



Dave Yost • Auditor of State

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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CHAMPAIGN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District'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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 District'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 District'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 cash financial position of the governmental activities, each major fund, and the discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, Ohio, as of June 30, 2014, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position-cash basis, change in net position-cash basis, governmental activities, fund balances, general fund financial activities and outstanding debt year-end. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

November 17, 2014

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The discussion and analysis of the Urbana City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, the net position of governmental activities increased \$1,939,350, which represents a 26.25% increase from 2013.
- General receipts accounted for \$20,877,764 in receipts or 79.06% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,530,252 or 20.94% of all receipts.
- The District had \$24,468,666 in cash disbursements related to governmental activities; \$5,530,252 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,877,764 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$23,088,087 in receipts and other financing sources and \$21,386,481 in disbursements and other financing uses. During fiscal 2014, the general fund's fund balance increased \$1,701,606 from a balance of \$2,651,062 to a balance of \$4,352,668.
- The permanent improvement fund had \$573,281 in receipts and \$420,886 in disbursements. During fiscal 2014, the permanent improvement fund's fund balance increased \$152,395 from a balance of \$748,686 to a balance of \$901,081.

Using the Cash Basis Basic Financial Statements

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

The statement of net position – cash basis and statement of activities – cash basis provide information about the activities of the District as a whole, presenting an aggregate view of the District's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, there are two major funds. The general fund is the largest major fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Reporting the District as a Whole

Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis

The statement of net position – cash basis and the statement of activities – cash basis answer the question, “How did the District perform financially during 2014?” These statements include only the District’s net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, the governmental activities include the District’s programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District’s statement of net position – cash basis and statement of activities – cash basis can be found on pages 15-16 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 10. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’ most significant funds. The District’s major governmental funds are the general fund and the permanent improvement fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 24-25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-52 of this report.

The District as a Whole

The table below provides a summary of the District's net position – cash basis at June 30, 2014 and June 30, 2013.

	Net Position - Cash Basis	
	Governmental Activities 2014	Governmental Activities 2013
Assets:		
Equity in pooled cash and investments	\$9,327,568	\$7,388,218
Net Cash Position:		
Restricted	1,215,285	1,109,002
Unrestricted	8,112,283	6,279,216
Total net cash position	\$9,327,568	\$7,388,218

Total net position of the District increased \$1,939,350, which represents a 26.25% increase from the District's net position at June 30, 2013. A portion of the District's net position, \$1,215,285, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$8,112,283 may be used to meet the District's ongoing obligations to the students and creditors.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The table below shows the change in cash basis net position for fiscal years 2014 and 2013.

	Change in Net Position - Cash Basis	
	Governmental Activities 2014	Governmental Activities 2013
Receipts:		
Program revenues:		
Charges for services and sales	\$1,654,699	\$1,414,221
Operating grants and contributions	3,875,553	3,731,155
General revenues:		
Property taxes	8,794,911	8,759,584
Payment in lieu of taxes	1,279	45,885
Grants and entitlements	11,984,212	10,706,104
Investment earnings	25,421	7,519
Other	71,941	60,696
Total receipts	<u>26,408,016</u>	<u>24,725,164</u>
Disbursements:		
Program disbursements:		
Instruction:		
Regular	10,514,801	10,740,395
Special	4,661,458	4,789,509
Vocational	356,099	362,721
Other	14,079	18,413
Support services:		
Pupil	1,546,542	1,140,001
Instructional staff	492,169	504,111
Board of education	23,120	22,602
Administration	1,369,655	1,726,151
Fiscal	469,285	247,840
Business	358,455	348,422
Operations and maintenance	1,426,083	1,326,321
Pupil transportation	640,312	741,869
Central	64,786	98,508
Operations of non-instructional services:		
Food service operations	1,019,889	1,080,917
Other non-instructional services	123,737	61,513
Extracurricular activities	630,724	701,635
Facilities acquisition and construction	346,123	375,539
Debt service:		
Principal retirement	394,609	386,973
Interest and fiscal charges	16,740	39,275
Total disbursements	<u>24,468,666</u>	<u>24,712,715</u>
Change in net position	1,939,350	12,449
Net cash position at beginning of year	7,388,218	7,375,769
Net cash position at end of year	<u>\$9,327,568</u>	<u>\$7,388,218</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Governmental Activities

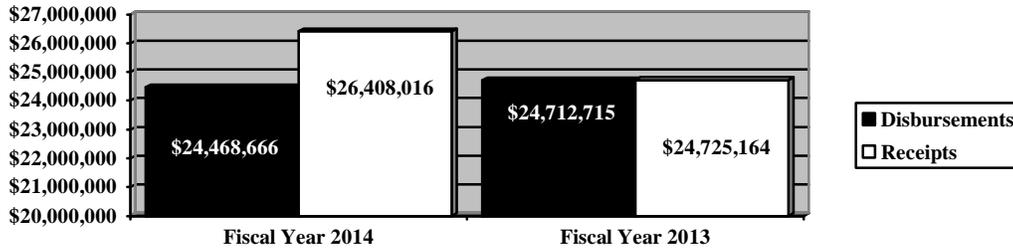
The net position of the District's governmental activities increased \$1,939,350. Total governmental disbursements of \$24,468,666 were offset by program receipts of \$5,530,252 and general receipts of \$20,877,764. Program receipts supported 22.60% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes and unrestricted grants and entitlements. These receipts represent 78.68% of total governmental receipts.

The largest category of the District's disbursements is for instructional programs. Instruction disbursements totaled \$15,546,437 or 63.54% of total governmental disbursements for fiscal 2014.

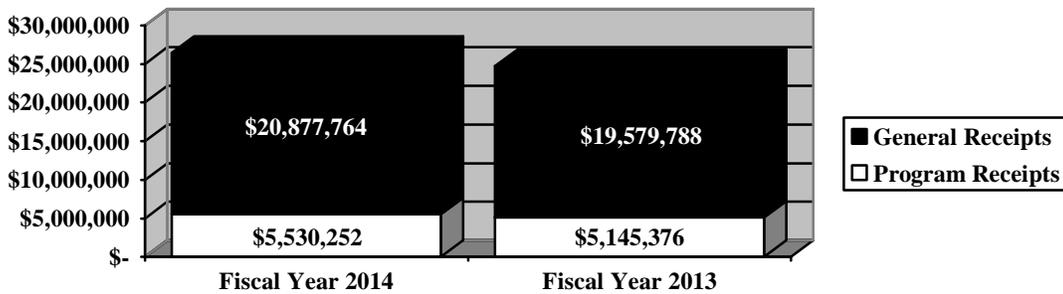
The graph below presents the District's governmental activities receipts and disbursements for fiscal years 2014 and 2013.

Governmental Activities - Receipts and Disbursements



The graph below presents the District's governmental activities receipts for fiscal years 2014 and 2013.

Governmental Activities - General and Program Receipts



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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Governmental Activities				
	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program disbursements:				
Instruction:				
Regular	\$10,514,801	\$9,424,209	\$10,740,395	\$9,769,077
Special	4,661,458	1,990,218	4,789,509	2,407,461
Vocational	356,099	276,381	362,721	262,482
Other	14,079	14,079	18,413	18,413
Support services:				
Pupil	1,546,542	1,512,228	1,140,001	1,138,259
Instructional staff	492,169	469,262	504,111	485,658
Board of education	23,120	23,120	22,602	22,602
Administration	1,369,655	1,337,266	1,726,151	1,693,406
Fiscal	469,285	469,285	247,840	247,840
Business	358,455	232,131	348,422	214,337
Operations and maintenance	1,426,083	1,411,166	1,326,321	1,310,884
Pupil transportation	640,312	517,451	741,869	584,903
Central	64,786	64,786	98,508	87,708
Operations of non-instructional services:				
Food service operations	1,019,889	(3,753)	1,080,917	42,573
Other non-instructional services	123,737	123,086	61,513	56,803
Extracurricular activities	630,724	320,027	701,635	423,146
Facilities acquisition and construction	346,123	346,123	375,539	375,539
Debt service:				
Principal retirement	394,609	394,609	386,973	386,973
Interest and fiscal charges	16,740	16,740	39,275	39,275
Total disbursements	\$24,468,666	\$18,938,414	\$24,712,715	\$19,567,339

The dependence upon tax and other general receipts for governmental activities is apparent, 75.29% of instruction activities are supported through taxes and other general receipts. For all governmental activities, general receipt support is 77.40%.

The District's Funds

The District's governmental funds reported a combined fund balance of \$5,567,205, which is higher than last year's total of \$3,759,316.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Increase/ (Decrease)	Percentage Change
General	\$4,352,668	\$2,651,062	\$1,701,606	64.19 %
Permanent improvement	901,081	748,686	152,395	20.35 %
Other Governmental	313,456	359,568	(46,112)	(12.82) %
Total	\$5,567,205	\$3,759,316	\$1,807,889	48.09 %

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

General Fund

The District's general fund balance increased \$1,701,606. Tax receipts increased 0.41% or \$33,945 during 2014. The District received an \$18,056 increase in interest payments during 2014 compared to 2013. A 5.59% increase in tuition receipts during 2014 resulted from increases in tuition payments received for regular day school programs, open enrollment, and services provided by the District to the Urbana Community School, a component unit of the District.

During fiscal year 2014, a \$386,713 decrease in disbursements for instruction resulted from lower wages and benefits paid from the general fund during the year and a decrease in purchases of materials and supplies for regular instruction. Support services disbursements increased 4.06% due primarily to higher disbursements for administration, pupil transportation, and central support services. Disbursements for administration support services decreased due to lower salaries and benefits in addition to lower miscellaneous disbursements, including lower fees paid for the collection of property taxes and for state exams. Further, central support services disbursements fell 26.13% from the prior year. Disbursements for extracurricular activities fell 17.89% during the year primarily resulting from decreases in disbursements for sport oriented activities, including the District's track and field, wrestling, football, and basketball programs. Debt service payments made by the general fund decreased 3.55% due to lower interest on the District's tax anticipation note paid during 2014.

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

	2014 Amount	2013 Amount	Increase/ (Decrease)	Percentage Change
Receipts:				
Taxes	\$8,352,887	\$8,318,942	\$33,945	0.41 %
Tuition	850,765	805,703	45,062	5.59 %
Earnings on investments	25,281	7,225	18,056	249.91 %
Other revenues	308,465	318,834	(10,369)	(3.25) %
Intergovernmental	13,311,125	11,861,969	1,449,156	12.22 %
Total	22,848,523	21,312,673	1,535,850	7.21 %
Disbursements:				
Instruction	14,164,889	14,551,602	(386,713)	(2.66) %
Support services	6,311,400	6,065,156	246,244	4.06 %
Non-instructional services	124,110	58,409	65,701	112.48 %
Extracurricular activities	370,132	450,766	(80,634)	(17.89) %
Debt service	349,916	362,786	(12,870)	(3.55) %
Total	\$21,320,447	\$21,488,719	(\$168,272)	(0.78) %

Permanent Improvement Fund

The permanent improvement fund, a major capital projects fund of the District, had cash receipts of \$573,281 and cash disbursements of \$420,886 during fiscal year 2014. The balance of the permanent improvement fund increased \$152,395, from a cash fund balance of \$748,686 to a balance of \$901,081 at June 30, 2014.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, original and final budgeted receipts and other financing sources were \$21,472,000 and \$21,872,000, respectively. Actual revenues and other financing sources for fiscal year 2014 totaled \$23,102,577. This represents a \$1,230,577 increase from final budgeted revenues for 2014.

General fund original appropriations and final appropriations (appropriated disbursements including other financing uses) totaled \$23,132,280 and \$23,597,280, respectively. The actual budget basis disbursements and other financing uses for fiscal year 2014 totaled \$21,649,932, which represents a \$1,947,348 decrease from the final budget.

Capital Assets and Debt Administration

Capital Assets

The District does not report capital assets in the accompanying cash basis financial statements, but records payments for capital assets as disbursements when purchased. The District had facilities acquisition and construction disbursements of \$346,123 during the fiscal year.

Debt Administration

At June 30, 2014, the District had no debt obligations outstanding. The following table summarizes the notes and leases outstanding at 2014 and 2013.

	Outstanding Debt, Year-End	
	Governmental Activities 2014	Governmental Activities 2013
	Energy conservation notes	\$0
Capital lease obligation	0	104,609
Total	\$0	\$134,609

At June 30, 2014, the District's overall legal debt margin was \$23,872,264 and an un-voted debt margin of \$265,247. See Note 9 to the basic financial statements for detail on the District's debt administration.

Current Related Financial Activities

The District placed a 5.5 mill operating levy on the ballot in November of 2012 for new money in response to the projected deficit looming in fiscal year 2014. Unfortunately, the levy did not pass and the district began the process of making budget reductions in the amount of \$1,000,000. Through the winter and spring of 2013, the board and administration, with staff and community input, compiled a district cut list to be effective for the 2013 – 2014 school year. The budget reduction plan included the closure of the building that housed fifth and sixth grades and a realignment of the other building grade levels in order to accommodate the two grade levels. Also cut were head teacher positions, several supplemental contract positions, and extended days were reduced. The district also implemented a transportation fee for extracurricular activities, effective for the 2013 – 2014 school year.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The District passed an operating levy in March of 2008 for 9.75 mills, providing approximately \$2.6 million per year, which began in January of 2009. This levy was renewed in March of 2013, preventing more severe cuts from being made. In November of 2013, the district renewed a 3.5 mill permanent improvement levy for a continuing period of time. This alleviated some pressure on the levy cycle of the district, dropping the number of time-limited levies from four to three. The three remaining time-limited levies are all for operating funds.

A new funding formula was passed into legislation for fiscal year 2014. According to the projections, the district will see a 6.25% increase in funding, based on the fiscal year 2013 enrollment figures. In addition, previous budgets called for the elimination of the tangible personal property tax reimbursement, which would have resulted in an approximately \$400,000 loss for our district in fiscal year 2014 and again in fiscal year 2015. The continuance of the reimbursement is a huge gain for the district.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board of Education and administration have been working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. In September of 2013, the district learned OSFC funding would comprise approximately 61% of approved project costs. It is important to capture this revenue source to relieve some of the financial burden from local taxpayers while continuing to meet the needs of students. In 2004, the Board proceeded to put its local share of the project on the ballot through the Expedited Local Partnership Program. Phase I of the project consists of a new PK-5 building and a building for grades 6 through 8. The high school is intended to comprise Phase II, to be built with State funds. Phase I failed to receive a favorable response from taxpayers in 2004 and in 2006. With the tax rate increasing because of deflating property values (complete loss of \$60,000,000 in tangible personal valuation) and community concerns, the Board decided to split Phase I and build a PK-5 building with Phase I, build a 6-8 middle school with Phase II and delay the high school OSFC project to Phase III. Phase I failed again in November of 2006, with less millage. The District estimates costs related to the proposed project will continue to increase as costs associated with new construction become higher over time. Additionally, the local share to be funded by the District will continue to increase as the tax base decreases, thus making a levy more difficult to pass. HB119 passed in June of 2007, with Governor Strickland's emphasis on speeding up the pace of these projects. As a result of the State refinancing other projects, the District was offered its State allocation in the spring of 2008, which the District deferred, recognizing the need to pass an operating levy and has declined in subsequent years for similar reasons. As a result of the 61% figure shown in September of 2013, the board voted to move forward with a community engagement process to determine the need and desire for new facilities. A Facility Steering Committee was convened and met over several months and present a Master Plan to build PK – 8 building and a new 9 – 12 building. The Board approved this master plan in June of 2014 and in July of 2014, voted to place a 7.15 mill bond issue on the ballot for November of 2014.

The District formed a community school during fiscal year 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function or achieve academic success in the regular school system. The Urbana Community School opened its doors July 1, 2004. It remains a conversion community school as a separate autonomy with a Board of Directors, but under the wings of Urbana City Schools' administration and governance. It is our hope that these students will achieve academic success through the Community School.

The District has committed itself to educational and financial excellence for many years. The District has received an Excellent Rating from the Ohio Department of Education in both fiscal years 2009 and 2010 and once again in 2012 and unmodified opinions on its financial statement audits. Each challenge identified in this section is viewed as an opportunity for the District to continue its commitment to excellence. The District is committed to living within its financial means and working with the community it serves in order to maintain adequate resources to support its educational programs.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Mandy Hildebrand, Treasurer, Urbana City School District, 711 Wood St., Urbana, Ohio 43088.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2014**

	Primary Government	Component Unit
	Governmental Activities	Urbana Community School
Assets:		
Equity in pooled cash and investments	\$9,327,568	\$790,857
Total assets	9,327,568	790,857
Net cash position:		
Restricted for:		
Capital projects	901,081	
State funded programs	122,144	8,000
Federally funded programs	16,917	
Student activities	132,891	
Other purposes	42,252	
Unrestricted	8,112,283	782,857
Total net cash position	\$9,327,568	\$790,857

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Position</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Component Unit Urbana Community School</u>
Governmental Activities:					
Instruction:					
Regular	\$10,514,801	\$751,665	\$338,927	(\$9,424,209)	
Special	4,661,458	150,198	2,521,042	(1,990,218)	
Vocational	356,099		79,718	(276,381)	
Other	14,079			(14,079)	
Support services:					
Pupil	1,546,542		34,314	(1,512,228)	
Instructional staff	492,169		22,907	(469,262)	
Board of education	23,120			(23,120)	
Administration	1,369,655		32,389	(1,337,266)	
Fiscal	469,285			(469,285)	
Business	358,455	121,609	4,715	(232,131)	
Operations and maintenance	1,426,083	14,917		(1,411,166)	
Pupil transportation	640,312	9,711	113,150	(517,451)	
Central	64,786			(64,786)	
Operation of non-instructional services:					
Food service operations	1,019,889	306,189	717,453	3,753	
Other non-instructional services	123,737		651	(123,086)	
Extracurricular activities	630,724	300,410	10,287	(320,027)	
Facilities acquisition and construction	346,123			(346,123)	
Debt service:					
Principal retirement	394,609			(394,609)	
Interest and fiscal charges	16,740			(16,740)	
Total governmental activities	<u>\$24,468,666</u>	<u>\$1,654,699</u>	<u>\$3,875,553</u>	<u>(18,938,414)</u>	
Component Unit:					
Urbana Community School	<u>\$323,541</u>	<u>\$0</u>	<u>\$0</u>		<u>(\$323,541)</u>
General receipts:					
Property taxes levied for:					
General purposes				8,352,887	
Capital projects				442,024	
Payment in lieu of taxes				1,279	
Grants and entitlements not restricted					263,720
to specific programs				11,984,212	
Investment earnings				25,421	636
Miscellaneous				71,941	
Total general receipts				<u>20,877,764</u>	<u>264,356</u>
Change in net position				1,939,350	(59,185)
Net cash position at beginning of year				<u>7,388,218</u>	<u>850,042</u>
Net cash position at end of year				<u>\$9,327,568</u>	<u>\$790,857</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$4,351,920	\$901,081	\$313,456	\$5,566,457
Restricted assets:				
Equity in pooled cash and investments	748			748
Total assets	<u>4,352,668</u>	<u>901,081</u>	<u>313,456</u>	<u>5,567,205</u>
Fund balances:				
Non-spendable:				
Unclaimed monies	8,214			8,214
Restricted:				
Capital improvements		901,081		901,081
School bus purchase	748			748
Food service operations			41,504	41,504
Non-public schools			120	120
Special education			113	113
Targeted academic assistance			5,068	5,068
Extracurricular			132,891	132,891
Other purposes			133,760	133,760
Committed:				
Termination benefits	458,845			458,845
Assigned:				
Student instruction	66,865			66,865
Student and staff support	252,405			252,405
School supplies	3,172			3,172
Other purposes	13,574			13,574
Unassigned	3,548,845			3,548,845
Total fund balances	<u>\$4,352,668</u>	<u>\$901,081</u>	<u>\$313,456</u>	<u>\$5,567,205</u>

See accompanying notes to the basic financial statements.

**CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2014**

Total governmental fund balances	\$5,567,205
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Amounts reported for governmental activities on the statement of net position are different because:

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position - cash basis.

<u>3,760,363</u>

Net cash position of governmental activities
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<u><u>\$9,327,568</u></u>

See accompanying notes to the basic financial statements.

**CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Permanent Improvement	Non-major Governmental Funds	Total Governmental Funds
Receipts:				
From local sources:				
Property taxes	\$8,352,887	\$442,024		\$8,794,911
Payment in lieu of taxes	1,279			1,279
Tuition	850,765			850,765
Transportation fees	9,711			9,711
Earnings on investments	25,281		\$605	25,886
Charges for services			306,189	306,189
Extracurricular	168,013		262,500	430,513
Classroom materials and fees	42,604			42,604
Rental income	14,917			14,917
Contributions and donations	18,485		10,287	28,772
Other local revenues	53,456			53,456
Intergovernmental - intermediate	366,722			366,722
Intergovernmental - state	12,944,403	131,257	154,208	13,229,868
Intergovernmental - federal			2,252,283	2,252,283
Total receipts	<u>22,848,523</u>	<u>573,281</u>	<u>2,986,072</u>	<u>26,407,876</u>
Disbursements:				
Current:				
Instruction:				
Regular	10,251,092	2,899	338,301	10,592,292
Special	3,552,978		1,122,770	4,675,748
Vocational	346,740		12,347	359,087
Other	14,079			14,079
Support services:				
Pupil	1,520,808		35,049	1,555,857
Instructional staff	474,510		19,281	493,791
Board of education	23,120			23,120
Administration	1,344,416		32,021	1,376,437
Fiscal	460,701	10,431		471,132
Business	356,872		3,486	360,358
Operations and maintenance	1,436,973			1,436,973
Pupil transportation	629,214		13,100	642,314
Central	64,786			64,786
Operation of non-instructional services:				
Food service operations			1,019,889	1,019,889
Other operation of non-instructional	124,110		656	124,766
Extracurricular activities	370,132		261,754	631,886
Facilities acquisition and construction		346,123		346,123
Debt service:				
Principal retirement	335,609	59,000		394,609
Interest and fiscal charges	14,307	2,433		16,740
Total disbursements	<u>21,320,447</u>	<u>420,886</u>	<u>2,858,654</u>	<u>24,599,987</u>
Excess of receipts over disbursements	<u>1,528,076</u>	<u>152,395</u>	<u>127,418</u>	<u>1,807,889</u>
Other financing sources (uses):				
Advances in	239,564		66,034	305,598
Advances (out)	(66,034)		(239,564)	(305,598)
Total other financing sources (uses)	<u>173,530</u>		<u>(173,530)</u>	
Net change in fund balances	1,701,606	152,395	(46,112)	1,807,889
Fund balances at beginning of year	2,651,062	748,686	359,568	3,759,316
Fund balances at end of year	<u>\$4,352,668</u>	<u>\$901,081</u>	<u>\$313,456</u>	<u>\$5,567,205</u>

See accompanying notes to the basic financial statements.

**CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS -
CASH BASIS TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$1,807,889
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Amounts reported for governmental activities in the statement of activities are different because:

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

131,461

Change in net cash position of governmental activities	<u><u>\$1,939,350</u></u>
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See accompanying notes to the basic financial statements.

**CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Receipts:				
From local sources:				
Property taxes	\$7,763,377	\$7,908,000	\$8,352,887	\$444,887
Payment in lieu of taxes	1,279	1,279	1,279	
Tuition	803,485	815,084	850,765	35,681
Transportation fees	9,026	9,194	9,711	517
Earnings on investments	23,398	23,834	25,281	1,447
Extracurricular	33,361	33,982	35,894	1,912
Rental income	13,864	14,122	14,917	795
Other local revenues	25,548	29,393	41,221	11,828
Intergovernmental - intermediate	340,750	347,122	366,722	19,600
Intergovernmental - state	12,030,844	12,254,967	12,944,403	689,436
Total receipts	<u>21,044,932</u>	<u>21,436,977</u>	<u>22,643,080</u>	<u>1,206,103</u>
Disbursements:				
Current:				
Instruction:				
Regular	11,062,392	11,155,677	10,301,189	854,488
Special	3,724,458	3,810,430	3,565,295	245,135
Vocational	450,759	407,406	379,963	27,443
Other	21,252	40,348	31,760	8,588
Support services:				
Pupil	1,133,444	1,664,384	1,537,115	127,269
Instructional staff	466,066	528,664	488,812	39,852
Board of education	28,881	31,271	29,190	2,081
Administration	1,499,196	1,457,956	1,369,352	88,604
Fiscal	569,834	604,589	542,205	62,384
Business	228,834	252,460	234,163	18,297
Operations and maintenance	1,654,914	1,646,511	1,563,636	82,875
Pupil transportation	915,484	742,317	681,015	61,302
Central	237,511	106,012	65,826	40,186
Other non-instructional services	116,385	146,385	130,022	16,363
Extracurricular activities	475,000	455,000	379,285	75,715
Debt service:				
Principal	260,000	260,000	260,000	
Interest and fiscal charges	12,870	12,870	12,870	
Total disbursements	<u>22,857,280</u>	<u>23,322,280</u>	<u>21,571,698</u>	<u>1,750,582</u>
Excess disbursements over receipts	<u>(1,812,348)</u>	<u>(1,885,303)</u>	<u>1,071,382</u>	<u>2,956,685</u>
Other financing sources (uses):				
Refund of prior year's expenditures	204,411	208,219	219,933	11,714
Transfers (out)	(20,994)	(20,994)	(12,200)	8,794
Advances in	222,657	226,804	239,564	12,760
Advances (out)	(254,006)	(254,006)	(66,034)	187,972
Total other financing sources (uses)	<u>152,068</u>	<u>160,023</u>	<u>381,263</u>	<u>221,240</u>
Net change in fund balance	(1,660,280)	(1,725,280)	1,452,645	3,177,925
Fund balance at beginning of year	1,452,538	1,452,538	1,452,538	
Prior year encumbrances appropriated	644,410	644,410	644,410	
Fund balance at end of year	<u>\$436,668</u>	<u>\$371,668</u>	<u>\$3,549,593</u>	<u>\$3,177,925</u>

See accompanying notes to the basic financial statements.

CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and investments	<u>\$3,760,363</u>
Net cash position:	
Unrestricted	<u>\$3,760,363</u>

See accompanying notes to the basic financial statements.

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGE IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Fund
Operating receipts:	
Charges for services	\$2,531,411
Total operating receipts	2,531,411
 Operating disbursements:	
Claims and administrative services	2,400,090
Total operating disbursements	2,400,090
 Operating income	131,321
 Non-operating receipts:	
Interest receipts	140
Total nonoperating receipts	140
 Change in net cash position	131,461
 Net cash position at beginning of year	3,628,902
 Net cash position at end of year	\$3,760,363

See accompanying notes to the basic financial statements.

**CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2014**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$120,484	\$56,478
Net cash position:		
Held in trust for scholarships	120,484	
Held for student activities		56,478
Total net cash position	\$120,484	\$56,478

See accompanying notes to the basic financial statements.

CHAMPAIGN COUNTY
URBANA CITY SCHOOL DISTRICT

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Interest	\$599
Deductions:	
Scholarships awarded	2,000
Change in net cash position	(1,401)
Net cash position at beginning of year	121,885
Net cash position at end of year	<u>\$120,484</u>

See accompanying notes to the basic financial statements.

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Urbana City School District (the "District") is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is a city district as defined by Ohio Rev. Code Section 3311.02. The District operates under an elected Board of Education of five members and is responsible for the provision of public education to residents of the District.

The District currently operates 3 elementary schools (grades K – 5), 1 junior high (grades 6 – 8) and 1 high school (grades 9 – 12). The District is staffed by 78 non-certified and 155 certified personnel to provide services to approximately 2,198 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes when the District's relationship with the organization further results in a financial benefit or burden of the District. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Discretely Presented Component Unit

The Urbana Community School

The Urbana Community School (the "School") is a legally separate, conversion community school, served by a Board of Directors. The School provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors is comprised of five members. The Urbana City School District is the sponsoring District of the School under Ohio Revised Code Chapter 3314. The superintendent of the District serves as the Chief Administrative Officer of the School and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the School, the School's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the School, the School is a component unit of the District. See Note 18 for detail on the School.

Separately issued financial statements can be obtained from the Treasurer of the School at 711 Wood Street, Urbana, Ohio 43078.

2. Jointly Governed Organizations

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 14 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information is available from Keith Thomas, Treasurer and Chief Financial Officer, 129 East Court Street, Sidney, Ohio 45265.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by MEC. The Governing Board of MEC consists of one voting representative from each member district. The District paid \$1,340 to MEC during fiscal year 2014. Financial information is available from James Grube, Director, 2100 Citygate Dr., Columbus, Ohio 43219.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ohio Hi-Point Joint Vocational School District

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

3. Insurance Purchasing Pool

Workers' Compensation Group Rating Plan

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

2. Proprietary Fund

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Fiduciary Funds

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

C. Basis of Presentation

1. Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of receipts and disbursements.

The government-wide statement of activities presents a comparison between direct disbursements and program receipts for each function or program of the governmental activities of the District. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts not classified as program receipts are presented as general receipts of the District.

All assets and net position associated with the operation of the District are included on the statement of net position.

2. Fund Financial Statements

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2014 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2014.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation for all funds or alter total function appropriations within the general fund or permanent improvement fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund and/or function level.

F. Cash and Investments

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

During fiscal year 2014, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable and non-negotiable certificates of deposit and U.S. government money market mutual funds. With the exception of STAR Ohio, investments are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price at which the investment could be sold on June 30, 2014.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$25,281, which includes \$14,676 assigned from other funds.

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

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Balances

On fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 12 and 13, the employer contributions include portions for pension benefits and for post-employment health care benefits.

L. Long-Term Obligations

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance

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

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

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

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

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Cash Position

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

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents received from the State and are restricted for school bus purchases. A schedule of statutory set-asides is presented in Note 16.

P. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in the proprietary fund. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the basic financial statements.

Q. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2014, the balance in the budget stabilization reserve was \$366,608. This amount is included in unassigned fund balance of the general fund and in unrestricted net cash position on the statement of net position.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25", and GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees".

GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the District.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Compliance

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

At fiscal year end, the District had \$2,100 in un-deposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents and investments."

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$6,784,799. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$6,297,593 of the District's bank balance of \$6,926,213 was exposed to custodial risk as discussed below, while \$628,620 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Carrying Value	Fair Value	Investment Maturities At Fair Value	
			6 Months or Less	7 to 12 Months
Negotiable certificates of deposit	\$999,378	\$999,378	\$499,810	\$499,568
U.S. Government money market mutual fund	1,693,253	1,693,253	1,693,253	
STAR Ohio	25,000	25,000	25,000	
Total	\$2,717,631	\$2,717,631	\$2,218,063	\$499,568

The weighted average maturity of investments is 0.17 years.

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2014:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>% of Total</u>
Negotiable certificates of deposit	\$999,378	36.77
U.S. Government money market mutual fund	1,693,253	62.31
STAR Ohio	25,000	0.92
Total	<u>\$2,717,631</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2014:

Cash and investments per note:

Carrying amount of deposits	\$6,784,799
Investments	2,717,631
Cash on hand	2,100
Total	<u>\$9,504,530</u>

Cash per statement of net position:

Governmental activities	\$9,327,568
Private-purpose trust	120,484
Agency fund	56,478
Total	<u>\$9,504,530</u>

5. INTERFUND TRANSACTIONS

Advances for the fiscal year ended June 30, 2014, as reported on the fund statements, consist of the following:

Advances to the general fund from:

Non-major governmental funds \$239,564

Advances to non-major governmental funds from:

General fund 66,034

Total \$305,598

These advances will be repaid once the anticipated funds are received. Interfund advances between governmental funds are eliminated on the government-wide financial statements.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$246,921,470	95.43	\$253,867,980	95.71
Public utility personal	11,826,960	4.57	11,379,400	4.29
Total	\$258,748,430	100.00	\$265,247,380	100.00
Tax rate per \$1,000 of assessed valuation	\$68.05		\$68.05	

7. PAYMENT IN LIEU OF TAXES

The District has entered into tax incremental financing agreements with local companies. These companies were granted reductions or exemptions from property tax obligations to encourage economic development in the area; however, as part of these agreements, the companies make payments in lieu of taxes to the District to compensate the District for its portion of the reduction in property tax receipts. On the governmental fund financial statements, payment in lieu of taxes receipts totaled \$1,279 in the general fund during fiscal year 2014.

8. CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for modular classrooms, land, and computer equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements. Principal payments in fiscal year 2014 totaled \$75,609 paid by the general fund and \$29,000 paid by the permanent improvement fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

9. LONG-TERM OBLIGATIONS

A. During the fiscal year 2014, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding June 30, 2013	Additions	Reductions	Balance Outstanding June 30, 2014
Governmental activities:				
Energy conservation notes	\$ 30,000	\$ -	\$ (30,000)	\$ -
Capital lease obligation	<u>104,609</u>	<u>-</u>	<u>(104,609)</u>	<u>-</u>
Total long-term obligations, governmental activities	<u>\$ 134,609</u>	<u>\$ -</u>	<u>\$ (134,609)</u>	<u>\$ -</u>

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

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2014, are a voted debt margin of \$23,872,264 and an un-voted debt margin of \$265,247.

10. NOTES PAYABLE

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

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014
Tax anticipation notes	<u>\$260,000</u>	<u>\$0</u>	<u>(\$260,000)</u>	<u>\$0</u>

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

11. RISK MANAGEMENT

A. Comprehensive and Employee Health

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained risk management by traditional means of insuring through a commercial company.

With the exception of a deductible, the risk of loss transfers entirely from the District to the commercial company. The District has obtained commercial insurance for the following risks:

- Education Liability Policy
- Business Auto Coverage
- Commercial Property Coverage
- Commercial Crime Coverage
- Inland Marine Coverage

The District provides medical/surgical benefits through a self-insurance program. The District maintains a self-insurance internal service fund to account for and finance its required claims/fee payments and reserves for this program to its employees. Monthly premiums are paid from the fund from which each employee is paid. This plan provides two types of medical insurance plans for its employees. The traditional PPO plan has a \$500 family and \$250 single deductible. The board also offers a high deductible health plan with a family deductible of \$5,000 and a single deductible of \$2,500. A third party administrator, Mutual Health Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee per year, and \$1.0 million group aggregate for fiscal year 2014. The premiums are paid by the District at a rate of 90% for all teaching employees and at a rate of either 85%, 65%, or 60% for classified staff. Administrators' premiums are paid 85% by the District. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

On January 1, 2013, the District began offering a High Deductible Health Care Plan (HDHP) and a Health Savings Account (HSA) in addition to the traditional preferred provider organization insurance option to qualifying administrative and non-bargaining employees. The District's contributions to the HAS for administrators were \$1,500 for individuals and \$3,000 for families, and the District's contributions to the HAS for all other staff enrolled were \$1,250 for individuals and \$2,500 for families.

Claims of \$363,686 are due to be paid from the internal service fund at June 30, 2014. The claims liability is based on an estimate supplied by the District's third party administrator, and includes estimates of costs relating to incurred but not reported claims.

Changes in claims due for the current and prior fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims & Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2014	\$407,053	\$2,356,723	(\$2,400,090)	\$363,686
2013	197,310	2,377,113	(2,167,370)	407,053

The District continues to carry commercial insurance for all others risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2012.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

11. RISK MANAGEMENT (Continued)

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

B. Workers' Compensation

For fiscal year 2014, the District participated in the Better Business Bureau of Central Ohio Group Retrospective Rating Plan (the "GRP") through Sheakley. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP. The retrospective plan provides the possibility of increased refund amounts based on look-back performance of the group.

12. PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$241,643, \$258,120 and \$261,204, respectively; 79.35 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

12. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,214,974, \$1,217,314 and \$1,303,090, respectively; 86.22 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

13. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$40,412, \$37,274 and \$46,911, respectively; 79.35 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$14,019, \$14,581 and \$15,425, respectively; 79.35 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

13. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$93,460, \$93,640 and \$100,238, respectively; 86.22 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

14. BUDGETARY BASIS OF ACCOUNTING

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

The statement of receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance	
	General fund
Budget basis	\$1,452,645
Funds budgeted elsewhere	5,978
Adjustment for encumbrances	242,983
Cash basis	\$1,701,606

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

15. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not party to legal proceedings that would have a material effect, if any, on the financial condition of the District.

16. SET-ASIDES

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

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

	Capital Improvements
Set-aside balance June 30, 2013	
Current year set-aside requirement	\$353,295
Current year offsets	(573,281)
Total	(\$219,986)
Balance carried forward to fiscal year 2015	\$0
Set-aside balance June 30, 2014	\$0

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

17. OTHER COMMITMENTS

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

Fund	Year-End Encumbrances
General fund	\$247,747
Permanent improvement fund	327,050
Non-major governmental funds	55,167
Total	\$629,964

18. URBANA COMMUNITY SCHOOL

Urbana Community School (the "School") is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 within the Urbana City School District (the "Sponsor"). The School's objective is to use technology to reach a diverse student population. The School is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the School's program. This population may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Sponsor school district that desire a specific course not currently offered but available through online instruction. The program will permit the use of a "blended" approach to the delivery of educational services designed to provide the optimum balance between online and traditional instruction for each individual student. The School, which is part of the state's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School. The School is considered a component unit of the Urbana City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statements No. 39 and GASB Statement No. 61.

The School was initially approved under contract with the Sponsor for the period of five years commencing July 1, 2003. The current three year contract, previously due to expire on June 30, 2012, was extended through June 30, 2013. A new five-year agreement was approved in September of 2013 to run through June 30, 2017. The School began operations on July 1, 2004.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

A. Summary of Significant Accounting Policies

As discussed in Note 18.B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School's accounting policies.

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

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

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

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

Cash and Investments - The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented on the Statement of Net Position – Cash Basis as "equity in pooled cash and investments".

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

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

Intergovernmental Receipts - The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation program receipts for the fiscal year 2014 amounted to \$260,614.

Grants and entitlements are recognized as non-operating receipts in the accounting period in which they are received. During 2014, the School received \$3,106 in unrestricted grants from the State of Ohio.

Net Position – Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other government. The School's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

B. Accountability and Compliance

1. Change in Accounting Principles

For fiscal year 2014, the School has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25", and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the School.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School.

2. Compliance

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

C. Equity in Pooled Cash and Investments

At June 30, 2014, the carrying amount of the School's deposits was \$790,857. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2014, \$540,857 of the School's bank balance of \$790,857 exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

D. Comprehensive Services Agreement with TRECA

The School contracted with Tri-Rivers Education Computer Association (TRECA) for the period July 1, 2013 through June 30, 2014. Under the contract, the following terms were agreed upon:

1. TRECA shall provide the School with instructional, supervisory/administrative, and technical services sufficient to effectively implement the School's educational plan and the School's assessment and accountability plan.
2. All personnel providing services to the School on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the School.
4. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
5. The School shall pay to TRECA \$3,000 per full-time student enrolled in the School per year for comprehensive services. Additional service packages may be provided on such terms as are agreed to by the parties.

During fiscal year 2014, the School paid \$135,090 to TRECA for services.

To obtain TRECA's audited June 30, 2014 financial statements, please contact Scott Armstrong at scott@treca.org.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

18. URBANA COMMUNITY SCHOOL (Continued)

E. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2014, the School was named on the Sponsor's policy for property and general liability insurance.

F. Contingencies

Grants - The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2014.

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School has not been reviewed as of June 30, 2014. The School does not anticipate any significant adjustments to State funding for fiscal year 2015 as a result of the reviews which have yet to be completed.

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

G. Fiscal Agent

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

19. SUBSEQUENT EVENT

On November 4, 2014, the District voters approved 7.15 mills property tax levy, effective for 2014 and due in 2015, for the purpose of issuing \$31,355,000 bonds for participation in the Ohio School Facilities Assistance Program.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$184,558		\$184,558	
National School Lunch Program	10.555	470,828		470,828	
Non-Cash Assistance (Food Distribution) National School Lunch Program			\$63,691		\$63,691
Total National School Lunch Program		470,828	63,691	470,828	63,691
Summer Food Service Program for Children	10.559	48,064		48,064	
Total Child Nutrition Cluster - United States Department of Agriculture		703,450	63,691	703,450	63,691
U.S. Department of Education					
<i>Passed through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	792,099		719,532	
Special Education Grants to States	84.027	456,888		466,680	
Rural Education	84.358	38,928		26,158	
Improving Teacher Quality State Grants	84.367	94,294		95,857	
ARRA - State Fiscal Stabilization Fund (SFSF) Race to the Top, Incentive Grants, Recovery Act	84.395	166,625		123,183	
Total U. S. Department of Education		1,548,834		1,431,410	
Total Federal Financial Assistance		<u>\$2,252,284</u>	<u>\$63,691</u>	<u>\$2,134,860</u>	<u>\$63,691</u>

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective programs that benefited from the use of those donated food commodities.

NOTE D – MATCHING REQUIREMENTS

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



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

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

To the Board of Education:

We have audited, 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, each major fund, and the discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 17, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District'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 District'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 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 District'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 District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 2014-001.

Entity's Response to Finding

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

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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

November 17, 2014



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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Urbana City School District's (the District) 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 the Urbana City School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program 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' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require 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 District'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 District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Urbana City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The District'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 District'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 District's internal control over compliance.

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 compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests 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

November 17, 2014

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

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?	No
(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	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA 84.010 – Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2014-001

Noncompliance

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

Ohio Admin. Code § 117-2-03(B) requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2014, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board No. 34, report on the basis of cash receipts and disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

Officials Response:

In response to Finding Number 2014-001 Noncompliance Citation ORC 117.38; the Urbana City School District Board of Education understands that the Ohio Revised Code requires the District's financial statements to be prepared in accordance with GAAP; however, an exception has been implemented by the State Auditor for issuance of an unmodified opinion if GAAP look-alike financial statements have been prepared by the District. Due to cost of the conversion, increased audit cost, and cost of employee resources, the Board feels money that would otherwise be spent on conversion to GAAP is better used to educate the students of Urbana City School District. In addition, federal security laws do not require GAAP financial statements, and specifically, SEC Rule 15c2-12 relating to continuing disclosure on outstanding debt (which applies to the District) does not require GAAP financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Failure to report on GAAP basis	No	Repeated as Finding 2014-001

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URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2014**