Net cash assets at beginning of year (restated)	7,750,603	8,580,261
Net cash assets at end of year	<u>\$7,375,769</u>	<u>\$7,750,603</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

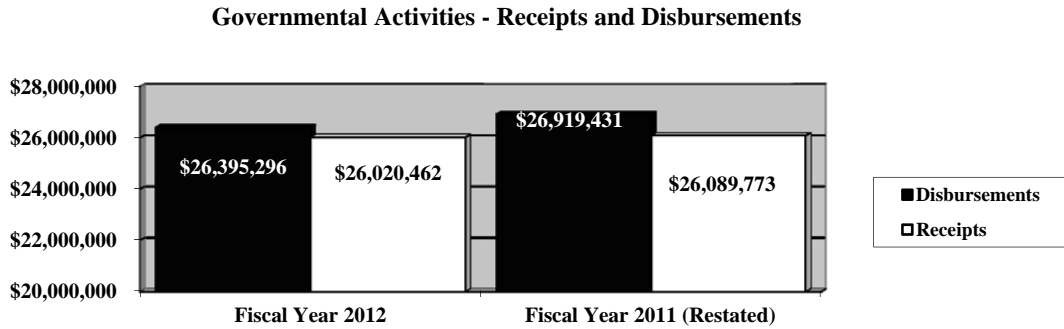
**Governmental Activities**

Net assets of the District's governmental activities decreased \$374,834. Total governmental disbursements of \$26,395,296 were offset by program receipts of \$5,779,215 and general receipts of \$20,241,247. Program receipts supported 21.89% of the total governmental disbursements.

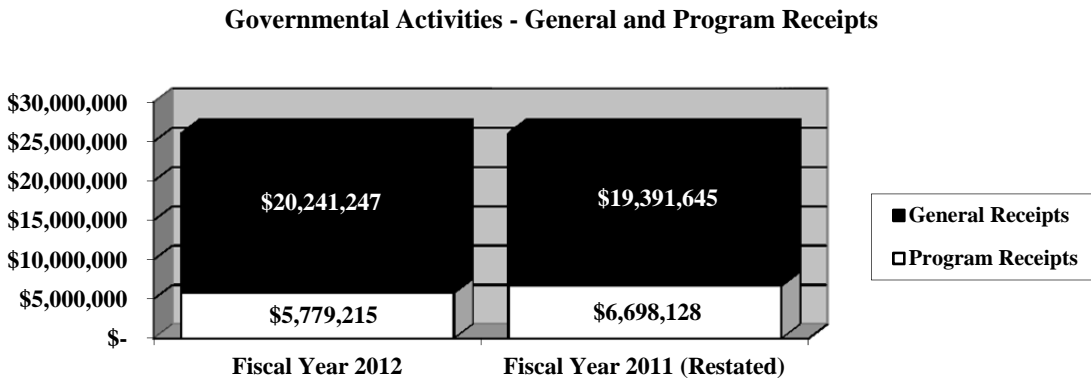
The primary sources of receipts for governmental activities are derived from property taxes and unrestricted grants and entitlements. These receipts represent 76.52% of total governmental receipts.

The largest category of the District's disbursements is for instructional programs. Instruction disbursements totaled \$16,541,928 or 62.67% of total governmental disbursements for fiscal 2012.

The graph below presents the District's governmental activities receipts and disbursements for fiscal years 2012 and 2011.



The graph below presents the District's governmental activities receipts for fiscal years 2012 and 2011.



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 receipts and unrestricted State grants and entitlements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

**Governmental Activities**

	<b>Total Cost of Services 2012</b>	<b>Net Cost of Services 2012</b>	<b>Restated Total Cost of Services 2011</b>	<b>Restated Net Cost of Services 2011</b>
<b>Program disbursements:</b>				
<b>Instruction:</b>				
Regular	\$11,314,957	\$10,378,368	\$12,470,147	\$10,046,780
Special	4,814,388	2,333,366	4,164,469	2,150,844
Vocational	364,769	259,130	345,275	243,813
Other	47,814	47,814	107,375	107,375
<b>Support services:</b>				
Pupil	1,221,904	1,146,178	1,311,159	1,202,331
Instructional staff	488,355	355,860	553,667	550,682
Board of education	23,961	23,961	21,930	21,930
Administration	1,973,635	1,811,675	2,007,821	1,971,253
Fiscal	255,762	255,762	249,216	249,216
Business	362,455	362,455	366,991	220,212
Operations and maintenance	1,660,279	1,635,608	1,671,736	1,473,618
Pupil transportation	804,585	417,947	774,536	653,254
Central	319,176	319,176	295,100	135,124
<b>Operations of non-instructional services:</b>				
Food service operations	1,124,766	59,349	925,000	(79,678)
Other non-instructional services	64,943	58,043	119,999	64,320
Extracurricular activities	730,720	328,562	774,746	449,965
Facilities acquisition and construction	374,782	374,782	298,209	298,209
<b>Debt service:</b>				
Principal retirement	399,613	399,613	402,288	402,288
Interest and fiscal charges	48,432	48,432	59,767	59,767
<b>Total disbursements</b>	<b><u>\$26,395,296</u></b>	<b><u>\$20,616,081</u></b>	<b><u>\$26,919,431</u></b>	<b><u>\$20,221,303</u></b>

The dependence upon tax and other general receipts for governmental activities is apparent, 78.70% of instruction activities are supported through taxes and other general receipts. For all governmental activities, general receipt support is 78.11%.

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,918,457, which is lower than last year's restated total of \$4,594,841.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011. Fund balances at June 30, 2011 have been restated as is described in Note 3.B.

	<b>Fund Balance June 30, 2012</b>	<b>Restated Fund Balance June 30, 2011</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>	
General	\$2,967,994	\$3,526,420	(\$558,426)	(15.84)	%
Permanent improvement	629,309	463,771	165,538	35.69	%
Other Governmental	321,154	604,650	(283,496)	(46.89)	%
<b>Total</b>	<b><u>\$3,918,457</u></b>	<b><u>\$4,594,841</u></b>	<b><u>(\$676,384)</u></b>	<b><u>(14.72)</u></b>	<b><u>%</u></b>

An analysis of the general fund receipts and disbursements is provided in the section below.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

**General Fund**

The District's general fund balance decreased \$558,426. Tax receipts increased 13.81%, or \$1,059,138 during 2012. Earnings on investments increased \$213,932 from the prior year as a result of the receipt of interest from Certificates of Deposit that matured during fiscal year 2012. Other receipts increased 15.40%, or \$43,487, due primarily to the receipt of insurance proceeds from various claims made by the District related to losses on property related to theft and storm damage that occurred during fiscal year 2012. A 6.93% increase in tuition receipts during 2012 is attributable to a \$99,056 payment received in arrears from the Urbana Community School, a discretely presented component unit of the District, for services provided during 2011, which offset otherwise lower tuition collections during the year.

During fiscal year 2012, a \$351,082 increase in disbursements for instruction was offset by a corresponding \$351,944 decrease in disbursements for support services. Specifically, significant reductions in spending for instructional staff, administration, and transportation support services allowed for increased disbursements for regular and special instruction programs, the most significant of which was an 8.82% increase in special instruction spending. Non-instructional services disbursements decreased \$2,641, or 4.20%, while debt service disbursements decreased \$12,649 due in part to a capital lease agreement that was terminated during 2012.

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

	<b>2012 Amount</b>	<b>Restated 2011 Amount</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>	
<b>Receipts:</b>					
Taxes	\$ 8,726,524	\$ 7,667,386	\$1,059,138	13.81	%
Tuition	779,759	729,197	50,562	6.93	%
Earnings on investments	235,718	21,786	213,932	981.97	%
Other revenues	325,815	282,328	43,487	15.40	%
Intergovernmental	11,812,714	12,393,510	(580,796)	(4.69)	%
<b>Total</b>	<u>21,880,530</u>	<u>21,094,207</u>	<u>786,323</u>	3.73	%
<b>Disbursements:</b>					
Instruction	15,126,014	14,774,932	351,082	2.38	%
Support services	6,474,862	6,826,806	(351,944)	(5.16)	%
Non-instructional services	60,195	62,836	(2,641)	(4.20)	%
Extracurricular activities	479,163	473,053	6,110	1.29	%
Debt service	388,884	401,533	(12,649)	(3.15)	%
<b>Total</b>	<u>\$22,529,118</u>	<u>\$22,539,160</u>	<u>(\$ 10,042)</u>	(0.04)	%

**Permanent Improvement Fund**

The permanent improvement fund, a major capital projects fund of the District, had cash receipts of \$633,099 and cash disbursements of \$467,561 during fiscal year 2012. The balance of the permanent improvement fund increased \$165,538, from a restated cash balance of \$463,771 to a balance of \$629,309 at June 30, 2012.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

***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.

For the general fund, original and final budgeted receipts and other financing sources were \$21,472,000. Actual revenues and other financing sources for fiscal year 2012 totaled \$21,848,421. This represents a \$376,421 increase over original and final budgeted revenues for 2012.

General fund original appropriations and final appropriations (appropriated disbursements including other financing uses) totaled \$23,824,216 and \$23,847,826, respectively. The actual budget basis disbursements and other financing uses for fiscal year 2012 totaled \$22,685,770, which was \$1,162,056 less than final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

The District does not report capital assets in the accompanying cash basis financial statements, but records payments for capital assets as disbursements when purchased. The District had facilities acquisition and construction disbursements of \$374,782 during the fiscal year.

***Debt Administration***

At June 30, 2012, the District had \$60,000 in energy conservation notes and \$201,582 in capital lease obligations outstanding. Of this total, \$126,973 is due within one year and \$139,609 is due in greater than one year. The following table summarizes the notes and leases outstanding.

	<b>Outstanding Debt, Year End</b>	
	<b>Governmental Activities 2012</b>	<b>Governmental Activities 2011</b>
Energy conservation notes	\$ 60,000	\$ 85,000
Capital lease obligation	201,582	316,195
Total	\$261,582	\$401,195

Additionally, the District had \$520,000 in tax anticipation notes outstanding at June 30, 2012, \$260,000 of which is due within one year.

At June 30, 2012, the District's overall legal debt margin was \$23,118,607 and an un-voted debt margin of \$256,873. See Note 8 to the basic financial statements for detail on the District's debt administration.

**Current Related Financial Activities**

The education funding structure in Ohio changed once again in fiscal year 2012. The PASS funding system was eliminated and funding was based on a mixture of the former PASS system and an ADM formula. Funding was based on fiscal year 2011 numbers until February of 2012, when funding was adjusted to meet October 2011 count week figures. The District experienced a drop of approximately 70 students and suffered a loss of funding mid-way through the year. There is no expected increase in state funding for fiscal year 2013. The District does expect enrollment numbers to increase slightly due to the addition of a kindergarten section in 2013.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

The District is facing future challenges in the area of State funding. The biggest challenge facing the future of Urbana City Schools is the effect of HB66 including the complete elimination of all tangible personal property tax. This included the inventory tax which is almost phased out and the \$10,000 exempt personal property tax which had also began a phase-out previous to HB66 and finished in 2010. This loss will be devastating for Urbana City Schools, as these receipts provide a significant portion of the District's resources.

The District ranks #52 out of 612 districts in the State in reliance on tangible personal property tax. The District received full reimbursement from the State through 2010 and will phase out at a rate based on a percentage of the fiscal year 2010 revenue. At this time, the phase out is expected to be complete at the end of fiscal year 2016. In 2012, the District lost over \$400,000 due to this recalculated phase-out formula.

The District passed an operating levy in March of 2008 for 9.75 mills, providing approximately \$2.6 million per year, which began in January of 2009. To ensure fiscal stability, the Board voted to borrow \$1.3 million (½ of one year's collection) in April of 2008 as a long-term note for five years.

**Current Related Financial Activities (Unaudited)**

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 of Education and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 52% of approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers while continuing to meet the needs of students. In 2004, the Board proceeded to put its local share of the project on the ballot through the Expedited Local Partnership Program. Phase I of the project consists of a new PK-5 building and a building for grades 6 through 8. The high school is intended to comprise Phase II, to be built with State funds. Phase I failed to receive a favorable response from taxpayers in 2004 and in 2006. 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 building with Phase I, build a 6-8 middle school with Phase II and delay the high school OSFC project to Phase III. Phase I failed again in November of 2006, with less millage. The District estimates costs related to the proposed project will continue to increase as costs associated with new construction become higher over time. Additionally, the local share to be funded by the District will continue to increase as the tax base decreases, thus making a levy more difficult to pass. HB119 passed in June of 2007, with Governor Strickland's emphasis on speeding up the pace of these projects. As a result of the State refinancing other projects, the District was offered its State allocation in the spring of 2008, which the District deferred, recognizing the need to pass an operating levy. The state allocation was offered again to the District in the spring of 2009 and the Board elected to once again defer in order to maintain operating funds. The Board plans to place a new operating funds levy on the ballot in November of 2012.

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 or achieve academic success in the regular school system. The Urbana Community School opened its doors July 1, 2004. 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 will achieve academic success through the Community School.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)  
(Continued)**

The District has committed itself to educational and financial excellence for many years. The District has received an Excellent Rating from the Ohio Department of Education in both fiscal years 2009 and 2010, and unqualified opinions on its financial statement audits. Each challenge identified in this section is viewed as an opportunity for the District 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 its educational programs.

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 in the future.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, 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. Mandy Hildebrand, Treasurer, Urbana City School District, 711 Wood St., Urbana, Ohio 43088.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2012**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Urbana Community School</b>
<b>Assets:</b>		
Equity in pooled cash and investments	\$7,375,769	\$841,889
<b>Net Cash Assets:</b>		
<b>Restricted for:</b>		
Capital projects	629,309	
State funded programs	127,514	18,000
Federally funded programs	14,722	
Student activities	98,594	
Other purposes	81,072	
Unrestricted	6,424,558	823,889
Total net cash assets	\$7,375,769	\$841,889

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary</u>	<u>Component</u>
				<u>Governmental</u>	<u>Unit</u>
				<u>Urbana</u>	
				<u>Governmental</u>	<u>Community</u>
				<u>Activities</u>	<u>School</u>
<b>Governmental activities:</b>					
<b>Instruction:</b>					
Regular	\$11,314,957	\$637,375	\$299,214	(\$10,378,368)	
Special	4,814,388	189,430	2,291,592	(2,333,366)	
Vocational	364,769		105,639	(259,130)	
Other	47,814			(47,814)	
<b>Support services:</b>					
Pupil	1,221,904		75,726	(1,146,178)	
Instructional staff	488,355		132,495	(355,860)	
Board of education	23,961			(23,961)	
Administration	1,973,635		161,960	(1,811,675)	
Fiscal	255,762			(255,762)	
Business	362,455			(362,455)	
Operations and maintenance	1,660,279	13,871	10,800	(1,635,608)	
Pupil transportation	804,585	23,505	363,133	(417,947)	
Central	319,176			(319,176)	
<b>Operation of non-instructional services:</b>					
Food service operations	1,124,766	322,559	742,858	(59,349)	
Other non-instructional services	64,943		6,900	(58,043)	
Extracurricular activities	730,720	390,540	11,618	(328,562)	
Facilities acquisition and construction	374,782			(374,782)	
<b>Debt service:</b>					
Principal retirement	399,613			(399,613)	
Interest and fiscal charges	48,432			(48,432)	
Total governmental activities	<u>\$26,395,296</u>	<u>\$1,577,280</u>	<u>\$4,201,935</u>	<u>(20,616,081)</u>	
<b>Component Unit:</b>					
Urbana community school	<u>\$274,728</u>	<u>\$0</u>	<u>\$0</u>		<u>(\$274,728)</u>
<b>General Receipts:</b>					
<b>Property taxes levied for:</b>					
General purposes				8,726,524	
Capital projects				462,142	
Grants and entitlements not restricted to specific programs				10,721,549	279,545
Investment earnings				235,927	1,194
Miscellaneous				95,105	2,614
Total general receipts				<u>20,241,247</u>	<u>283,353</u>
Change in net assets				(374,834)	8,625
Net cash assets at beginning of year (restated)				<u>7,750,603</u>	<u>833,264</u>
Net cash assets at end of year				<u>\$7,375,769</u>	<u>\$841,889</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments	\$2,967,246	\$629,309	\$321,154	\$3,917,709
<b>Restricted assets:</b>				
Equity in pooled cash and investments	748			748
Total assets	<u>2,967,994</u>	<u>629,309</u>	<u>321,154</u>	<u>3,918,457</u>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Unclaimed monies	8,214			8,214
<b>Restricted:</b>				
Capital improvements		629,309		629,309
School bus purchases	748			748
Food service operations			80,324	80,324
Non-public schools			120	120
Special education			113	113
Targeted academic assistance			8,468	8,468
Extracurricular			98,594	98,594
Other purposes			133,535	133,535
<b>Committed:</b>				
Termination benefits	458,845			458,845
<b>Assigned:</b>				
Student instruction	119,523			119,523
Student and staff support	255,761			255,761
Extracurricular activities	6			6
School supplies	2,850			2,850
Other purposes	8,628			8,628
Unassigned	2,113,419			2,113,419
Total fund balances	<u>\$2,967,994</u>	<u>\$629,309</u>	<u>\$321,154</u>	<u>\$3,918,457</u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES - CASH BASIS  
JUNE 30, 2012**

Total governmental fund balances	\$3,918,457
Amounts reported for governmental activities on the statement of net assets are different because:	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net assets.	
	<u>3,457,312</u>
Net cash assets of governmental activities	<u>\$7,375,769</u>

*See accompanying notes to the basic financial statements.*

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>				
<b>From local sources:</b>				
Taxes	\$8,726,524	\$462,142		\$9,188,666
Tuition	779,759			779,759
Transportation fees	23,505			23,505
Earnings on investments	235,718		\$1,014	236,732
Charges for services			322,559	322,559
Extracurricular	146,288		244,252	390,540
Classroom materials and fees	47,046			47,046
Rental income	13,871			13,871
Contributions and donations	12,700		11,618	24,318
Other local revenues	82,405			82,405
Intergovernmental - intermediate	120,145			120,145
Intergovernmental - state	11,692,569	170,957	195,955	12,059,481
Intergovernmental - federal			2,731,226	2,731,226
<b>Total receipts</b>	<b>21,880,530</b>	<b>633,099</b>	<b>3,506,624</b>	<b>26,020,253</b>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	11,094,589		394,067	11,488,656
Special	3,617,407		1,228,559	4,845,966
Vocational	366,204		5,400	371,604
Other	47,814			47,814
<b>Support services:</b>				
Pupil	1,161,345		77,065	1,238,410
Instructional staff	362,387		132,189	494,576
Board of education	23,961			23,961
Administration	1,797,891	32,225	164,637	1,994,753
Fiscal	259,317			259,317
Business	366,556			366,556
Operations and maintenance	1,672,879		12,006	1,684,885
Pupil transportation	512,743		298,813	811,556
Central	317,783	1,393		319,176
<b>Operation of non-instructional services:</b>				
Food service operations			1,124,766	1,124,766
Other non-instructional services	60,195		6,798	66,993
Extracurricular activities	479,163		255,658	734,821
Facilities acquisition and construction		374,782		374,782
<b>Debt service:</b>				
Principal retirement	348,613	51,000		399,613
Interest and fiscal charges	40,271	8,161		48,432
<b>Total disbursements</b>	<b>22,529,118</b>	<b>467,561</b>	<b>3,699,958</b>	<b>26,696,637</b>
Excess (deficiency) of receipts over (under) disbursements	(648,588)	165,538	(193,334)	(676,384)
<b>Other financing sources (uses):</b>				
Advances in	179,179		89,017	268,196
Advances (out)	(89,017)		(179,179)	(268,196)
<b>Total other financing sources (uses)</b>	<b>90,162</b>		<b>(90,162)</b>	
Net change in fund balances	(558,426)	165,538	(283,496)	(676,384)
Fund balances at beginning of year (restated)	3,526,420	463,771	604,650	4,594,841
Fund balances at end of year	<u>\$2,967,994</u>	<u>\$629,309</u>	<u>\$321,154</u>	<u>\$3,918,457</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds (\$676,384)

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

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  
disbursements and the related internal service fund receipts  
are eliminated. The net receipts of the internal service fund  
is allocated among the governmental activities.

301,550

Change in net cash assets of governmental activities

(\$374,834)

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts:</b>				
<b>From local sources:</b>				
Property taxes	\$8,578,626	\$8,578,626	\$8,726,524	\$147,898
Tuition	669,166	669,166	680,703	11,537
Transportation fees	23,106	23,106	23,505	399
Earnings on investments	225,818	225,818	235,718	9,900
Rental income	13,636	13,636	13,871	235
Other local revenues	118,891	118,891	120,939	2,048
Intergovernmental - intermediate	118,109	118,109	120,145	2,036
Intergovernmental - state	11,463,580	11,463,580	11,661,215	197,635
Total receipts	<u>21,210,932</u>	<u>21,210,932</u>	<u>21,582,620</u>	<u>371,688</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	11,049,624	11,351,908	11,139,084	212,824
Special	3,350,509	3,781,855	3,633,643	148,212
Vocational	401,899	409,880	406,241	3,639
Other	72,282	64,537	58,626	5,911
<b>Support services:</b>				
Pupil	1,215,372	1,205,710	1,166,941	38,769
Instructional staff	531,606	388,635	366,805	21,830
Board of education	23,411	28,224	25,655	2,569
Administration	2,052,857	1,902,239	1,810,198	92,041
Fiscal	430,724	285,087	267,885	17,202
Business	248,648	245,061	217,067	27,994
Operations and maintenance	2,055,108	2,026,251	1,775,083	251,168
Pupil transportation	858,951	664,648	568,565	96,083
Central	246,152	333,965	318,483	15,482
Operation of non-instructional services	91,419	76,216	68,823	7,393
Extracurricular activities	553,828	485,000	475,044	9,956
<b>Debt service:</b>				
Principal retirement	233,267	260,000	260,000	
Interest and fiscal charges	108,559	38,610	38,610	
Total disbursements	<u>23,524,216</u>	<u>23,547,826</u>	<u>22,596,753</u>	<u>951,073</u>
Excess of disbursements over receipts	<u>(2,313,284)</u>	<u>(2,336,894)</u>	<u>(1,014,133)</u>	<u>1,322,761</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures	30,823	30,823	31,354	531
Advances in	175,914	175,914	179,179	3,265
Advances (out)	(300,000)	(300,000)	(89,017)	210,983
Sale of assets	54,331	54,331	55,268	937
Total other financing sources (uses)	<u>(38,932)</u>	<u>(38,932)</u>	<u>176,784</u>	<u>215,716</u>
Net change in fund balance	(2,352,216)	(2,375,826)	(837,349)	1,538,477
Fund balance at beginning of year	2,195,332	2,195,332	2,195,332	
Prior year encumbrances appropriated	749,216	749,216	749,216	
Fund balance at end of year	<u>\$592,332</u>	<u>\$568,722</u>	<u>\$2,107,199</u>	<u>\$1,538,477</u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2012

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Equity in pooled cash and investments	<u>\$3,457,312</u>
<b>Net cash assets:</b>	
Unrestricted	<u><u>\$3,457,312</u></u>

*See accompanying notes to the basic financial statements.*



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating receipts:</b>	
Charges for services	\$2,820,981
Total operating receipts	<u>2,820,981</u>
<b>Operating disbursements:</b>	
Claims and administrative services	2,519,640
Total operating disbursements	<u>2,519,640</u>
Operating income	<u>301,341</u>
<b>Nonoperating receipts:</b>	
Interest receipts	209
Total non-operating receipts	<u>209</u>
Change in net assets	301,550
Net cash assets at beginning of year (restated) .	<u>3,155,762</u>
Net cash assets at end of year	<u><u>\$3,457,312</u></u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash equivalents and investments	\$126,238	\$53,344
<b>Net cash assets:</b>		
Held in trust for scholarships	126,238	
Held for student activities		53,344
Total net cash assets	\$126,238	\$53,344

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest	\$214
Gifts and contributions	1,500
Total additions	1,714
<b>Deductions:</b>	
Scholarships awarded	3,000
Change in net assets	(1,286)
Net cash assets at beginning of year	127,524
Net cash assets at end of year	\$126,238

*See accompanying notes to the basic financial statements.*

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**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 currently operates 3 elementary schools, 1 intermediate, 1 junior high and 1 high school. The District is staffed by 83 non-certified and 160 certified personnel to provide services to approximately 2,204 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the District's accounting policies.

**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 and component units. 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, 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 governing 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

The following organizations are described due to their relationship to the District:

**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 Directors 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 Chapter 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. See Note 17 for detail on the School.

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 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 14 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 Cathy Doseck, Treasurer and Chief Financial Officer, 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 \$166,777 to MEC during fiscal year 2012. Financial information is available from Ron Miller, Director, 2100 Citygate Dr., Columbus, Ohio 43219.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(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 districts' 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, Suite A, Bellefontaine, Ohio 43311.

**2. Insurance Purchasing Pool**

**Workers' Compensation Group Rating Plan**

The District participates in the Better Business Bureau of Central Ohio group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio is governed by a Board of Directors, consisting of four officers and twenty-three directors from area businesses and organizations.

**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. The following are the District's major governmental funds:

**General fund** –The general fund is used to account for and report all financial resources not accounted for and reported 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.

**Permanent improvement fund** – The permanent improvement fund is used to account for financial resources that are restricted to expenditures for the acquisition or construction of capital facilities and other capital assets.

Other governmental funds of the District are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

**2. Proprietary Fund**

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

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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

**3. Fiduciary Funds**

Fiduciary fund reporting focuses on net cash 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 and do not involve measurement of results of operations. The District's agency funds account for student activities.

**C. Basis of Presentation**

**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 receipts and disbursements.

The government-wide statement of activities presents a comparison between direct disbursements and program receipts for each function or program of the governmental activities of the District. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts 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. Receipts not classified as program receipts are presented as general receipts of the District.

All assets and net assets 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 nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**D. Basis of Accounting**

Although Ohio Administrative Code § 117-2-03(B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**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 2012 is as follows:

1. Prior to January 15, 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 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 July 1, 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 of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources 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 certificate of estimated resources issued for fiscal year 2012.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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

**F. Cash and Investments**

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

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable and non-negotiable certificates of deposit and U.S. government money market mutual funds. 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 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 shares price which is the price the investment could be sold for on June 30, 2012.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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 2012 amounted to \$235,718, which includes \$136,425 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.

**G. Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**I. Interfund Balances**

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances 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 sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

**K. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Long-Term Obligations**

Loans and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Non-spendable** – The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**Restricted** – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**Committed** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**Unassigned** – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**N. Net Cash Assets**

Net cash assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net cash assets restricted for other purposes include monies restricted by State statute for school bus purchases and food service operations.

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

**O. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents received from the State and are restricted for school bus purchases. A schedule of statutory set-asides is presented in Note 15.

**P. Interfund Activity**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 receipts/disbursements in the proprietary fund. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the basic financial statements.

**Q. Budget Stabilization Arrangement**

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2012, the balance in the budget stabilization reserve was \$366,608. This amount is included in unassigned fund balance of the general fund and in unrestricted net cash assets on the statement of net assets.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53".

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

**B. Change in Basis of Accounting and Restatement of Prior Year Fund Balances and Net Assets**

Ohio Administrative Code, Section 117-2-03(B), requires that the District prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year ending June 30, 2012, the District changed from a basis of accounting that follows generally accepted accounting principles (GAAP-basis) to the cash basis of accounting (See Note 2.D), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The District has elected to present the cash-basis financial statements in a format consistent with GASB Statement No. 34. Fund balances and net assets at June 30, 2011 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on fund balances at June 30, 2011:

	<u>Governmental Funds</u>			<u>Proprietary Fund</u>	
	<u>General</u>	<u>Permanent Improvement</u>	<u>Non-major Governmental</u>		<u>Total Governmental</u>
Fund balance at June 30, 2011	\$4,029,527	\$622,699	\$223,691	\$4,875,917	\$2,698,840
Restatement due to change in reporting basis adjustments	(503,107)	(158,928)	380,959	(281,076)	456,922
Restated fund balance at June 30, 2011	<u>\$3,526,420</u>	<u>\$463,771</u>	<u>\$604,650</u>	<u>\$4,594,841</u>	<u>\$3,155,762</u>

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on net assets at June 30, 2011:

	<u>Governmental Activities</u>	<u>Component Unit</u>
Net assets at June 30, 2011	\$10,451,518	\$751,995
Restatement due to change in reporting basis adjustments	(2,700,915)	81,269
Restated net cash assets at June 30, 2011	<u>\$ 7,750,603</u>	<u>\$833,264</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**C. Compliance**

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**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 monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain 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.

Protection of the 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.

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 fiscal year end, the District had \$100 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents and investments."

**B. Deposits with Financial Institutions**

At June 30, 2012, the carrying amount of all District deposits was \$4,852,144. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$4,385,407 of the District's bank balance of \$5,115,836 was exposed to custodial risk as discussed below, while \$730,429 was covered by the FDIC.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.



**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**C. Investments**

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 Months</u>
Negotiable CD's	\$1,499,438	\$ 499,756	\$999,682
Money market mutual fund	1,178,669	1,178,669	
STAR Ohio	25,000	25,000	
Total	<u>\$2,703,107</u>	<u>\$1,703,425</u>	<u>\$999,682</u>

The weighted average maturity of investments is 0.28 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:** STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

**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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CD's	\$1,499,438	55.48
Money market mutual fund	1,178,669	43.60
STAR Ohio	25,000	0.92
Total	<u>\$2,703,107</u>	<u>100.00</u>

**D. Reconciliation of cash and investments to the statement of net assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$4,852,144
Investments	2,703,107
Cash on hand	100
Total	<u>\$7,555,351</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$7,375,769
Private purpose trust funds	126,238
Agency funds	53,344
Total	<u>\$7,555,351</u>

**5. INTERFUND TRANSACTIONS**

Advances for the fiscal year ended June 30, 2012 as reported on the fund statements, consist of the following:

<b>Advances to the general fund from:</b>	
Non-major governmental funds	\$179,179
<b>Advances to non-major governmental funds from:</b>	
General fund	89,017
Total	<u>\$268,196</u>

Advances outstanding from prior years consist of \$58,669 due to the general fund from the non-major governmental funds.

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

Interfund advances between governmental funds are eliminated on the government-wide financial statements.

**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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**6. PROPERTY TAXES (Continued)**

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2012 (other than public utility property) generally represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010 on the value as of December 31, 2010. Amounts paid by multi-county taxpayers were due September 20, 2011. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2011, with the remainder payable by September 20, 2011.

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, 2012, are available to finance fiscal year 2012 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	<b>2011 Second Half Collections</b>		<b>2012 First Half Collections</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$246,330,990	96.25	\$247,324,680	96.28
Public utility personal	9,246,860	3.61	9,548,730	3.72
Tangible personal property	<u>347,600</u>	<u>0.14</u>		
Total	<u>\$255,925,450</u>	<u>100.00</u>	<u>\$256,873,410</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$68.05		 \$68.05	

**7. CAPITALIZED LEASES – LESSEE DISCLOSURE**

The District has entered into capitalized leases for modular classrooms, land, computer equipment and copier equipment. These lease agreements meet the criteria of capital lease as defined by generally accepted accounting principles, 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. Principal payments in fiscal year 2012 totaled \$88,613 paid by the general fund and \$26,000 paid by the permanent improvement 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, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$107,600
2014	<u>107,345</u>
Total minimum lease payments	214,945
Less: amount representing interest	<u>(13,363)</u>
Total	<u>\$201,582</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**8. LONG-TERM OBLIGATIONS**

A. During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	<b>Balance Outstanding June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Outstanding June 30, 2012</b>	<b>Amounts Due in One Year</b>
<b>Governmental activities:</b>					
Energy conservation notes	\$ 85,000		(\$25,000)	\$ 60,000	\$ 30,000
Capital lease obligation	316,195		(114,613)	201,582	96,973
Total long-term obligations, governmental activities	<u>\$401,195</u>	<u>\$0</u>	<u>(\$139,613)</u>	<u>\$261,582</u>	<u>\$126,973</u>

B. On December 1, 1999, the District issued energy conservation notes at an interest rate of 5.60%. The energy conservation notes mature on June 1, 2014.

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. 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 summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$30,000	\$2,663	\$32,663
2014	30,000	892	30,892
Total	<u>\$60,000</u>	<u>\$3,555</u>	<u>\$63,555</u>

**C. 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 un-voted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that un-voted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$23,118,607 and an un-voted debt margin of \$256,873.

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**9. NOTES PAYABLE**

During fiscal year 2008, the District issued \$1,300,000 in tax anticipation notes to fund operations. The proceeds were deposited in the general fund. These notes carry an interest rate of 4.95% and mature on November 1, 2013. Activity during the fiscal year was as follows:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2012</b>	<b>Due Within One Year</b>
Tax anticipation notes	\$780,000	\$0	(\$260,000)	\$520,000	\$260,000

Debt service payments to repay the tax anticipation notes are made from the general fund.

Principal and interest requirements to amortize tax anticipation notes outstanding at June 30, 2012 are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$260,000	\$25,740	\$285,740
2014	260,000	12,870	272,870
Total	\$520,000	\$38,610	\$558,610

**10. 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 claims/fee payments and reserves for this program to its employees. Monthly premiums 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, Mutual Health Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee per year, and \$1.0 million group aggregate for fiscal year 2012. The premiums are paid by the District at a rate of 90% for all teaching employees and at a rate of either 85%, 65%, or 60% for classified staff.

Administrators' premiums are paid 100% by the District. 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**10. RISK MANAGEMENT (Continued)**

Claims of \$197,310 are due to be paid from the internal service fund at June 30, 2012. The claims liability is based on an estimate supplied by the District's third party administrator, and includes estimates of costs relating to incurred but not reported claims.

Changes in claims due 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>
2012	\$456,922	\$2,260,028	(\$2,519,640)	\$197,310
2011	470,336	2,166,495	(2,179,909)	456,922

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 year 2011.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

**B. Workers' Compensation**

For fiscal year 2012, the District participated in the Better Business Bureau of Central Ohio Group Rating Plan (the "GRP") through Sheakley. 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 entities 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. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

**11. PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** – The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**11. PENSION PLANS (Continued)**

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$261,204, \$257,886 and \$264,322, respectively; 75.01 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

**Plan Description** – The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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 a member's lifetime 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**URBANA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**11. PENSION PLANS (Continued)**

**Funding Policy** – For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,303,090, \$1,363,347 and \$1,326,359, respectively; 91.17 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** – The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105€. For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District’s contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$46,911, \$77,735 and \$43,348, respectively; 75.01 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District’s contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$15,425, \$16,596 and \$15,719, respectively; 75.01 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

**Plan Description** – The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), under “Publications” or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District’s contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$100,238, \$104,873 and \$102,028, respectively; 91.17 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

**13. BUDGETARY BASIS OF ACCOUNTING**

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

The statement of receipts, disbursements and changes in fund balance – budget and actual (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 cash basis are that:

- (a) 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 assigned or committed fund balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

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

<b>Net Change in Fund Balance</b>	
	<b>General fund</b>
Budget basis	(\$837,349)
Funds budgeted elsewhere	(41,626)
Adjustment for encumbrances	320,549
Cash basis	(\$558,426)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies fund, the unclaimed monies fund, the public school support fund, the other grants fund and the termination benefits fund.

**14. CONTINGENCIES**

**A. ADM & Grants**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

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

**14. CONTINGENCIES (Continued)**

**B. Litigation**

The District is not party to legal proceedings that would have a material effect, if any, on the financial condition of the District. As of June 30, 2012 there was pending litigation against the District alleging copyright infringement by District personnel; however, on July 13, 2012 a Settlement Agreement was reached between the parties of record. The settlement did not materially impact the financial statements at June 30, 2012.

**15. SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<b>Capital Improvements</b>
Set-aside balance June 30, 2011	
Current year set-aside requirement	\$374,209
Current year offsets	(633,099)
Total	(\$258,890)
Balance carried forward to fiscal year 2013	\$ 0
Set-aside balance June 30, 2012	\$ 0

Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

In addition to the above statutory set-aside, the District also has \$748 in monies restricted for school bus purchases. This amount is shown as a restricted asset and restricted fund balance in the general fund since allowable expenditures are restricted by State statute.

**16. OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

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

**16. OTHER COMMITMENTS (Continued)**

<b>Fund</b>	<b>Year-End Encumbrances</b>
General fund	\$322,337
Permanent improvement fund	194,061
Non-major governmental funds	38,655
Total	\$555,053

**17. URBANA COMMUNITY 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 School's 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 initially approved under contract with the Sponsor for the period of five years commencing July 1, 2003. The current contract is for three years and expires June 30, 2012. The School began operations on July 1, 2004.

The School operates under the direction of a Board of Directors of which a majority shall be elected or appointed public officials or employees, or shall be other community leaders as set forth in the School's code of regulations. The Board may also include one or more parents of students enrolled in the School or civic leaders, also as set forth in the School's code of regulations.

**A. Summary of Significant Accounting Policies**

As discussed in Note 17.B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied to the statements, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School's accounting policies.

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

**17. URBANA COMMUNITY SCHOOL (Continued)**

**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 (disbursements) related to 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 receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Basis of Accounting** – Although Ohio Administrative Code Section 117-2-03 (B) requires the School's financial report to follow generally accepted accounting principles, the School chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. The School recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**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 projection is also required by Ohio Revised Code Section 5705.391.

**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 investments".

**Capital Assets and Depreciation** – Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation has not been reported for any capital assets.

**Operating Receipts and Disbursements** – Operating receipts are those receipts that are generated directly from the primary activity of the School. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the School. All receipts and disbursements not meeting this definition are reported as non-operating.

**Intergovernmental Receipts** – The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation program receipts for the fiscal year 2012 amounted to \$279,545.

Grants and entitlements are recognized as non-operating receipts in the accounting period in which they are received. No restricted grants were received by the School during 2012.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**17. URBANA COMMUNITY SCHOOL (Continued)**

**B. Accountability and Compliance**

**Change in Accounting Principles**

For fiscal year 2012, the School has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the School.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the School.

**Change in Basis of Accounting and Restatement of Prior Year Net Assets**

Ohio Administrative Code, Section 117-2-03(B), requires that the School prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year ending June 30, 2012, the School changed from a basis of accounting that follows generally accepted accounting principles (GAAP-basis) to the cash basis of accounting (See Note 2.B), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The School has elected to present the cash-basis financial statements in a format consistent with GASB Statement No. 34. Net assets at June 30, 2011 have been restated to account for the change in accounting principle, which effectively eliminated accruals of assets and liabilities.

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on net assets at June 30, 2011:

Net assets at June 30, 2011	\$751,995
Restatement due to change in reporting basis adjustments	<u>81,269</u>
Restated net cash assets at June 30, 2011	<u><u>\$833,264</u></u>

**Compliance**

Ohio Administrative Code, Section 117-2-03(B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**17. URBANA COMMUNITY SCHOOL (Continued)**

**C. Equity in Pooled Cash and Investments**

At June 30, 2012, the carrying amount of the School's deposits was \$841,889. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$608,276 of the School's bank balance of \$858,276 was exposed to custodial risk as discussed below, while \$250,000 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. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**D. Comprehensive Services Agreement with TRECA**

The School entered into a one-year contract on September 21, 2011, for fiscal year 2012, 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 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.
4. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
5. The School shall pay to TRECA \$3,000 per full-time student enrolled in the School per year for comprehensive services. Additional service packages may be provided on such terms as are agreed to by the parties.

During fiscal year 2012, the School paid \$140,915 to TRECA for services.

To obtain TRECA's audited June 30, 2012 financial statements please contact Scott Armstrong at [scott@treca.org](mailto:scott@treca.org).

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**17. URBANA COMMUNITY SCHOOL (Continued)**

**E. 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. The School did not make any payments to the Correspondence School in fiscal year 2012.

**F. 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 2012, the School was named on the Sponsor's policy for property and general liability insurance.

**G.** For fiscal year ended June 30, 2012, disbursements for purchased services were as follows:

TRECA Services	\$140,915
Sponsor Services	99,056
Other Services	<u>5,530</u>
Total	<u>\$245,501</u>

**H. Contingencies**

**ADM & Grants** – The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District 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 of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**Litigation** – The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**I. 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 services provided.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. Department of Agriculture</b>					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$216,345		\$216,345	
Non-Cash Assistance (Food Distribution) School Breakfast Program			\$14,303		\$14,228
Total School Breakfast Program		216,345	14,303	216,345	14,228
National School Lunch Program	10.555	472,997		472,997	
Non-Cash Assistance (Food Distribution) National School Lunch Program			38,671		38,470
Total National School Lunch Program		472,997	38,671	472,997	38,470
Summer Food Service Program for Children	10.559	37,868		37,868	
Total Child Nutrition Cluster - United States Department of Agriculture		727,210	52,974	727,210	52,698
<b>U.S. Department of Education</b>					
<i>Passed through Ohio Department of Education</i>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	84.010	672,372		699,838	
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389	33,895		(4,042)	
Total Title I, Part A Cluster		706,267		695,796	
Special Education Cluster:					
Special Education Grants to States	84.027	516,207		572,086	
ARRA Special Education Grants to States, Recovery Act	84.391	61,012		53,600	
Total Special Education Grants to States		577,219		625,686	
Education Technology State Grants Cluster					
Education Technology State Grants	84.318	4,620		4,685	
ARRA Education Technology State Grants, Recovery Act	84.386	39,161			
Total Education Technology State Grants		43,781		4,685	
English Language Acquisition Grants	84.365	449		1,136	
Improving Teacher Quality State Grants	84.367	119,298		115,265	
School Improvement Grants, Recovery Act	84.388	5,099		5,620	
ARRA State Fiscal Stabilization Fund (SFSF), Education State Grants, Recovery Act	84.394			93,499	
ARRA State Fiscal Stabilization Fund (SFSF) - Race to the Top, Incentive Grants, Recovery Act	84.395	55,409		54,620	
Education Jobs Grant	84.410	469,506		469,206	
Total U. S. Department of Education		1,977,028		2,065,513	
<b>U. S. Environmental Protection Agency</b>					
<i>(Passed Through Ohio Environmental Protection Agency)</i>					
State Public Water System Supervision	66.432	26,988		26,988	
Total U.S. Environmental Protection Agency		26,988		26,988	
Total Federal Financial Assistance		<u>\$2,731,226</u>	<u>\$52,974</u>	<u>\$2,819,711</u>	<u>\$52,698</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE D - MATCHING REQUIREMENTS**

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



# Dave Yost • Auditor of State

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

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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Urbana City School District, Champaign County (the District), as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2012, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles, and restated beginning fund balances to a cash basis. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal controls over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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 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 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated October 19, 2012.

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

We intend this report solely for the information and use of the Audit Committee, management, Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

October 19, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

**Internal Control Over Compliance  
(Continued)**

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



**Dave Yost**  
Auditor of State

October 19, 2012

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	<b>No</b>
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	<b>No</b>
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	<b>No</b>
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Grants to States (and Recovery Act), CFDA # 84.027 & 84.391 Child Nutrition Cluster, CFDA # 10.553, 10.555, 10.559 Education Jobs Grant, CFDA # 84.410
<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>	<b>No</b>

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

**FINDING NUMBER 2012-001**

**Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2012, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board No. 34, report on the basis of cash receipts and disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare the annual financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements.

**Officials Response:**

In response to Finding Number 2012-001 Noncompliance Citation O.R.C. 117.38; the Urbana City School District Board of Education understands that the Ohio Revised Code requires the District's financial statements to be prepared in accordance with GAAP; however, an exception has been implemented by the State Auditor for issuance of an unqualified opinion if GAAP look-alike financial statements have been prepared by the District. Due to cost of the conversion, increased audit cost, and cost of employee resources, the Board feels money that would otherwise be spent on conversion to GAAP is better used to educate the students of Urbana City School District. In addition, federal security laws do not require GAAP financial statements, and specifically, SEC Rule 15c2-12 relating to continuing disclosure on outstanding debt (which applies to the District) does not require GAAP financial statements.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





# Dave Yost • 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  
NOVEMBER 20, 2012