



Dave Yost • Auditor of State

**CITY OF URBANA
CHAMPAIGN COUNTY**

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CHAMPAIGN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis and required budgetary comparison schedules*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole. The Federal Awards Expenditures Schedule presents additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2013, on our consideration of the City'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

August 5, 2013

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

As management of the City of Urbana (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$34.3 million (net position). Of this amount, approximately \$4.1 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by approximately \$2.8 million, or 9%, during the fiscal year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$5.4 million, an increase of \$735,567 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$1.1 million, or 19% of total general fund expenditures including transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, health, leisure time activities, community development, transportation, and general government. The business-type activities of the City include water distribution, sewage collection, and recycling.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 37 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Police and Fire Levy Fund, Capital Improvements Fund and Perpetual Investment Fund, each of which are considered to be major funds. Data from the other 33 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 16-22 of this report.

Proprietary Funds. The City utilizes only one type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, sewage collection, and recycling activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
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(UNAUDITED)**

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 26 of this report.

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. The notes to the financial statements can be found on pages 27-52 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's compliance with budgetary law. Required supplementary information can be found on pages 53-58 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 shows the detail of the City's net position at December 31, 2012 and 2011.

	Governmental Activites		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$ 8,201,863	\$ 8,272,819	\$ 1,303,788	\$ 2,000,382	\$ 9,505,651	\$ 10,273,201
Capital assets	25,113,912	25,966,379	15,644,561	16,465,452	40,758,473	42,431,831
Total Assets	<u>33,315,775</u>	<u>34,239,198</u>	<u>16,948,349</u>	<u>18,465,834</u>	<u>50,264,124</u>	<u>52,705,032</u>
Current and other liabilities	1,397,768	1,056,153	566,189	533,974	1,963,957	1,590,127
Long-term liabilities	4,970,142	4,817,884	11,255,792	11,439,090	16,225,934	16,256,974
Total Liabilities	<u>6,367,910</u>	<u>5,874,037</u>	<u>11,821,981</u>	<u>11,973,064</u>	<u>18,189,891</u>	<u>17,847,101</u>
Deferred Inflows of Resources	520,661	535,837	-	-	520,661	535,837
Total Deferred Inflows of Resources	<u>520,661</u>	<u>535,837</u>	<u>-</u>	<u>-</u>	<u>520,661</u>	<u>535,837</u>
Net Position:						
Net Investment in Capital Assets	22,374,471	23,370,225	4,518,096	5,165,122	26,892,567	28,535,347
Restricted	1,285,321	1,637,052	-	-	1,285,321	1,637,052
Unrestricted	2,767,412	2,822,047	608,272	1,327,648	3,375,684	4,149,695
Total Net Position	<u>\$ 26,427,204</u>	<u>\$ 27,829,324</u>	<u>\$ 5,126,368</u>	<u>\$ 6,492,770</u>	<u>\$ 31,553,572</u>	<u>\$ 34,322,094</u>

**CITY OF URBANA, OHIO
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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities and deferred inflows of resources by approximately \$34.3 million at the close of the most recent fiscal year.

The significant increase in capital assets is the result of additions exceeding depreciation and deletions by \$852,467. The City's major additions during 2012 included the Fox River project, Airport Runway project, Phoenix Drive project, the Bike Path project and the Dugan and Russell Avenue projects.

By far the largest portion of the City's net position (83 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (approximately \$4.1 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Table 2 details the changes in net position for the fiscal years ended December 31, 2012 and 2011.

**TABLE 2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Program Revenues:						
Charges for Service	\$ 2,227,651	\$ 2,374,231	\$ 4,444,512	\$ 4,985,093	\$ 6,672,163	\$ 7,359,324
Operating Grants	1,846,379	1,579,309	-	-	1,846,379	1,579,309
Capital Grants	2,138,703	1,368,362	-	-	2,138,703	1,368,362
General Revenues:						
Income Taxes	5,071,176	5,811,005	-	-	5,071,176	5,811,005
Property Taxes	605,924	578,640	-	-	605,924	578,640
Unrestricted Grants	930,751	574,513	-	-	930,751	574,513
Investment Earnings	38,043	32,844	91,013	-	129,056	32,844
Other	199,815	202,021	-	-	199,815	202,021
Total Revenues	13,058,442	12,520,925	4,535,525	4,985,093	17,593,967	17,506,018
Expenses:						
General Government	2,089,500	2,327,883	-	-	2,089,500	2,327,883
Public Safety	5,017,755	5,047,892	-	-	5,017,755	5,047,892
Health	293,359	274,858	-	-	293,359	274,858
Transportation	1,841,229	2,497,916	-	-	1,841,229	2,497,916
Community Development	809,239	422,262	-	-	809,239	422,262
Leisure Activities	409,532	383,817	-	-	409,532	383,817
Interest on Long-Term Debt	152,536	164,177	-	-	152,536	164,177
Water	-	-	1,791,761	1,698,788	1,791,761	1,698,788
Sewer	-	-	1,784,788	1,771,563	1,784,788	1,771,563
Recycling Program	-	-	169,439	148,340	169,439	148,340
Total Expenses	10,613,150	11,118,805	3,745,988	3,618,691	14,359,138	14,737,496
Change in Net Position	2,445,292	1,402,120	789,537	1,366,402	3,234,829	2,768,522
Net position, Beginning	23,981,912	26,427,204	4,336,831	5,126,368	28,318,743	31,553,572
Net position, Ending	\$ 26,427,204	\$ 27,829,324	\$ 5,126,368	\$ 6,492,770	\$ 31,553,572	\$ 34,322,094

Governmental Activities. Governmental activities increased the City's net position by approximately \$1.4 million, thereby accounting for 51 percent of the total growth in net position of the City. Capital grants decreased \$770,341 primarily due to the City wrapping up the Bike Path and Clean Ohio Revitalization project during in 2012. Income taxes increased \$739,829 due to the unemployment rate declining from a high of 13+% during 2010 and 2011 to 7-7.5% for most of 2012. Also, the City experienced the startup of a new manufacturer which added 120 new jobs with an above average pay scale. This was their first full year in business in Urbana. Unrestricted Grants decreased \$356,238 due to a decrease in estate tax receipts and the continued decrease in state funding.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Expenses remained constant from 2011 to 2012 with a moderate increase of 5 percent.

Business-type Activities. Business-type activities increased the City's net position by approximately \$1.4 million, accounting for 49 percent of the total growth in the City's net position. This increase was primarily the result of a rate increase for water and sewer charges offset by expenses.

During the fiscal year, expenses of the City's business-type activities remained relatively consistent with a decrease of \$127,297, or 3%.

Total versus Net Cost of Services

The Statement of Activities shows the cost of program services and the charges for services and grants associated with those services. Table 3 below reflects the cost of program services and the net cost of those services after taking into account the program revenues. When applicable, the net cost of program services must be supported by general revenues including tax revenue, investment earnings and unrestricted grants.

TABLE 3

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2011	2012	2011	2012
Governmental Activities:				
General Government	\$ (2,089,500)	\$ (2,327,883)	\$ (1,244,464)	\$ (1,374,517)
Public Safety	(5,017,755)	(5,047,892)	(4,035,322)	(4,095,031)
Transportation	(1,841,229)	(2,497,916)	143,866	(502,411)
Community Development	(809,239)	(422,262)	963,290	657,600
Leisure Activities	(409,532)	(383,817)	98,314	(161,154)
All Other	(445,895)	(439,035)	(326,101)	(321,390)
Total Governmental Activities	(10,613,150)	(11,118,805)	(4,400,417)	(5,796,903)
Business-Type Activities:				
Water	(1,791,761)	(1,698,788)	(21,508)	301,650
Sewer	(1,784,788)	(1,771,563)	726,316	1,051,028
Recycling Program	(169,439)	(148,340)	(6,284)	13,724
Total Business-Type Activities	(3,745,988)	(3,618,691)	698,524	1,366,402
Grand Total	\$ (14,359,138)	\$ (14,737,496)	\$ (3,701,893)	\$ (4,430,501)

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$5.4 million, a \$735,567 increase from the previous year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2012 and 2011.

	Restated Fund Balance 12/31/2011	Fund Balance 12/31/2012	Increase (Decrease)
General	\$ 1,320,754	\$ 1,495,821	\$ 175,067
Police and Fire Levy	68,755	343,386	274,631
Capital improvement	675,321	608,698	(66,623)
Perpetual Investment	1,827,353	1,827,353	-
Other Governmental	786,727	1,139,219	352,492
Total	\$ 4,678,910	\$ 5,414,477	\$ 735,567

The *General Fund* is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$1.1 million, or 72% of the total fund balance. The fund balance of the City's general fund increased \$175,067 during the current fiscal year, or 13%, from the previous year.

Revenues increased \$120,566, or 2%. Intergovernmental revenues decreased \$420,476, or 41%, primarily as a result of a decrease in estate tax receipts and the continued decrease in state funding. This decrease was offset by a \$388,799 increase in income tax receipts from the prior year.

Expenditures increased \$117,208, or 2%, primarily as a result of increased spending for public safety expenditures.

The *Police and Fire Levy Fund* accounts for the income tax for additional patrolmen and firefighters that the General Fund can not financially support. The police and fire levy funds' fund balance increased \$274,631 during the fiscal year. This increase represents the amount by which income tax revenues outstripped expenditures.

**CITY OF URBANA, OHIO
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**MANAGEMENT'S DISCUSSION & ANALYSIS
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(UNAUDITED)**

The *Capital Improvements Fund* accounts for the accumulation of financial resources to be used for the acquisition or construction of capital assets as well as to service debt. The Capital Improvement Funds' fund balance decreased \$66,623 during the fiscal year. This decrease mainly due to the City wrapping up several capital projects during 2012.

The *Perpetual Investment Fund* accounts for the accumulation of financial resources to be used for the acquisition or construction of capital assets or other purposes of the City. The Perpetual Investment Funds' fund balance remained constant during the fiscal year.

The fund balance of the City's *Other Governmental Funds* increased \$352,492 during the fiscal year. A significant portion of this increase is the result of the City being reimbursed for grant expenditures made in previous years.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position in the Water Revenue Fund at the end of the year amounted to \$573,528. Total net position increased \$301,650, or 10%, from the previous year. The increase is due to the increase in revenues due to a rate increase being fully collected in 2012.

Unrestricted net position in the Sewer Revenue fund at the end of the year amounted to \$697,539. Total net position increased approximately \$1.1 million, or 49%, from the previous year. The increase is due to the increase in revenues due to a rate increase being fully collected in 2012.

Unrestricted net position in the Recycling Program Fund at the end of the year amounted to \$56,581. Total net position increased \$13,724 or 32%, from the previous year. This increase is the amount by which charges for services exceeded program expenses during the year.

Budget Information

General Fund

The City's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The original amended revenue estimate exceeded the final amended revenue estimate by \$66,000, or 1%. Final appropriations exceeded the original resolution by \$419,840, or 7%. The City's actual revenues and other sources exceeded final amended revenue and other sources by \$554,063, or 9%, and final amended appropriations exceeded actual expenditures and other uses by \$93,619, or 1%.

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to approximately \$42.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. Total acquisitions for the current fiscal year were approximately \$3.3 million, deletions were \$77,760 (net accumulated depreciation), and depreciation was approximately \$1.6 million.

Detailed information regarding capital asset activity is included in the Note 8 to the basic financial statements.

Debt

At the end of the current fiscal year, the City had total debt outstanding of approximately \$13.9 million. Of this amount, approximately \$3.1 million represents bonds backed by the full faith and credit of the City. The remaining \$6.1 million of the City's debt represents loans in the City's name.

Detailed information regarding long-term debt is included in Note 9 to the basic financial statements.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it administers. If you have any questions about this report or need additional financial information, contact J. Lee Williams, Finance Director, 205 South Main Street, Urbana, Ohio 43078.

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled Cash and Investments	\$ 4,108,956	\$ 1,161,688	\$ 5,270,644
Receivables:			
Income Tax	1,185,432	-	1,185,432
Property Tax	767,269	-	767,269
Interest	8,686	-	8,686
Accounts	485,754	700,905	1,186,659
Notes	901,717	-	901,717
Due From Other Governments	674,883	-	674,883
Inventory	112,354	129,637	241,991
Prepaid Assets	27,768	8,152	35,920
Capital Assets:			
Non-Depreciable	6,520,919	1,997,808	8,518,727
Depreciable	19,445,460	14,467,644	33,913,104
Total Assets	34,239,198	18,465,834	52,705,032
Liabilities			
Accounts Payable	378,333	315,497	693,830
Accrued Wages and Benefits	185,801	30,238	216,039
Due To Other Governments	468,675	46,391	515,066
Interest Payable	23,344	141,848	165,192
Long-term Liabilities			
Due within one year	913,737	1,013,979	1,927,716
Due in more than one year	3,904,147	10,425,111	14,329,258
Total Liabilities	5,874,037	11,973,064	17,847,101
Deferred Inflows of Resources			
Unearned Revenue	535,837	-	535,837
Total Deferred Inflows of Resources	535,837	-	535,837
Net Position			
Net Investment in Capital Assets	23,370,225	5,165,122	28,535,347
Restricted for:			
Capital Projects	413,257	-	413,257
Transportation Programs	264,070	-	264,070
Public Safety Programs	682,374	-	682,374
Permanent Endowments	112,656	-	112,656
Grant Programs	136,773	-	136,773
Other	27,922	-	27,922
Unrestricted	2,822,047	1,327,648	4,149,695
Total Net Position	\$ 27,829,324	\$ 6,492,770	\$ 34,322,094

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Public Safety	\$ 5,047,892	\$ 777,603	\$ 175,258	\$ -
Health	274,858	117,645	-	-
Leisure Time	383,817	69,677	9,159	143,827
Community Development	422,262	8,662	431,728	639,472
Transportation	2,497,916	447,278	963,164	585,063
General Government	2,327,883	953,366	-	-
Interest on Debt	164,177	-	-	-
Total Governmental Activities	<u>11,118,805</u>	<u>2,374,231</u>	<u>1,579,309</u>	<u>1,368,362</u>
Business-type Activities:				
Water	1,698,788	2,000,438	-	-
Sewer	1,771,563	2,822,591	-	-
Recycling Program	148,340	162,064	-	-
Total Business-type Activities	<u>3,618,691</u>	<u>4,985,093</u>	<u>-</u>	<u>-</u>
Total Government	<u>\$ 14,737,496</u>	<u>\$ 7,359,324</u>	<u>\$ 1,579,309</u>	<u>\$ 1,368,362</u>

General Revenues:
Property Taxes
Income Taxes
Interest Earnings
Grants and Contributions Unrestricted
Other Unrestricted
Total General Revenues

Change in Net Position

Net position at beginning of year
Net position at end of year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (4,095,031)	\$ -	\$ (4,095,031)
(157,213)	-	(157,213)
(161,154)	-	(161,154)
657,600	-	657,600
(502,411)	-	(502,411)
(1,374,517)	-	(1,374,517)
(164,177)	-	(164,177)
<u>(5,796,903)</u>	<u>-</u>	<u>(5,796,903)</u>
-	301,650	301,650
-	1,051,028	1,051,028
-	13,724	13,724
<u>-</u>	<u>1,366,402</u>	<u>1,366,402</u>
<u>\$ (5,796,903)</u>	<u>\$ 1,366,402</u>	<u>\$ (4,430,501)</u>
578,640	-	578,640
5,811,005	-	5,811,005
32,844	-	32,844
574,513	-	574,513
202,021	-	202,021
<u>7,199,023</u>	<u>-</u>	<u>7,199,023</u>
1,402,120	1,366,402	2,768,522
26,427,204	5,126,368	31,553,572
<u>\$ 27,829,324</u>	<u>\$ 6,492,770</u>	<u>\$ 34,322,094</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2012**

	General Fund	Police & Fire Levy Fund	Capital Improvement Fund	Perpetual Investment Fund
Assets:				
Pooled Cash and Investments	\$ 1,266,008	\$ 280,172	\$ 501,199	\$ 936,188
Receivables:				
Income Tax	635,053	254,021	211,684	-
Property Tax	593,192	-	-	-
Interest	8,686	-	-	-
Accounts	454,445	-	-	-
Notes	-	-	-	891,165
Due From Other Governments	168,276	1,617	-	-
Due From Other Funds	52,974	-	-	-
Inventory	32,307	-	-	-
Prepaid Assets	22,579	-	-	-
Advances To Other Funds	35,000	-	-	-
Total Assets	\$ 3,268,520	\$ 535,810	\$ 712,883	\$ 1,827,353
Liabilities:				
Accounts Payable	\$ 42,194	\$ 1,923	\$ 28,145	\$ -
Accrued Wages and Benefits	129,937	25,182	-	-
Due To Other Governments	342,994	72,454	-	-
Due To Other Funds	-	-	-	-
Advances From Other Funds	-	-	-	-
Total Liabilities	515,125	99,559	28,145	-
Deferred Inflows of Resources:				
Unavailable Revenue	852,964	92,865	76,040	-
Unearned Revenue	404,610	-	-	-
Total Deferred Inflows of Resources	1,257,574	92,865	76,040	-
Fund Balances:				
Nonspendable:				
Inventory	32,307	-	-	-
Advances	35,000	-	-	-
Prepays	22,579	-	-	-
Restricted:				
Capital Projects	-	-	-	-
Transportation Programs	-	-	-	-
Public Safety Programs	-	343,386	-	-
Permanent Endowments	-	-	-	-
Grant Programs	-	-	-	-
Other	-	-	-	-
Committed:				
Transportation Programs	-	-	-	-
Assigned:				
General Government	8,495	-	-	-
Security of Person and Property	7,092	-	-	-
Leisure Activity	528	-	-	-
Future Appropriations	308,866	-	-	-
Capital Projects	-	-	608,698	1,827,353
Unassigned	1,080,954	-	-	-
Total Fund Balances	1,495,821	343,386	608,698	1,827,353
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,268,520	\$ 535,810	\$ 712,883	\$ 1,827,353

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 1,125,389	\$ 4,108,956
84,674	1,185,432
174,077	767,269
-	8,686
31,309	485,754
10,552	901,717
504,990	674,883
-	52,974
80,047	112,354
5,189	27,768
-	35,000
<u>\$ 2,016,227</u>	<u>\$ 8,360,793</u>
\$ 306,071	\$ 378,333
30,682	185,801
53,227	468,675
52,974	52,974
35,000	35,000
<u>477,954</u>	<u>1,120,783</u>
267,827	1,289,696
131,227	535,837
<u>399,054</u>	<u>1,825,533</u>
59,912	92,219
-	35,000
5,189	27,768
366,311	366,311
56,721	56,721
201,601	544,987
112,656	112,656
136,312	136,312
4,984	4,984
228,201	228,201
-	8,495
-	7,092
-	528
-	308,866
-	2,436,051
(32,668)	1,048,286
<u>1,139,219</u>	<u>5,414,477</u>
<u>\$ 2,016,227</u>	<u>\$ 8,360,793</u>

See accompanying notes to the basic financial statements

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**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total Governmental Fund Balances	\$ 5,414,477
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,966,379
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Income Taxes Receivable	425,824
Property Taxes Receivable	204,638
Intergovernmental Receivable	306,003
Accounts Receivable - Ambulance	327,520
Accounts Receivable - Cemetery	17,025
Interest Receivable	8,686
Governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.	
Unamortized Premium on Bonds	(14,190)
Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences Payable	(951,641)
General Obligation Debt	(3,852,053)
Accrued Interest Payable	(23,344)
Net Position of Governmental Activities	<u><u>\$ 27,829,324</u></u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Police & Fire Levy Fund	Capital Improvement Fund	Perpetual Investment Fund
Revenues:				
Income Taxes	\$ 3,098,844	\$ 1,239,537	\$ 1,032,948	\$ -
Property Taxes	433,877	-	-	-
Intergovernmental	611,762	-	213,790	-
Charges for Services	774,938	-	-	-
Fines, Licenses, and Permits	725,295	-	-	-
Interest	30,049	-	-	-
Miscellaneous	113,057	829	170,344	-
Total revenues	<u>5,787,822</u>	<u>1,240,366</u>	<u>1,417,082</u>	<u>-</u>
Expenditures:				
Current:				
Public Safety	3,371,971	958,922	-	-
Health	42,001	-	-	-
Leisure Time	271,655	-	-	-
Community Development	-	-	-	-
Transportation	-	-	798,494	-
General Government	1,692,128	-	233,591	-
Capital Outlay	-	6,813	609,031	-
Debt service:				
Principal Retirement	-	-	74,045	-
Interest and Fiscal Charges	-	-	27,167	-
Total Expenditures	<u>5,377,755</u>	<u>965,735</u>	<u>1,742,328</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	410,067	274,631	(325,246)	-
Other Financing Sources (Uses):				
Proceeds from Loans	-	-	258,623	-
Transfers In	-	-	-	-
Transfers Out	(235,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(235,000)</u>	<u>-</u>	<u>258,623</u>	<u>-</u>
Net Change in Fund Balances	175,067	274,631	(66,623)	-
Fund Balance at Beginning of Year, As Restated	1,320,754	68,755	675,321	1,827,353
Fund Balance at End of Year	<u>\$ 1,495,821</u>	<u>\$ 343,386</u>	<u>\$ 608,698</u>	<u>\$ 1,827,353</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$ 413,179	\$ 5,784,508
137,744	571,621
2,976,376	3,801,928
427,464	1,202,402
221,419	946,714
1,486	31,535
169,262	453,492
4,346,930	12,792,200
440,525	4,771,418
175,294	217,295
-	271,655
422,262	422,262
1,435,227	2,233,721
73,133	1,998,852
1,257,504	1,873,348
327,865	401,910
97,628	124,795
4,229,438	12,315,256
117,492	476,944
-	258,623
235,000	235,000
-	(235,000)
235,000	258,623
352,492	735,567
786,727	4,678,910
\$ 1,139,219	\$ 5,414,477

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balances - Total Governmental Funds		\$ 735,567
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
	Capital Outlays	2,051,278
	Depreciation Expense	(1,121,051)
The effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and disposals) is to decrease net position.		(77,760)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(271,275)
Repayment of bond principal and payments towards landfill and pension obligations are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not result in an expense in the statement of activities.		484,855
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
	Proceeds of Loans	(258,623)
	Expense of bond issuance costs	(49,583)
	Amortization of premium on bonds	4,729
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Compensated absences	(101,489)
	Accrued interest	5,472
Change in Net Position of Governmental Activities		\$ 1,402,120

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			
	Water Revenue	Sewer Revenue	Recycling Program	Total Enterprise Funds
Assets				
Current Assets:				
Pooled Cash and Investments	\$ 416,636	\$ 685,587	\$ 59,465	\$ 1,161,688
Receivables:				
Accounts	251,882	440,456	8,567	700,905
Inventory	79,937	49,700	-	129,637
Prepaid Assets	2,397	5,755	-	8,152
Total Current Assets	<u>750,852</u>	<u>1,181,498</u>	<u>68,032</u>	<u>2,000,382</u>
Noncurrent Assets:				
Depreciable Capital Assets, Net	9,408,997	5,058,647	-	14,467,644
Non-Depreciable Capital Assets	460,028	1,537,780	-	1,997,808
Total Noncurrent Assets	<u>9,869,025</u>	<u>6,596,427</u>	<u>-</u>	<u>16,465,452</u>
Total Assets	<u>10,619,877</u>	<u>7,777,925</u>	<u>68,032</u>	<u>18,465,834</u>
Liabilities				
Current Liabilities:				
Accounts Payable	7,660	296,386	11,451	315,497
Accrued Wages and Benefits	13,410	16,828	-	30,238
Due to Other Governments	19,039	27,352	-	46,391
Accrued Interest payable	87,103	54,745	-	141,848
Accrued Vacation and Sick Leave	27,814	51,478	-	79,292
Bonds Payable	114,749	19,105	-	133,854
Loan Payable	325,378	475,455	-	800,833
Total Current Liabilities	<u>595,153</u>	<u>941,349</u>	<u>11,451</u>	<u>1,547,953</u>
Noncurrent Liabilities:				
Accrued Vacation and Sick Leave	22,298	37,170	-	59,468
Bonds Payable	454,813	455,206	-	910,019
Loan Payable	6,300,137	3,155,487	-	9,455,624
Total Noncurrent Liabilities	<u>6,777,248</u>	<u>3,647,863</u>	<u>-</u>	<u>10,425,111</u>
Total Liabilities	<u>7,372,401</u>	<u>4,589,212</u>	<u>11,451</u>	<u>11,973,064</u>
Net Position				
Net Investment in Capital Assets	2,673,948	2,491,174	-	5,165,122
Unrestricted	573,528	697,539	56,581	1,327,648
Total Net Position	<u>\$ 3,247,476</u>	<u>\$ 3,188,713</u>	<u>\$ 56,581</u>	<u>\$ 6,492,770</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			
	Water Revenue	Sewer Revenue	Recycling Program	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 2,000,438	\$ 2,822,591	\$ 162,064	\$ 4,985,093
Total Operating Revenues	<u>2,000,438</u>	<u>2,822,591</u>	<u>162,064</u>	<u>4,985,093</u>
Operating Expenses				
Personal Services	412,104	620,782	-	1,032,886
Contractual Services	422,862	475,621	148,340	1,046,823
Supplies and Materials	45,505	125,538	-	171,043
Administrative Fees	329,883	253,222	-	583,105
Depreciation	286,809	154,366	-	441,175
Total Operating Expenses	<u>1,497,163</u>	<u>1,629,529</u>	<u>148,340</u>	<u>3,275,032</u>
Operating Income	<u>503,275</u>	<u>1,193,062</u>	<u>13,724</u>	<u>1,710,061</u>
Nonoperating Revenues (Expenses)				
Interest Expense	(201,625)	(142,034)	-	(343,659)
Total Non-Operating Revenues (Expenses)	<u>(201,625)</u>	<u>(142,034)</u>	<u>-</u>	<u>(343,659)</u>
Change in Net Position	<u>301,650</u>	<u>1,051,028</u>	<u>13,724</u>	<u>1,366,402</u>
Net Position at Beginning of Year	2,945,826	2,137,685	42,857	5,126,368
Net Position at End of Year	<u>\$ 3,247,476</u>	<u>\$ 3,188,713</u>	<u>\$ 56,581</u>	<u>\$ 6,492,770</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			
	Water Revenue	Sewer Revenue	Recycling Program	Total Enterprise Funds
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,993,522	\$ 2,758,062	\$ 157,780	\$ 4,909,364
Cash Paid to Employees	(406,675)	(612,747)	-	(1,019,422)
Cash Paid to Suppliers	(483,646)	(618,907)	(149,660)	(1,252,213)
Cash Paid for Other Expenses	(332,364)	(257,276)	-	(589,640)
Net Cash Flows from Operating Activities	<u>770,837</u>	<u>1,269,132</u>	<u>8,120</u>	<u>2,048,089</u>
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(403,104)	(856,292)	-	(1,259,396)
Payment of Debt	(408,433)	(584,427)	-	(992,860)
Payment of Interest	(205,672)	(141,838)	-	(347,510)
Proceeds from Loans	386,239	769,127	-	1,155,366
Net Cash Flows from Capital and Related Financing Activities	<u>(630,970)</u>	<u>(813,430)</u>	<u>-</u>	<u>(1,444,400)</u>
Net Change in Cash	139,867	455,702	8,120	603,689
Cash and Cash Equivalents at Beginning of Year	276,769	229,885	51,345	557,999
Cash and Cash equivalents at End of Year	<u>\$ 416,636</u>	<u>\$ 685,587</u>	<u>\$ 59,465</u>	<u>\$ 1,161,688</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:				
Operating Income	\$ 503,275	\$ 1,193,062	\$ 13,724	\$ 1,710,061
Add: Depreciation Expense	286,809	154,366	-	441,175
(Increase)/Decrease in Current Assets				
Accounts Receivable	(6,916)	(64,529)	(4,284)	(75,729)
Prepaid Items	231	601	-	832
Material and Supply Inventory	(5,855)	(12,273)	-	(18,128)
Increase/(Decrease) in Current Liabilities				
Accounts Payable	(10,175)	(10,130)	(1,320)	(21,625)
Accrued Wages and Benefits	1,648	376	-	2,024
Accrued Vacation and Sick Leave	4,544	4,889	-	9,433
Due to Other Governments	(763)	2,770	-	2,007
Retainage Payable	(1,961)	-	-	(1,961)
Net Cash Flows from Operating Activities	<u>\$ 770,837</u>	<u>\$ 1,269,132</u>	<u>\$ 8,120</u>	<u>\$ 2,048,089</u>

See accompanying notes to the basic financial statements

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

STATEMENT OF FIDUCIARY NET POSITIONS
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2012

	Agency Funds
Assets	
Pooled Cash and Investments	\$ 128,011
Total Assets	<u>128,011</u>
Liabilities	
Due to Others	126,549
Accounts Payable	1,462
Total Liabilities	<u>\$ 128,011</u>

See accompanying notes to the basic financial statements

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 1 – REPORTING ENTITY

The City of Urbana, Ohio (City) is a political unit 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 City was incorporated in 1868, and has a Council-Mayor form of government. The City provides the following services: public safety (police and fire), highways and streets, water, sewer, recycling, recreation, planning and zoning and general administrative services.

For financial reporting purposes, the City includes in this report all funds, agencies, boards, commissions, and departments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 criteria for determining the entity and component units. Under the provisions of GASB Statement No. 14, the City of Urbana is the primary government, since it is a general purpose government that has a separate elected governing body; functions as a separate legal entity; and is fiscally independent of other state and local governments. As used in GASB Statement No. 14, fiscally independent means that the City may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue debt. As required by generally accepted accounting principles, these basic financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data is combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally separate from the government. There are no blended or discretely presented component units at December 31, 2012.

Certain units of local governments, over which the City exercises no authority, such as the Champaign County Library, Champaign County Health District and Ohio Hi-Point Joint Vocational School, are other local governmental and non-profit entities with independent elected officials and are excluded from the accompanying basic financial statements. The City is not a component unit of any other entity. Other local governmental entities that overlap the City's boundaries are Champaign County and the Urbana City School District. These entities do not meet the reporting entity criteria and, therefore, are not included in the City's financial reports.

Jointly Governed Organizations

Champaign Countywide Public Safety Communications System Council of Governments

The City entered into an agreement in April 2005 with the Champaign Countywide Public Safety Communications System Council of Governments (COG) whereby Champaign County and the City created the COG for the purpose of operating an enhanced 911 system. The COG contracted with Champaign County to serve as its fiscal agent. Financial information may be obtained by writing to 1512 South Highway 68, Suite A100, Urbana, Ohio 43078.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Interfund activity, and related interfund receivables and payables, have been eliminated in the government-wide statements. These eliminations remove the duplicating effect on assets, liabilities, revenues, expenses that would otherwise occur. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough after to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Taxes, intergovernmental revenues, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Police and Fire Tax Levy Fund - To account for the 3/10% income tax for additional patrolmen and firefighters that the General Fund can not financially support.

Capital Improvement Fund – To account for the income tax resources earmarked for capital improvements used for general improvement of all City facilities and operations.

Perpetual Investment Fund - To account for the proceeds from the sale of the City's Gas Lines in 1982. The Fund currently accounts for monies assigned for capital projects.

The proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City reports the following major proprietary funds:

Water Fund – Accounts for the operation of the waterworks distribution system and related expenses, including capital improvement and debt service. The operation is exclusively financed by customer user charges.

Sewer Fund – Accounts for the operation of the sanitary sewer collection and treatment system and related expenses, including capital improvement and debt service. The operation is exclusively financed by customer user charges.

Recycling Program Fund - Accounts for the operation of the recycling service provided by the City. The operation is exclusively financed by customer user charges.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds consist of the Champaign County Municipal Court fund and employee supplemental health insurance fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Cash and Cash Equivalents and Investments

The City pools cash and investments of various funds to improve investment performance. Each fund's position in the pool is reflected in the participating fund as Pooled Cash and Investments. Interest earnings from cash and investments are allocated to the General Fund, except for funds derived from contract, trust agreement or City ordinance which require crediting otherwise.

For purposes of the statement of cash flows, the City's proprietary funds consider cash equivalents to be pooled cash and investments, cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as certificates of deposit are reported at cost.

(d) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements and outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account to indicate that they do not constitute available financial resources and therefore are not available for appropriation.

(e) Notes Receivable

Notes receivable represent the right to receive repayment for a mortgage note made by the City. This note is based upon a written agreement between the City and the note recipient.

(f) Inventory and Prepaid Assets

Inventory is valued at cost (first-in, first-out). In both the governmental and proprietary funds, inventories are recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

In the governmental funds, inventories and prepaid items are offset by a nonspendable fund balance account to indicate that they do not constitute available financial resources and therefore are not available for appropriation.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported in the governmental activities) the City chose to include all such items acquired from January 1, 1980 through the present. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and recorded at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities, if significant, is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Life (Years)</u>
Land improvements	25
Buildings and improvements	25
Machinery and equipment	5-20
Infrastructure	25-50

(h) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes and payments in lieu of taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue on the statement of net position and governmental fund balance sheet. Income taxes, grants and entitlements, and other revenues not received within the available period and delinquent property taxes due at December 31, 2012, are recorded as unavailable revenue in the governmental funds and as revenue on the statement of activities.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Compensated Absences

Vested vacation and sick leave is recorded as an expense in the government-wide and proprietary fund financial statements in the period in which such leave was earned. In the governmental funds, an expenditure is recorded for only the portion of vested vacation and sick leave that is expected to be liquidated with expendable available resources. Payment of vacation and sick leave recorded in the government-wide financial statements is dependent upon many factors; therefore, timing of future payments is not readily determinable. Management believes that sufficient resources will be made available when payment is due.

(j) Long Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) Fund Balance

GASB Statement No. 54, *Fund Balance Reporting* became effective for years beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

In accordance with this guidance, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The City may use the following categories:

Nonspendable - resources that are not in a spendable form (inventory, prepaids, and advances) or have legal or contractual requirements to maintain the balance intact.

Restricted - resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed - resources that can be used only for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's highest level of decision-making authority (City Council).

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned - resources that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. This includes the residual balance of all governmental funds other than the General Fund that were not classified elsewhere above.

Unassigned - residual fund balance within the General Fund not classified elsewhere above and all other governmental fund balances which have a negative fund balance.

The City applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted fund balance/net position are available. The City considers committed, assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

(l) Net Position

Net position represents the difference between assets and liabilities and deferred inflows of resources. Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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.

The City applies restricted resources first, when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

(m) Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenditure/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/ACCOUNTABILITY

(a) Change in Accounting Principles

For fiscal year 2012, the City has implemented the following:

GASB Statement No. 57 "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" addresses the provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this statement did not have a significant effect on the financial statements of the City.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/ACCOUNTABILITY (Continued)

GASB Statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangements” improves financial reporting by establishing recognition, measurement, and disclosure requirements for service concession arrangements (SCAs) for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The implementation of this statement did not have a significant effect on the financial statements of the City.

GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” incorporates certain accounting and financial reporting guidance issued on or before November 30, 1989, into the GASB’s authoritative literature that do not conflict with or contradict GASB pronouncements. The implementation of this statement did not have a significant effect on the financial statements of the City.

GASB Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. The implementation of this statement resulted in the reclassification of Net Assets to Net Position.

GASB Statement No. 64 “Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53” clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not have a significant effect on the financial statements of the City.

GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities” clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources. The implementation of this statement resulted in the reclassification of unavailable revenues and unearned property taxes, previously reported as liabilities, to deferred inflows of resources.

(b) Negative Cash Balances

Ohio Rev. Code Section 5705.10(H) states money paid into any fund shall be used only for the purpose for which such fund is established. Negative fund cash balances indicate money from one fund was used to cover the expenses of another fund.

At December 31, 2012, the City had the following negative cash fund balances:

Safer Grant	\$ (52,974)
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CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/ACCOUNTABILITY (Continued)

(c) Deficit Fund Balances

The following individual fund had deficit fund balances/net position at December 31, 2012:

Victim Assistance Grant	\$ (2,336)
Safer Grant	(34,777)
Masoleum Trust Fund	(31,127)

These deficit fund balances are primarily the result of accrued liabilities recorded with the application of generally accepted accounting principles. The general fund is responsible for fund deficits, however, transfers are recorded when cash is needed rather than when the accruals occurs.

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City 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 City treasury, in commercial accounts payable or can be withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the City has identified as not required for use within the current two-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 bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any 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 noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, 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 investment to the Treasurer, or qualified trustee, unless the securities are not represented by a certificate, in which payment may be made upon receipt of confirmation of transfer from the custodian.

Deposits - At year-end, the carrying amount of the City’s deposits was \$5,398,655, which includes certificates of deposit totaling \$2,032,663 and petty cash totaling \$1,009, and the bank balance was \$5,509,230. Of the bank balance, \$683,805 was covered by federal depository insurance, and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions in amounts equal to at least 105% of the City’s carrying value of deposits. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As mentioned above, at year end, \$4,825,425 of the City’s bank balance was exposed to custodial credit risk because it was uninsured and collateralized by securities held by a pledging financial institution’s trust department or agent, but not in the City’s name.

NOTE 5- NOTES RECEIVABLE

During 2011, the City loaned Sarica/Hughley and Phillips LLC, \$950,000, to assist in financing the cost to retain and expand their company within the City. In consideration of the repayment of the note, monthly payments of \$4,806 began on July 1, 2011 and continue on the first day of each month until June 1, 2031 when the remaining principal at that time on the note shall become due and payable in full. Sarica/Hughley and Phillips LLC made eleven payments, totaling \$36,164 during 2012. At December 31, 2012, the balance of the note was \$891,165.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 6 – INCOME TAXES

Municipalities within the State of Ohio are permitted by state statute to levy an income tax up to a maximum rate of 1% subject to the approval of the local legislative body. Any rate in excess of 1% requires the approval of a majority of the eligible voters residing within the municipal corporation. The City of Urbana levies a tax on all wages, salaries, commissions and other compensation paid by employers and the net profits from a business or professional person earned within the City, excluding income from intangible personal property. In addition, City residents pay city income tax on income earned outside the City; net of a credit limited to 1% for income taxes paid to other municipalities. In 1992 the City Council ordered mandatory income tax filing.

The tax rate applied in 2012 was 1.4% of which 1% was unvoted and 0.4% was voted. The additional 0.4% tax became effective January 1, 1992, and is designated to fund fire and police personnel and capital improvement costs.

Twenty-five percent (25%) of all income tax revenues are required to be used for the purpose of financing capital improvements, including debt service charges on notes and bonds issued for capital improvements. This portion of income tax revenues is distributed to the Capital Improvement Fund from which capital improvements and related debt service charges are financed.

NOTE 7 – PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. All property is required to be revalued every six years with equalization adjustments in the third year following reappraisal. The last revaluation was completed in 2008.

Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value.

Public utility property taxes are assessed on tangible personal property as well as land and improvements at 88% of true value (50% of cost) with certain exceptions. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes.

The assessed value of the City for tax years 2011 and 2010, upon which the 2012 and 2011 levies were based, were \$183,024,970 and \$181,775,670, respectively.

The Champaign County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Urbana. The County Auditor periodically advances to the City its portion of the taxes collected. Property taxes may be paid on either an annual or semi-annual basis.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 7 – PROPERTY TAXES (Continued)

The assessed valuations of the City for tax year 2011, which were used to collect taxes in calendar year 2012, are as follows:

	<u>Amount</u>	<u>Percent</u>
Real Estate (Other Than Public Utility)	\$177,839,580	97.2 %
Public Utility	<u>5,185,390</u>	<u>2.8 %</u>
Total Assessed Value	<u>\$183,024,970</u>	<u>100.0%</u>

NOTE 8 – CAPITAL ASSETS

A summary of capital asset activity for Governmental Activities for the fiscal year follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Nondepreciable Capital Assets					
Land	\$ 5,897,977	\$ 622,942	\$ -	\$ -	\$ 6,520,919
Construction in Progress	1,180,889	904,310	(71,549)	(2,013,650)	-
Total Nondepreciable Assets	<u>7,078,866</u>	<u>1,527,252</u>	<u>(71,549)</u>	<u>(2,013,650)</u>	<u>6,520,919</u>
Depreciable Capital Assets					
Building and Improvements	15,857,659	13,500	-	-	15,871,159
Machinery and Equipment	4,212,476	251,903	(85,665)	7,662	4,386,376
Infrastructure	17,053,147	258,623	-	2,005,988	19,317,758
Total Depreciable Assets	<u>37,123,282</u>	<u>524,026</u>	<u>(85,665)</u>	<u>2,013,650</u>	<u>39,575,293</u>
Less accumulated depreciation					
Building and Improvements	11,471,800	462,913	-	-	11,934,713
Machinery and Equipment	3,303,452	243,481	(79,454)	-	3,467,479
Infrastructure	4,312,984	414,657	-	-	4,727,641
Total accumulated depreciation	<u>19,088,236</u>	<u>1,121,051</u>	<u>(79,454)</u>	<u>-</u>	<u>20,129,833</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>18,035,046</u>	<u>(597,025)</u>	<u>(6,211)</u>	<u>2,013,650</u>	<u>19,445,460</u>
Total Capital Assets, Net	<u>\$ 25,113,912</u>	<u>\$ 930,227</u>	<u>\$ (77,760)</u>	<u>\$ -</u>	<u>\$ 25,966,379</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 240,884
Public Safety	197,662
Transportation	514,240
Health	56,585
Leisure Activities	111,680
Total depreciation expense	<u>\$ 1,121,051</u>

Business Type Activities

Water Revenue Fund	Beginning Balance	Additions	Transfers	Ending Balance
Land	\$ 460,028	-	-	\$ 460,028
Construction in Progress	164,392	222,247	(386,639)	-
Total Nondepreciable Assets	<u>624,420</u>	<u>222,247</u>	<u>(386,639)</u>	<u>460,028</u>
Depreciable Capital Assets				
Buildings	10,555,736	-	-	10,555,736
Equipment	2,768,313	16,465	-	2,784,778
Infrastructure	8,897,746	-	386,639	9,284,385
Total Depreciable Assets	<u>22,221,795</u>	<u>16,465</u>	<u>386,639</u>	<u>22,624,899</u>
Less accumulated depreciation				
Buildings	10,480,927	54,794	-	10,535,721
Equipment	2,141,079	54,060	-	2,195,139
Infrastructure	307,087	177,955	-	485,042
Total accumulated depreciation	<u>12,929,093</u>	<u>286,809</u>	<u>-</u>	<u>13,215,902</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>9,292,702</u>	<u>(270,344)</u>	<u>386,639</u>	<u>9,408,997</u>
Total Capital Assets, Net	<u>\$ 9,917,122</u>	<u>\$ (48,097)</u>	<u>\$ -</u>	<u>\$ 9,869,025</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 8 – CAPITAL ASSETS (Continued)

Sewer Revenue Fund	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 489,768	\$ -	\$ -	\$ 489,768
Construction in Progress	111,823	936,189	-	1,048,012
Total Nondepreciable Assets	<u>601,591</u>	<u>936,189</u>	<u>-</u>	<u>1,537,780</u>
Depreciable Capital Assets				
Buildings	20,955,065	-	(108,223)	20,846,842
Equipment	3,704,189	87,165	(98,653)	3,692,701
Infrastructure	2,068,428	-	-	2,068,428
Total Depreciable Assets	<u>26,727,682</u>	<u>87,165</u>	<u>(206,876)</u>	<u>26,607,971</u>
Less accumulated depreciation				
Buildings	20,093,241	139,874	(108,223)	20,124,892
Equipment	1,437,352	617	(98,653)	1,339,316
Infrastructure	71,241	13,875	-	85,116
Total accumulated depreciation	<u>21,601,834</u>	<u>154,366</u>	<u>(206,876)</u>	<u>21,549,324</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>5,125,848</u>	<u>(67,201)</u>	<u>-</u>	<u>5,058,647</u>
Total Capital Assets, Net	<u>\$ 5,727,439</u>	<u>\$ 868,988</u>	<u>\$ -</u>	<u>\$ 6,596,427</u>

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CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 9 – LONG TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2012:

<i>Governmental Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Municipal Bldg Renovation GO Bonds 2006-2015 3.25%-4% Police & Fire Capital Improve. Fund	\$ 1,085,000	\$ -	\$ (255,000)	\$ 830,000	\$ 265,000
Refunding Bonds Premium 2006-2015	18,919	-	(4,729)	14,190	-
9-1-1 Radio Equipment GO Bonds 2006-2016 4.25%-4.3% Police & Fire Capital Improve. Fund	275,000	-	(50,000)	225,000	55,000
2010 Various Purpose Bonds GO Bonds 2011-2030 2.0-5.0%	537,101	-	(20,974)	516,127	21,146
Mausoleum Refunding Bonds 2011-2030 6.75%	510,000	-	(15,000)	495,000	15,000
HB300 Energy Savings	332,340	-	(60,936)	271,404	63,585
OPWC Loan - Phoenix Dr (CK11P) 2013-2033	-	258,623	-	258,623	6,466
Total	2,758,360	258,623	(406,639)	2,610,344	426,197
Compensated Absences	872,938	301,021	(222,318)	951,641	384,665
Landfill Post Closure Liability	1,092,591	-	(76,745)	1,015,846	96,411
Unfunded P & F Pension Obligation Police & Fire Pension Levy Fund	246,253	-	(6,200)	240,053	6,464
Total Governmental Activities Long Term Liabilities	\$ 4,970,142	\$ 559,644	\$ (711,902)	\$ 4,817,884	\$ 913,737

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 9 – LONG TERM LIABILITIES (Continued)

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2012:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Fund:					
GO Bonds 2006-2015 4%-4.75% Water System Improvements	\$ 430,000	\$ -	\$ (100,000)	\$ 330,000	\$ 105,000
OPWC 0% Interest Loan- CK26C	234,297	-	(22,314)	211,983	22,314
OPWC 0% Interest Loan Well Field	75,740	-	(4,734)	71,006	4,734
OWDA Loan 2008-2029 3.36% North 29 Water System Improvement	5,275,654	-	(217,535)	5,058,119	224,906
OPWC 0% Interest Loan Well Field	875,000	-	(50,000)	825,000	50,000
OPWC 0% Interest Loan- CT Communication Utility Extension	77,280	-	(4,112)	73,168	4,112
OPWC - South Main Water Main (CK190) 2013-2033	-	386,239	-	386,239	19,312
2010 Various Purpose Bonds 2011-2030 2.0-5.0%	249,300	-	(9,738)	239,562	9,749
Accrued Vacation and Sick Leave	45,568	26,890	(22,346)	50,112	27,814
Total Business-Type Activities	<u>\$ 7,262,839</u>	<u>\$ 413,129</u>	<u>\$ (430,779)</u>	<u>\$ 7,245,189</u>	<u>\$ 467,941</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 9 – LONG TERM LIABILITIES (Continued)

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sewer Fund:					
OWDA Loan 1995-2012 4.56% Refinanced 1995 Upgrade	\$ 107,475	\$ -	\$ (107,475)	\$ -	\$ -
OWDA Loan 1995-2015 4.56% N-Viro Project	197,879	-	(44,923)	152,956	46,995
OWDA Loan 1996-2016 4.04% N-Viro Project	276,485	-	(50,964)	225,521	53,043
OPWC 0% Interest Loan	135,000	-	(30,000)	105,000	30,000
OWDA Loan 2008-2018 4.11% Sludge Handling Improvements	1,024,880	-	(140,584)	884,296	146,421
OWDA Loan 2008-2029 3.95% Sludge Handling Facility	519,761	-	(65,829)	453,932	68,455
OWDA Loan 2008-2018 4.78% Septage Receiving Facility	409,918	-	(50,596)	359,322	53,044
OWDA Loan 2008-2018 4.78% Septage Receiving Facility	486,404	-	(60,656)	425,748	63,385
OPWC 0% Northwest Sanitary	175,000	-	(10,000)	165,000	10,000
OPWC 0% CT Communication Utility Extension	83,093	-	(4,112)	78,981	4,112
OWDA - WPCLF Upgrade Design - 2.6% (#6036) 2013-2018	-	769,127	11,059	780,186	-
2010 Various Purpose Bonds 2011-2030 2.0-5.0%	493,599	-	(19,288)	474,311	19,105
Deferred Amount on Refunding	(300)	-	300	-	-
Accrued Vacation and Sick Leave	83,759	32,264	(27,375)	88,648	51,478
Total Business-Type Activities	<u>\$ 3,992,953</u>	<u>\$ 801,391</u>	<u>\$ (600,443)</u>	<u>\$ 4,193,901</u>	<u>\$ 546,038</u>

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 9 – LONG TERM LIABILITIES (Continued)

In 2010, the City paid off Bond Anticipation Notes and issued Various Purpose Bonds in the amount of \$1,335,000. The Bonds mature in 2030 and have interest rates ranging from 2.0 to 5.0 percent during the life of the Bonds.

The City also issued \$525,000 in bonds for the re-finance of the Mausoleum Building. The bonds mature in 2031 and have an interest rate of 6.75 percent.

During 2012, the City entered into two loan arrangements through the Ohio Public Works Commission (OPWC) and one loan with the Ohio Water Development Agency (OWDA). The two OPWC loans were to fund the Phoenix Drive (\$258,623) and the South Main Water Main (\$386,239) projects. The OWDA loan was entered into to fund a Water Plant Upgrade project. The OWDA approved a loan in the amount \$1,111,472 for the project and as of December 31, 2012, the City has drawn down \$769,127. An additional \$11,059 in capitalized interest was added to principal balance during the year, making the total outstanding balance at December 31, 2012 \$780,186.

Annual requirements to pay principal and interest on long-term debt at December 31, 2012:

	<u>Governmental Activities</u>		<u>Business Type-Activities</u>			
	Principal	Interest	<u>Water</u>		<u>Sewer**</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	426,197	108,548	440,127	193,606	494,560	121,040
2014	447,352	91,255	453,710	172,926	515,232	102,263
2015	465,235	73,503	466,588	167,460	539,963	82,424
2016	188,244	54,967	359,734	153,584	485,995	62,299
2017	56,003	47,877	368,155	144,766	427,338	43,547
2018-2022	313,893	203,922	1,975,034	580,183	512,226	82,989
2023-2027	386,964	128,706	2,143,036	309,117	215,224	46,353
2028-2032	305,820	29,423	988,693	37,289	134,529	10,609
2033	6,446	-	-	-	-	-
Total	<u>2,596,154</u>	<u>738,201</u>	<u>7,195,077</u>	<u>1,758,931</u>	<u>3,325,067</u>	<u>551,524</u>

** - The OWDA – WPCLF Upgrade Design (#6036) loan did not have a debt to maturity as of December 31, 2012 due to the project being still being in process and therefore was omitted from the annual debt requirement schedule.

The Ohio Revised Code provides that the net debt of a municipal corporation whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations of debt are measured by a direct ratio of net debt to tax valuation in terms of a percentage. On December 31, 2012, the City's total net debt amounted to 7.2% of the total assessed value of all property within the City. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with Champaign County and the Urbana City School District. As of December 31, 2012, these entities have complied with the requirement that overlapping debt must not exceed 1% (10 mills) of the assessed property value.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 10 – ADVANCE REFUNDINGS

On February 1, 1995, the City of Urbana advance-refunded the 1991 Wastewater Treatment Plant Upgrade Bonds with an Ohio Water Department Authority (OWDA) Loan. The City signed a loan agreement for \$2,600,000 from the OWDA to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered defeased and the liability has been removed from the City's financial statements. The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$105,661. This difference reported in the accompanying financial statements is being charged to operations through the year 2012 using the effective interest method. The advanced refund was taken to reduce total debt service payments over the remaining 17 years by \$655,522 and to obtain an economic gain (difference between present value of the debt service payments of the refunded and refunding bonds) of \$414,214. As of December 31, 2012, the debt service requirement to maturity of the defeased bonds was \$0.

On July 1, 1995, the City issued \$4.885 million in General Obligation Bonds to finance a municipal building upgrade (\$3.6 million) and advance refund the 1979 Water Mortgage Revenue Bonds (\$1,545,000). The bonds were issued with interest rates ranging from 3.9% to 5.5%, compared to the refunded bonds having an interest rate of 6.75%.

The net proceeds of the refunding bonds (\$1,662,373) plus \$341,172 of the 1979 Revenue Bonds' sinking funds were used to purchase U.S. government securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the 1979 revenue bonds are considered defeased and the liability for those bonds has been removed from the City's financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$191,833. This difference, reported in the accompanying financial statements, is being charged to operations through the year 2009 using the effective interest method. The advance refunding reduces its total debt service over the next 14 years by \$655,262 and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$120,593. As of December 31, 2012, the debt service requirement to maturity of the defeased bonds was \$0.

On August 1, 2005, the City issued \$2.645 million in General Obligation Bonds to currently refund the 1995 Municipal Building Bonds, Airport Runway Realignment Bonds, and Water Tower Maintenance Bonds. The net proceeds of the refunding bonds were used to purchase U.S. Government Securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the 1995 Municipal Building Bonds, Airport Runway Realignment Bonds, and Water Tower Maintenance Bonds are considered defeased and the liability for those bonds has been removed from the City's financial statements. The current refunding reduced resulting in net present value cash flow savings of \$156,649. As of December 31, 2012, the debt service requirement to maturity of the defeased bonds was \$0.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 11 – RISK MANAGEMENT

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

PEP retains casualty risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured with APEEP up to \$2,000,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation. If the losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

PEP retains property risks, including automobile physical damage up to \$150,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$150,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000. The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the City.

PEP's Financial Statements (most current available and audited by other accountants) conform with generally accepted accounting principles, and reported the following:

<u>Casualty & Property Coverage</u>	<u>2011</u>	<u>2010</u>
Assets	\$33,362,404	\$34,952,010
Liabilities	\$14,187,273	\$14,320,812
Net Position	\$19,175,131	\$20,631,198

The City pays an annual premium to PEP for this coverage. The agreement provides that PEP will be self sustaining through member premiums and the purchase of excess and stop-loss insurance. The deductible per occurrence for all types of claims is \$1,000. Liability had a per-occurrence retention limit of \$500,000. After the retention limits are reached, excess insurance will cover up to the limits stated below.

General Liability (including law enforcement)	\$2,000,000 per occurrence
Automobile Liability	\$2,000,000 per occurrence
Public Officials Liability	\$2,000,000 per occurrence
Boiler and Machinery	BLANKET COVERAGE
Property	BLANKET COVERAGE

There were no significant reductions in insurance coverage during the year in any category of risk. Settled claims did not exceed insurance coverage in the past three years.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 12 – PENSION BENEFITS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2012 member contribution rate for City employees was 10.00% of covered payroll. The 2012 employer contribution rate for the City was 14.00% of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2012, 2011, and 2010 were \$380,095, \$361,429, and \$365,838 respectively. The full amount has been contributed for 2011 and 2010; 88.7 percent has been contributed for 2012 with the remainder being reported as a fund liability.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 12 – PENSION BENEFITS (Continued)

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2012, 2011, and 2010 were \$604,482, \$646,142, and \$599,053, respectively. The full amount has been contributed for 2011 and 2010; 70.0 percent has been contributed for 2012 with the remainder being reported as a fund liability.

The City also makes payments to OP&F for its portion of past service cost determined at the time the fund was established in the mid-1930's. As of December 31, 2012, the unfunded liability is payable, including principal and interest, in annual installments for \$16,666 through the year 2035. The principal balance of \$240,053 is accounted for as a non-current liability in the governmental activities column of the Statement of Net Position. The State of Ohio assumed the liability for past service cost at the time PERS was established.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS for post-employment benefits for the years ending December 31, 2012, 2011, and 2010 were \$108,593, \$103,260, and \$132,751, respectively. The full amount has been contributed for 2011 and 2010; 88.7 percent has been contributed for 2012 with the remainder being reported as a fund liability.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multi-employer defined postemployment health care plan administered by OP&F. OP&F provide healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F for the years ending December 31, 2012, 2011, and 2010 were \$604,482, \$646,142 and \$599,053, respectively, of which \$186,255, \$197,887 and \$184,617, respectively, was allocated to the healthcare plan.

NOTE 14 – LANDFILL CLOSURE/ POST CLOSURE COSTS

State and Federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill for thirty years after closure. The City stopped accepting waste at the landfill in 1987. The Ohio EPA approved the final closure and post closure plan in January 1988. With the assistance of Arcadis Engineering, the geological engineers, the \$1,015,846 reported as landfill post closure liability at December 31, 2012, represents the estimated costs to maintain and monitor the landfill through 2018. Actual costs may change due to inflation, changes in technology, or changes in regulations.

NOTE 15 – INTERFUND BALANCES

Interfund balances at December 31, 2012 consisted of the following:

<u>Fund</u>	<u>Beginning Balance</u>	<u>New Advances</u>	<u>Advance Repayments</u>	<u>Ending Balance</u>
General	92,000	15,000	(72,000)	35,000
Capital Improvement	(72,000)	72,000	-	-
Mausoleum Trust	(20,000)	-	(15,000)	(35,000)

In accordance with City financial policies, the City's General Fund allocates administrative costs to various other funds. The Mausoleum Trust Fund amount noted above represents monies advanced from the General Fund to pay debt service on the bonds that were issued to construct the mausoleum.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 16 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 235,000
Street	130,000	-
State Highway	105,000	-
	<u>\$ 235,000</u>	<u>\$ 235,000</u>

Transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in accordance with Ohio Revised Code and grant requirements.

NOTE 17 – SIGNIFICANT CONSTRUCTION COMMITMENTS

During 2012, the City began an upgrade of the wastewater treatment facility to address capacity concerns, nutrient removal and equipment needs is critical to the sustainable continued growth of the community and the protection of the Mad River.

The City currently operates a 3 MGD Water Pollution Control Facility, which was constructed in 1955 and 1975 with process improvements (chlorination/de-chlorination and post aeration) added in 1990. With the recent addition a new manufacturer and other local expansions, the current facility is operating at 2.6 MGD (86% of Design Flow). Coupled with the operation of the Septage Receiving Facility, the existing plant is now operating at nearly 88% of Design Flow on a daily basis.

The plant has outdated processes, which require a significant amount of daily operational attention to prevent any violations in solids discharge. Coupled with the process equipment degradation, the system must operate under strict guidelines due to Mad River, its receiving stream, being a Total Maximum Daily Loads (TMDL) area.

The total cost of the project is estimated to be \$22 million.

NOTE 18 – CONTINGENT LIABILITIES

The City was a defendant in a few lawsuits pertaining to matters that are incidental to performing routine governmental and other functions. Legal counsel cannot estimate exact exposure, if any, in these suits. All cases are being defended vigorously by the City. It is the opinion of management and the City's legal counsel that sufficient resources will be available for the payment of such claims, if any, upon ultimate settlement or covered by insurance.

CITY OF URBANA, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

NOTE 19 – FUND RECLASSIFICATION

The Fox River Development Fund and the North Main Improvement Fund did not meet the definition of major funds during 2012. Therefore, the funds were reclassified as Other Governmental Funds.

The effect of this reclassification is presented below:

	Fox River Development Fund	North Main Improvement Fund	Other Governmental Funds
Fund Balances, December 31, 2011	\$ (16,859)	\$ -	\$ 803,586
Major Fund Reclassifications:			
Fox River Development Fund	16,859	-	(16,859)
North Main Improvement Fund	-	-	-
Fund Balances, January 1, 2012	\$ -	\$ -	\$ 786,727

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance Over/(Under)
<u>Revenues:</u>				
Income Taxes	\$ 2,626,000	\$ 2,626,000	\$ 3,079,953	\$ 453,953
Property Taxes	582,956	516,956	426,530	(90,426)
Intergovernmental	538,044	538,044	630,131	92,087
Charges for Services	795,000	795,000	804,896	9,896
Fines, Licenses, and Permits	677,000	677,000	721,282	44,282
Interest	90,000	90,000	29,580	(60,420)
Miscellaneous	32,000	32,000	110,357	78,357
Reimbursements	781,000	781,000	807,334	26,334
Total Revenues	6,122,000	6,056,000	6,610,063	554,063
<u>Expenditures:</u>				
Current:				
General Government				
City Council				
Personal Services	78,475	79,375	79,061	314
Supplies, Materials and Other	2,964	2,964	2,583	381
Total City Council	81,439	82,339	81,644	695
Mayor/Administration				
Personal Services	276,848	302,868	302,970	(102)
Supplies, Materials and Other	12,256	84,161	79,613	4,548
Total Mayor/Administration	289,104	387,029	382,583	4,446
Municipal Court				
Personal Services	604,910	566,090	562,734	3,356
Supplies, Materials and Other	71,813	71,813	65,387	6,426
Total Municipal Court	676,723	637,903	628,121	9,782
Engineering				
Personal Services	164,838	176,918	177,823	(905)
Supplies, Materials and Other	5,346	5,346	3,626	1,720
Total Engineering	170,184	182,264	181,449	815
Public Works				
Supplies, Materials and Other	135,281	140,281	138,628	1,653
Total Public Works	135,281	140,281	138,628	1,653
Finance Accounting				
Personal Services	187,100	202,245	204,361	(2,116)
Supplies, Materials and Other	19,832	19,832	17,847	1,985
Total Finance Accounting	206,932	222,077	222,208	(131)

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

Finance Income Tax				
Personal Services	94,197	94,197	97,413	(3,216)
Supplies, Materials and Other	23,747	23,747	18,966	4,781
Total Finance Income Tax	<u>117,944</u>	<u>117,944</u>	<u>116,379</u>	<u>1,565</u>
Finance Utility Billing				
Personal Services	82,158	82,158	88,972	(6,814)
Supplies, Materials and Other	55,685	55,685	47,112	8,573
Total Basic Utilities	<u>137,843</u>	<u>137,843</u>	<u>136,084</u>	<u>1,759</u>
Law Department				
Personal Services	118,070	141,705	141,495	210
Supplies, Materials and Other	11,302	22,782	22,758	24
Total Law Department	<u>129,372</u>	<u>164,487</u>	<u>164,253</u>	<u>234</u>
Non-Departmental				
Supplies, Materials and Other	157,266	264,826	263,012	1,814
Total Non-Departmental	<u>157,266</u>	<u>264,826</u>	<u>263,012</u>	<u>1,814</u>
Compost and Mulch				
Personal Services	-	18,565	18,585	(20)
Supplies, Materials and Other	-	4,000	3,984	16
Total Compost and Mulch	<u>-</u>	<u>22,565</u>	<u>22,569</u>	<u>(4)</u>
Total General Government	2,102,088	2,359,558	2,336,930	22,628
Security of Person and Property				
Code Enforcement				
Personal Services	99,812	103,072	101,411	1,661
Supplies, Materials and Other	6,059	6,609	6,320	289
Total Code Enforcement	<u>105,871</u>	<u>109,681</u>	<u>107,731</u>	<u>1,950</u>
Police Services				
Personal Services	1,387,007	1,485,507	1,480,346	5,161
Supplies, Materials and Other	121,986	146,826	139,007	7,819
Total Police Services	<u>1,508,993</u>	<u>1,632,333</u>	<u>1,619,353</u>	<u>12,980</u>
Fire Services				
Personal Services	1,727,450	1,727,450	1,653,326	74,124
Supplies, Materials and Other	64,472	64,472	65,136	(664)
Total Fire Services	<u>1,791,922</u>	<u>1,791,922</u>	<u>1,718,462</u>	<u>73,460</u>
Ambulance Services				
Personal Services	11,476	11,976	7,987	3,989
Supplies, Materials and Other	56,447	59,637	60,662	(1,025)
Total Ambulance Services	<u>67,923</u>	<u>71,613</u>	<u>68,649</u>	<u>2,964</u>
Total Security of Person and Property	3,474,709	3,605,549	3,514,195	91,354
Health				
Supplies, Materials and Other	41,955	41,955	41,954	1
Total Health	41,955	41,955	41,954	1

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

Leisure Activities				
Recreation Administration				
Personal Services	47,497	47,497	47,740	(243)
Supplies, Materials and Other	17,878	17,878	13,744	4,134
Total Recreation Administration	<u>65,375</u>	<u>65,375</u>	<u>61,484</u>	<u>3,891</u>
Recreation Programs				
Supplies, Materials and Other	13,000	13,000	12,416	584
Total Recreation Programs	<u>13,000</u>	<u>13,000</u>	<u>12,416</u>	<u>584</u>
Recreation-Pool				
Personal Services	36,657	45,467	45,456	11
Supplies, Materials and Other	32,918	41,343	41,368	(25)
Total Recreation-Pool	<u>69,575</u>	<u>86,810</u>	<u>86,824</u>	<u>(14)</u>
Recreation Parks				
Personal Services	64,854	70,474	70,550	(76)
Supplies, Materials and Other	32,812	41,487	39,580	1,907
Total Recreation Parks	<u>97,666</u>	<u>111,961</u>	<u>110,130</u>	<u>1,831</u>
Total Leisure Activities	245,616	277,146	270,854	6,292
Total Expenditures	<u>5,864,368</u>	<u>6,284,208</u>	<u>6,163,933</u>	<u>120,275</u>
Excess of Revenues Over/(Under) Expenditures	257,632	(228,208)	446,130	674,338
Other Financing Sources (Uses)				
Operating Transfers Out	(235,000)	(235,000)	(235,000)	-
Advances Out	(15,000)	(15,000)	(41,656)	(26,656)
Total Other Financing Sources (Uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(276,656)</u>	<u>(26,656)</u>
Net Change in Fund Balance	7,632	(478,208)	169,474	647,682
Fund Balance January 1, 2012	632,344	632,344	632,344	-
Prior Year Encumbrances	42,138	42,138	42,138	-
Fund Balance December 31, 2012	<u>\$ 682,114</u>	<u>\$ 196,274</u>	<u>\$ 843,956</u>	<u>\$ 647,682</u>

**CITY OF URBANA, OHIO
CHAMPAIGN COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
POLICE AND FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance Over/(Under)
<u>Revenues:</u>				
Income Taxes	\$ 1,107,000	\$ 1,200,000	\$ 1,232,810	\$ 32,810
Total Revenues	<u>1,107,000</u>	<u>1,200,000</u>	<u>1,232,810</u>	<u>32,810</u>
<u>Expenditures:</u>				
Current:				
Public Safety				
Personal Services	1,277,982	955,422	928,830	26,592
Supplies, Materials and Other	37,151	37,151	29,073	8,078
Total Security of Persons and Property	<u>1,315,133</u>	<u>992,573</u>	<u>957,903</u>	<u>34,670</u>
Net Change in Fund Balance	(208,133)	207,427	274,907	67,480
Fund Balance January 1, 2012	1,755	1,755	1,755	-
Prior Year Encumbrances	1,351	1,351	1,351	-
Fund Balance December 31, 2012	<u>\$ (205,027)</u>	<u>\$ 210,533</u>	<u>\$ 278,013</u>	<u>\$ 67,480</u>

CITY OF URBANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BUDGETARY PROCESS

The City follows procedures prescribed by State law in establishing the budgetary data reflected in the financial statements as follows:

- (1) The City must submit a tax budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following year, January 1 through December 31.
- (2) The County Budget Commission certifies its actions by September 1 and issues an Official Certificate of Estimated Resources, (the "Certificate") limiting the maximum amount the City may expend from a given fund during the year to the estimated resources available.
- (3) About January 1, the Certificate is amended to reflect the actual unencumbered balances from the preceding year. The City must prepare its appropriations so that the total contemplated expenditures from any fund will not exceed the amount stated in the initial or amended Certificate.
- (4) A temporary appropriation measure may be passed to control cash disbursements for the period January 1 through March 31. Before April 1, a permanent appropriation measure must be passed for the period January 1 through December 31. The budget identifies specific expenditure amounts by object for each division within each fund.
- (5) Unencumbered appropriations lapse at year end. State Statute provides that no contract, agreement or other obligation involving the expenditure of money shall be entered into unless the Director of Finance first certifies that the money required for such contract, agreement, obligation or expenditure is in the treasury, or is anticipated to come into the treasury, before the maturity of such contract.
- (6) Several City funds are deemed appropriated by local ordinance or City Charter and are therefore exempt from the budget process. The City adopts budgets for the following governmental funds: General Fund, Street, Police and Fire Income Tax Levy, Airport, Oak Dale Cemetery, Highway, Police and Fire Pension Levy, Supplemental Investment, CDBG Program Income, Cemetery Trust Income, Fire Trust, Fire Safety Trust, and Police Trust.

The Mayor acts as budget officer for the City and submits a proposed operating budget to the City Council on an annual basis. Public hearings are held to obtain taxpayer comments. The Council enacts the budget through passage of an ordinance. The appropriation ordinance controls expenditures at the object level. Council can amend the budget at functional expense lines, through the passage of supplemental ordinances. Management can amend appropriations below this level without council approval. Supplemental appropriations to the original appropriations ordinance were made during the year.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental funds. Encumbrances outstanding at year end are reported as an assigned fund balance, since they do not constitute expenditures or liabilities.

CITY OF URBANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BUDGETARY PROCESS (Continued)

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements. Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual are presented on the budgetary basis in the Required Supplementary Information to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (1) Revenues are recorded when received in cash (budget) as opposed to when they are both measurable and available (GAAP).
- (2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- (3) Encumbrances are recorded as the equivalent of expenditures (budget) as opposed to an assigned fund balance (GAAP).
- (4) Due to the implementation of GASB 54, some funds were reclassified to the General Fund. These funds are not required to be included in the General Fund Budgetary Statement. Therefore, the activity from these funds is excluded with an adjustment for their change in fund balance.

Reconciliation of the major differences between the budget basis and GAAP basis are as follows:

	Net Change in Fund Balance	
	General Fund	Police & Fire Levy Fund
GAAP Basis	\$ 175,067	\$ 274,631
Supplemental Investment Fund Change	(932)	-
Revenue Accruals	823,173	(7,556)
Expenditure Accruals	(781,066)	9,991
Other Financing	(15,000)	-
Encumbrances	(31,768)	(2,159)
Budget Basis	\$ 169,474	\$ 274,907

CITY OF URBANA
CHAMPAIGN COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>(Passed through City of Bellefontaine and Ohio Department of Development)</i>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	A-Z-08-093-1	14.228	\$25,138
	A-F-10-2EE-1		71,791
	A-C-11-2EE-1		36,496
	A-F-11-2EE-1		<u>57,262</u>
Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			<u>190,687</u>
Home Investment Partnerships Program	A-C-11-2EE-2	14.239	160,025
Total U.S. Department of Housing and Urban Development			<u>350,712</u>
U.S. DEPARTMENT OF JUSTICE			
<i>(Passed through Ohio Attorney General)</i>			
Crime Victim Assistance	2012VAGENE591	16.575	19,153
	2013VAGENE591		<u>2,175</u>
Total Crime Victim Assistance			<u>21,328</u>
Total U.S. Department of Justice			<u>21,328</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>(Direct - Federal Aviation Administration)</i>			
Airport Improvement Program	AIP-3-39-0080-1509	20.106	25,210
	AIP-3-39-0080-1610		16,340
	AIP-3-39-0080-1711		<u>106,913</u>
Total Airport Improvement Program			<u>148,463</u>
<i>(Passed through Ohio Department of Transportation)</i>			
Highway Planning and Construction	PID 88422	20.205	392,008
Total U.S. Department of Transportation			<u>540,471</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>(Direct)</i>			
Assistance to Firefighters Grant	EMW-2010-FH-01048	97.044	130,470
Total U.S. Department of Homeland Security			<u>130,470</u>
Total Federal Financial Assistance			<u>\$1,042,981</u>

The accompanying notes to this schedule are an integral part of the schedule.

**CITY OF URBANA
CHAMPAIGN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The federal Department of Housing and Urban Development (HUD) grants money for these loans to the City. The initial loan of this money is recorded as a disbursement on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

These loans are collateralized by second mortgages on the property.

Activity in the CDBG revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012 (Restated)	\$29,729
Loans made:	
Uncollectible loan principal	7,350
Loan principal repaid	12,386
Ending loans receivable balance as of December 31, 2012	<u>9,993</u>
Cash balance on hand in the revolving loan fund as of December 31, 2012	\$56,496
Administrative costs expended during 2012	\$ 0

The table above reports gross loans receivable. Due to updated information concerning the status of loans and council action for same, the beginning balance was restated from \$20,656 to \$29,729. Of the loans receivable as of December 31, 2012, the City estimates \$0 to be uncollectible and no accounts are past due.

The uncollectible loan principal was approved by City Council on September 13, 2011 and the mortgage lien was released on November 26, 2012.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE D - HIGHWAY PLANNING AND CONSTRUCTION CFDA 20.205

In 2012, the Ohio Department of Transportation (ODOT) expended \$1,370 for PID 88380 to the City. This amount was spent by the City in 2011 and therefore reported on the City's 2011 federal schedule. In addition, ODOT expended \$25,181 for PID 77394 to the City in 2011, which was not previously reported on the City's federal schedule. All of the funds represent transactions associated with the Highway Planning and Construction Grant CFDA 20.205. The amounts included in this note are not included on the City's 2012 Schedule as expenditures.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Champaign County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2013 wherein we noted the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City'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, opining 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *City Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

August 5, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City of Urbana
Champaign County
205 S. Main Street
P.O. Box 747
Urbana, Ohio 43078

To the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Urbana's (the City) compliance with the applicable 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 the City of Urbana's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal programs.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *City Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the Community Development Block Grant

As described in finding 2012-002 in the accompanying schedule of findings, the City did not comply with requirements regarding cash management applicable to its Community Development Block Grant major federal program. Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

Qualified Opinion on the Community Development Block Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Community Development Block Grant* paragraph, the City of Urbana complied, in all material respects, with the requirements referred to above that could directly and materially affect its Community Development Block Grant for the year ended December 31, 2012.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402

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www.ohioauditor.gov

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City of Urbana complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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's applicable 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's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-002 to be a material weakness.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

August 5, 2013

**CITY OF URBANA
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified for Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Unmodified for Highway Planning and Construction
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii CFDA 20.205 – Highway Planning and Construction
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-001

NONCOMPLIANCE

Ohio Rev. Code § 5705.10(H) states money paid into any fund shall be used only for the purpose for which such fund is established. Negative fund cash balances indicate money from one fund was used to cover the expenses of another fund.

At December 31, 2012, the City had the following negative cash fund balances:

Safer Grant (276)	(52,974)
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The City should implement procedures to review cash fund balances prior to year end to ensure negative fund balances do not occur. This will help ensure the City is not spending unauthorized funds.

Official’s Response:

We agree that negative balances should be eliminated at year-end, and we have procedures to control negative balances. This particular fund is a reimbursable grant, and as such amounts were reimbursed in the first quarter of the following year. Timing of the reimbursements created the negative position, and we will strive to find a solution via inter-fund advances in the future.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2012-002
CFDA Title and Number	CFDA #14.228 – Community Development Block Grant/State’s Program and Non-Entitlement Grants in Hawaii
Federal Award Number / Year	A-C-11-2EE-1 / 2011
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

NONCOMPLIANCE/MATERIAL WEAKNESS

24 C.F.R Section 85.21(c) states grantees and sub-grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or sub-grantee. **Section (A)(3)(f) of the Ohio Department of Development, Office of Housing and Community Partnership’s Financial Management Rules and Regulations Handbook**, require grantees to develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds. This rule states that fund draw-downs should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt.

**FINDING 2012-002
(CONTINUED)**

Grant A-C-11-2EE-1 had a total of five draws equaling the total amount of the grant. The following was noted:

- \$11,000 was held for 19 days
- \$9,850 was held for 42 days
- \$13,670 was on hand at 12-31-2012 (25 days)
- Final draw of \$15,350 was traced through 1-12-2013 (15 day limit) with the full amount still on hand.

The fund balances associated with this grant ranged from \$9,850 at the end of September to \$29,020 at December 31, 2012.

The failure to comply with the cash management requirements per the Ohio Department of Development Rules and Regulations could result in a loss of grant funding.

Procedures should be implemented by the Administration and Finance Offices to monitor Ohio Department of Development cash management requirements. A cash management system should be developed to monitor the fifteen day rule regarding the prompt disbursement of funds. Requests for Payments should be submitted for current cash needs. Procedures should be established to monitor the receipts, disbursements, and balances of the Community Development Block Grant funds to avoid excessive federal fund cash balances.

Official's Response:

We understand and agree that CDBG funds disbursed should draw down to a \$5,000 floor level within 15 days and will strive to comply with that rule.

See also Corrective Action Plan Page 69

**CITY OF URBANA
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Noncompliance/Significant Deficiency - Ohio Rev. Code Section 5705.41(D)(1) – Failure to properly encumber	No	Repeated in Management Letter
2011-02	Noncompliance - Ohio Rev. Code Section 5705.10(H) – Negative fund cash balances	No	Repeated as Finding 2012-001
2011-03	Noncompliance - Ohio Rev. Code Section 9.38 – Failure to deposit timely	No	Repeated in Management Letter
2011-04	Material Weakness - Note Receivable payments not properly recorded	Yes	
2011-05	Noncompliance/Material Weakness – 24 C.F.R. Section 85.21(c) and Section (A)(3)(f) of the Ohio Department of Development, Office of Housing and Community Partnership’s Financial Management Rules and Regulations Handbook – Failure to maintain grant balance of less than \$5,000 within 15 day limit	No	Repeated as Finding 2012-002

**CITY OF URBANA
CHAMPAIGN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-02	For the future, we will not request funds until we are under contract and we will do our best to expend the funds in a timely manner. Furthermore, the City of Urbana files quarterly with ODOD for any funds that reside longer than 15 days and reports any interest that may accrue after the 15 day period. The City of Urbana did not exceed the \$100 allowable interest during the Grant period. Another corrective action we will investigate is to "front" the contractor payments from the City of Urbana, and then repay them when the Grant monies are disbursed. That recommendation short of asking for a 30 day cycle like all the other Grants is our only real alternative for a sustainable solution.	2013 Grant Period	Amy Schocken