



**Auditor of State  
Betty Montgomery**



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – As of June 30, 2005.....	13
Statement of Activities – For the Fiscal Year Ended June 30, 2005 .....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds – As of June 30, 2005.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities As of June 30, 2005 .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2005 .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2005.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund For the Fiscal Year Ended June 30, 2005 .....	19
Statement of Net Assets – Proprietary Fund – As of June 30, 2005.....	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund For the Fiscal Year Ended June 30, 2005 .....	21
Statement of Cash Flows – Proprietary Fund For the Fiscal Year Ended June 30, 2005 .....	22
Statement of Fiduciary Net Assets – Fiduciary Funds As of June 30, 2005 .....	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds For the Fiscal Year Ended June 30, 2005 .....	24
Notes to the Basic Financial Statements .....	25
Schedule of Federal Awards Expenditures For the Year Ended June 30, 2005.....	53
Notes to the Schedule of Federal Awards Expenditures .....	54
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	57
Schedule of Findings <i>OMB Circular A-133</i> .....	59

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Urbana City School District, Champaign County, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

April 19, 2006

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

- In total, net assets of governmental activities increased \$920,260 which represents a 12.17% increase from 2004.
- General revenues accounted for \$18,797,968 in revenue or 84.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,432,531 or 15.44% of total revenues of \$22,230,499.
- The District had \$21,310,239 in expenses related to governmental activities; \$3,432,531 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,797,968 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,029,571 in revenues and other financing sources and \$18,571,344 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance increased \$458,227 from \$3,509,210 to \$3,967,437.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those 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, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

### **Reporting the District's Most Significant Funds**

#### **Fund Financial Statements**

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general 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 an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

#### **Proprietary Funds**

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

#### **Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
<b>Assets</b>		
Current and other assets	\$19,569,846	\$18,089,781
Capital assets	3,700,756	2,922,888
Total assets	23,270,602	21,012,669
<b>Liabilities</b>		
Current liabilities	11,412,574	10,995,894
Long-term liabilities	3,374,773	2,453,780
Total liabilities	14,787,347	13,449,674
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,430,756	2,365,888
Restricted	3,083,407	1,672,557
Unrestricted	2,969,092	3,524,550
Total net assets	\$8,483,255	\$7,562,995

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$8,483,255. Of this total, \$3,064,474 is unrestricted in use.

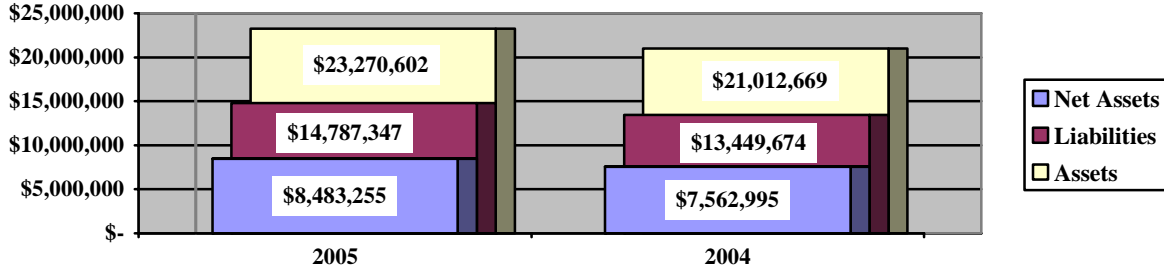
At year-end, capital assets represented 15.90% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,335,374. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Capital assets increased by 26.61%. This is primarily due to a lease purchase of land in during the fiscal year. Long term liabilities also increased due to the obligation of the lease of the land.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

A portion of the District's net assets, \$3,083,407, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,969,092 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2005 and 2004.

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$1,545,883	\$1,290,958
Operating grants and contributions	1,886,648	1,640,550
General revenues:		
Property taxes	9,600,395	8,911,759
Grants and entitlements	8,980,593	8,916,700
Investment earnings	184,646	64,568
Other	32,334	86,178
<b>Total revenues</b>	<u><u>\$22,230,499</u></u>	<u><u>\$20,910,713</u></u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b>Expenses</b>		
Program expenses:		
Instruction:		
Regular	\$9,654,599	\$10,406,228
Special	3,034,243	2,153,521
Vocational	270,131	99,901
Other	43,816	55,990
Support services:		
Pupil	1,247,783	1,196,470
Instructional staff	351,752	600,580
Board of education	43,500	29,453
Administration	1,810,046	1,694,736
Fiscal	268,538	204,525
Business	343,054	389,858
Operations and maintenance	1,793,063	1,582,134
Pupil transportation	665,880	636,215
Central	235,173	208,065
Food service operations	710,238	689,941
Operations of non-instructional services	145,780	89,349
Extracurricular activities	642,157	604,839
Intergovernmental		52,675
Interest and fiscal charges	50,486	38,261
Total expenses	<u>21,310,239</u>	<u>20,732,741</u>
Change in net assets	920,260	177,972
Net assets at beginning of year	<u>7,562,995</u>	<u>7,385,023</u>
Net assets at end of year	<u><u>\$8,483,255</u></u>	<u><u>\$7,562,995</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$920,260. Total governmental expenses of \$21,310,239 were offset by program revenues of \$3,432,531 and general revenues of \$18,797,968. Program revenues supported 16.11% of the total governmental expenses.

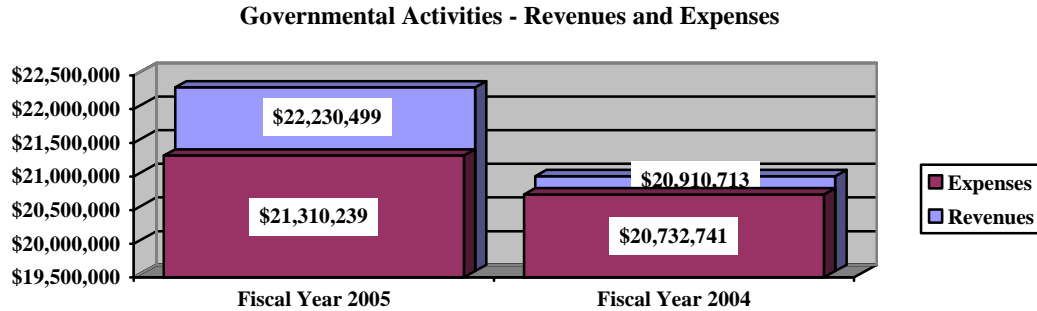
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.53% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,002,789 or 61.02% of total governmental expenses for fiscal 2005.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



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

**Governmental Activities**

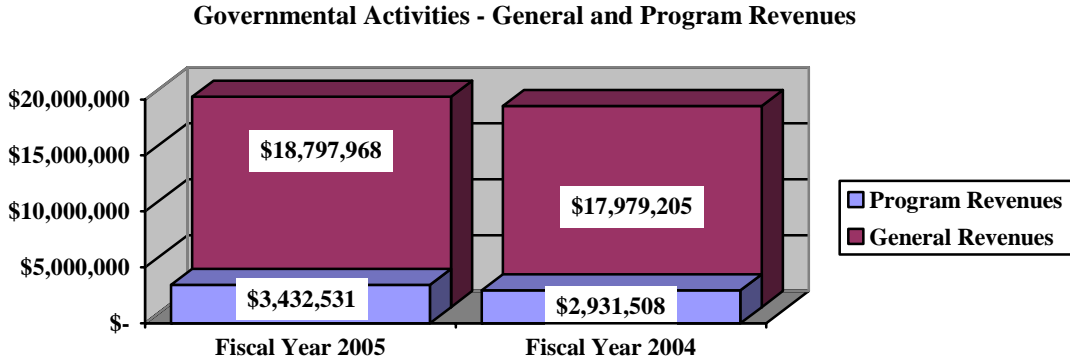
	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2005</b>	<b>Total Cost of Services 2004</b>	<b>Net Cost of Services 2004</b>
<b>Program expenses</b>				
Instruction:				
Regular	\$9,654,599	\$8,672,327	\$10,406,228	\$9,673,360
Special	3,034,243	2,124,483	2,153,521	1,311,187
Vocational	270,131	267,768	99,901	97,825
Other	43,816	43,816	55,990	55,990
Support services:				
Pupil	1,247,783	1,135,802	1,196,470	1,153,617
Instructional staff	351,752	333,328	600,580	595,851
Board of education	43,500	43,500	29,453	29,453
Administration	1,810,046	1,753,420	1,694,736	1,629,903
Fiscal	268,538	268,538	204,525	201,839
Business	343,054	160,869	389,858	214,256
Operations and maintenance	1,793,063	1,792,977	1,582,134	1,579,578
Pupil transportation	665,880	660,322	636,215	630,651
Central	235,173	232,771	208,065	200,860
Operations of non-instructional services:				
Food service operations	710,238	(6,002)	689,941	(9,829)
Other non-instructional services	145,780	(8,486)	89,349	75,481
Extracurricular activities	642,157	351,789	604,839	331,391
Intergovernmental			52,675	(8,441)
Interest and fiscal charges	50,486	50,486	38,261	38,261
<b>Total expenses</b>	<b>\$21,310,239</b>	<b>\$17,877,708</b>	<b>\$20,732,741</b>	<b>\$17,801,233</b>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 85.43% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.89%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$6,312,896, which is higher than last year's total of \$5,362,944. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	<u>Fund Balance June 30, 2005</u>	<u>Restated Fund Balance June 30, 2004</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$3,967,437	\$3,509,210	\$458,227	13.06 %
Other Governmental	2,345,459	1,853,734	491,725	26.53 %
Total	<u>\$6,312,896</u>	<u>\$5,362,944</u>	<u>\$949,952</u>	17.71 %

**General Fund**

The District's general fund balance increased \$458,227. The increase in fund balance can be attributed to revenues increasing over expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<b>2005 Amount</b>	<b>Restated 2004 Amount</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
<b>Revenues</b>				
Taxes	\$9,160,960	\$8,373,156	\$787,804	9.41 %
Tuition	617,399	404,622	212,777	52.59 %
Earnings on investments	173,330	57,867	115,463	199.53 %
Other revenues	121,460	181,548	(60,088)	(33.10) %
Intergovernmental	8,804,944	8,724,269	80,675	0.92 %
<b>Total</b>	<b>\$18,878,093</b>	<b>\$17,741,462</b>	<b>\$1,136,631</b>	<b>6.41 %</b>
<b>Expenditures</b>				
Instruction	\$11,747,289	\$11,583,969	\$163,320	1.41 %
Support services	6,061,152	6,043,178	17,974	0.30 %
Non-instructional services	51,001	52,019	(1,018)	(1.96) %
Extracurricular activities	385,424	355,929	29,495	8.29 %
Capital outlay	151,478	143,123	8,355	5.84 %
<b>Total</b>	<b>\$18,396,344</b>	<b>\$18,178,218</b>	<b>\$218,126</b>	<b>1.20 %</b>

**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.

During the course of fiscal 2005, the District amended its general fund twice. For the general fund, original budgeted revenues and other financing sources were \$18,033,170 and final budgeted revenues and other financing sources were \$18,599,472. Actual revenues and other financing sources for fiscal 2005 was \$18,600,430. This represents a \$958 increase over final budgeted revenues. The increase in revenues is attributed to an increase in tax and intergovernmental revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$18,231,221 and \$19,123,524, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$19,030,265, which was \$799,044 more than the original appropriations and \$93,259 less than final budget appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2005, the District had \$3,700,756 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Capital Assets at June 30  
(Net of Depreciation)**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
Land	\$1,127,575	\$206,575
Land improvements	158,625	177,875
Building and improvements	1,386,509	1,453,377
Furniture and equipment	603,040	644,313
Vehicles	363,173	376,581
Infrastructure	61,834	64,167
<b>Total</b>	<b>\$3,700,756</b>	<b>\$2,922,888</b>

The overall increase in capital assets of \$777,868 is due to capital outlays of \$1,091,099 exceeding total disposals of \$900 (net of accumulated depreciation) and depreciation expense of \$312,331 in the fiscal year.

See Note 8 to the basic financial statements for detail on the District's capital assets.

**Debt Administration**

At June 30, 2005, the District had \$65,000 in general obligation bonds and \$215,000 in energy conservation notes outstanding. Of this total, \$35,000 is due within one year and \$245,000 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

	<b>Outstanding Debt, at Year End</b>	
	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
General obligation bonds	\$65,000	\$80,000
Energy conservation notes	215,000	235,000
<b>Total</b>	<b>\$280,000</b>	<b>\$315,000</b>

At June 30, 2005, the District's overall legal debt margin was \$25,186,579, and an unvoted energy conservation debt margin of \$2,310,158.

See Note 10 to the basic financial statements for detail on the District's debt administration.

**Current Related Financial Activities**

The District is facing future challenges in the area of state funding. The State of Ohio was found by the Ohio Supreme Court in March of 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future state funding and on its financial operations.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

Concerns regarding the effects of House Bill 95, passed in June 2003, on the District finances are facing the Board and Administration also. House Bill 95 eliminated three-year averaging of average daily membership (ADM) counts. It is anticipated that the District will lose over \$200,000 due to the loss of the three-year average of ADM, and the loss could be more as the ripple effect of the ADM affects the parity aide and excess costs supplement. If the District continues to have declining enrollment, the effects of the loss of the three-year average could be devastating. It is difficult to determine at this time the true impact to the District of the increased phase-out of the Personal Tangible Inventory Tax, since these returns are private and little information is available through the State Department of Taxation. By using the estimated 1998 tables, it is estimated that the District will lose \$1,500,000 over the next ten years due to the loss of tangible personal inventory tax. The \$150,000 per year loss compounded began with fiscal year 2005. The phase-out of the \$10,000 personal property tax has already reduced the tax collection by over \$25,000 in its second year and will be phased out in eight more years.

What was almost implemented with HB95 and is being discussed for the next biennium budget is the complete elimination of all tangible personal property tax. This would be devastating for Urbana City Schools. It ranks #52 out of 612 districts in the state in reliance on tangible personal property taxes and this tax amounts to almost half of the total tax dollars collected in the district and over one-fourth of the total general fund revenue.

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 has developed a "Steps to Success" committee to develop a plan for school building replacement/renovation, grade configuration, building numbers and locations. The Board and administration will be working with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan. OSFC funding will comprise approximately 41% approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers.

The District formed a community school during fiscal 2003. Urbana Community School was formed in the hopes of providing assistance to students who do not function well in the regular school system. As it does not have the minimum enrollment of 25 students, the state and federal grant funds were deposited in an agency fund of the District and expended for planning services during the school year. The Urbana Community School opened its doors July 1, 2004 with approximately 25 students enrolled.

The District has committed itself to educational and financial excellence for many years. The District has received unqualified opinions on the financial statements. Each challenge identified in this section is viewed as an opportunity 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 the educational program.

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 of Urbana into the future.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's 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. Londa Schwierking, Treasurer, Urbana City School District, 711 Wood St., Urbana, Ohio 43078.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Urbana Community School</b>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	\$9,073,981	\$160,687
Receivables:		
Taxes	10,073,283	
Accounts	3,769	
Intergovernmental	242,763	3,459
Materials and supplies inventory	7,180	
Due from component unit	168,870	
Due from primary government		80,000
Capital assets:		
Land	1,127,575	
Depreciable capital assets, net	2,573,181	
Capital assets, net	3,700,756	
 Total assets	 23,270,602	 244,146
<b>Liabilities:</b>		
Accounts payable	41,906	
Contracts payable	2,250	
Accrued wages and benefits	1,657,456	
Pension obligation payable	393,302	
Intergovernmental payable	329,387	
Deferred revenue	8,689,310	
Accrued interest payable	6,679	
Claims payable	292,284	
Due to primary government		168,870
Long-term liabilities:		
Due within one year	835,100	
Due in more than one year	2,539,673	
 Total liabilities	 14,787,347	 168,870
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	2,430,756	
Restricted for:		
Capital projects	923,893	
Locally funded programs	33,920	
State funded programs	350,678	3,000
Federally funded programs	291,162	
Student activities	44,897	
Other purposes	1,438,857	
Unrestricted	2,969,092	72,276
 Total net assets	 \$8,483,255	 \$75,276

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Governmental Activities	Component Unit Urbana Community School
<b>Governmental activities:</b>					
Instruction:					
Regular	\$9,654,599	\$693,280	\$288,992	(\$8,672,327)	
Special	3,034,243		909,760	(2,124,483)	
Vocational	270,131		2,363	(267,768)	
Other	43,816			(43,816)	
Support services:					
Pupil	1,247,783	1,486	110,495	(1,135,802)	
Instructional staff	351,752		18,424	(333,328)	
Board of education	43,500			(43,500)	
Administration	1,810,046		56,626	(1,753,420)	
Fiscal	268,538			(268,538)	
Business	343,054	182,185		(160,869)	
Operations and maintenance	1,793,063		86	(1,792,977)	
Pupil transportation	665,880	631	4,927	(660,322)	
Central	235,173		2,402	(232,771)	
Operation of non-instructional services:					
Food service operations	710,238	377,933	338,307	6,002	
Other non-instructional services	145,780		154,266	8,486	
Extracurricular activities	642,157	290,368		(351,789)	
Interest and fiscal charges	50,486			(50,486)	
Total governmental activities	<u>21,310,239</u>	<u>1,545,883</u>	<u>1,886,648</u>	<u>(17,877,708)</u>	
<b>Component Unit:</b>					
Community school	<u>\$263,158</u>	<u>\$0</u>	<u>\$108,000</u>		<u>(\$155,158)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes				8,990,195	
Capital projects				610,200	
Grants and entitlements not restricted to specific programs				8,980,593	230,236
Investment earnings				184,646	198
Miscellaneous				32,334	
Total general revenues				<u>18,797,968</u>	<u>230,434</u>
Change in net assets				920,260	75,276
Net assets at beginning of year				<u>7,562,995</u>	
Net assets at end of year				<u>\$8,483,255</u>	<u>\$75,276</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash, cash equivalents and investments	\$4,712,884	\$2,337,853	\$7,050,737
Receivables:			
Taxes	9,420,405	652,878	10,073,283
Accounts	3,085	684	3,769
Intergovernmental	2,407	240,356	242,763
Interfund loans	7,726		7,726
Materials and supplies inventory		7,180	7,180
Loans to other funds	58,854		58,854
Due from component unit	168,870		168,870
Restricted assets:			
Equity in pooled cash and cash equivalents	730,003		730,003
<b>Total assets</b>	<u><u>15,104,234</u></u>	<u><u>3,238,951</u></u>	<u><u>18,343,185</u></u>
<b>Liabilities:</b>			
Accounts payable	28,549	13,357	41,906
Contracts payable		2,250	2,250
Accrued wages and benefits	1,574,375	83,081	1,657,456
Compensated absences payable	357,537		357,537
Pension obligation payable	367,198	26,104	393,302
Intergovernmental payable	311,313	18,074	329,387
Interfund loan payable		7,726	7,726
Loans from other funds		58,854	58,854
Deferred revenue	8,497,825	684,046	9,181,871
<b>Total liabilities</b>	<u><u>11,136,797</u></u>	<u><u>893,492</u></u>	<u><u>12,030,289</u></u>
<b>Fund Balances:</b>			
Reserved for encumbrances	186,436	202,727	389,163
Reserved for materials and supplies inventory		7,180	7,180
Reserved for debt service		278	278
Reserved for tax revenue unavailable for appropriation	922,580	65,610	988,190
Reserved for budget stabilization	113,449		113,449
Reserved for loans to other funds	58,854		58,854
Reserved for textbooks	600,362		600,362
Reserved for school bus purchases	16,192		16,192
Unreserved, reported in:			
Designated for budget stabilization	253,159		253,159
Undesignated, reported in:			
General fund	1,816,405		1,816,405
Special revenue funds		1,291,505	1,291,505
Capital projects funds		778,159	778,159
<b>Total fund balances</b>	<u><u>3,967,437</u></u>	<u><u>2,345,459</u></u>	<u><u>6,312,896</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$15,104,234</u></u>	<u><u>\$3,238,951</u></u>	<u><u>\$18,343,185</u></u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

<b>Total governmental fund balances</b>		<b>\$6,312,896</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,700,756
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$395,783	
Intergovernmental revenue	96,778	
Total		492,561
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,000,957
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(6,679)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,523,257)	
General obligation bonds	(65,000)	
Energy conservation notes	(215,000)	
Capital lease obligation	(1,213,979)	
Total		(3,017,236)
<b>Net assets of governmental activities</b>		<b>\$8,483,255</b>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes	\$9,160,960	\$621,329	\$9,782,289
Tuition	617,399		617,399
Transportation fees	22,246		22,246
Charges for services		377,933	377,933
Earnings on investments	173,330	2,327	175,657
Extracurricular		393,303	393,303
Classroom materials and fees		75,881	75,881
Other local revenues	16,009	75,446	91,455
Other revenue	83,205		83,205
Intergovernmental - State	8,804,944	295,553	9,100,497
Intergovernmental - Federal		1,638,974	1,638,974
Total revenue	<u>18,878,093</u>	<u>3,480,746</u>	<u>22,358,839</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	9,300,620	356,205	9,656,825
Special	2,132,869	853,669	2,986,538
Vocational	269,984	2,047	272,031
Other	43,816		43,816
Support services:			
Pupil	1,186,591	91,342	1,277,933
Instructional staff	324,731	16,729	341,460
Board of education	43,500		43,500
Administration	1,750,491	52,783	1,803,274
Fiscal	236,834		236,834
Business	170,544	191,577	362,121
Operations and maintenance	1,504,875		1,504,875
Pupil transportation	610,458	56,012	666,470
Central	233,128	2,045	235,173
Operation of non-instructional services:			
Food service operations		697,270	697,270
Other non-instructional services	51,001	94,367	145,368
Extracurricular activities	385,424	253,104	638,528
Facilities acquisition and construction		170,257	170,257
Capital outlay	151,478	921,000	1,072,478
Debt service:			
Principal retirement		278,622	278,622
Interest and fiscal charges		48,825	48,825
Total expenditures	<u>18,396,344</u>	<u>4,085,854</u>	<u>22,482,198</u>
Excess (deficiency) of revenues over (under) expenditures	<u>481,749</u>	<u>(605,108)</u>	<u>(123,359)</u>
<b>Other financing sources (uses):</b>			
Transfers in		175,000	175,000
Transfers (out)	(175,000)		(175,000)
Capital lease transaction	151,478	921,000	1,072,478
Total other financing sources (uses)	<u>(23,522)</u>	<u>1,096,000</u>	<u>1,072,478</u>
Net change in fund balances	458,227	490,892	949,119
<b>Fund balances</b>			
at beginning of year (restated)	3,509,210	1,853,734	5,362,944
Increase in reserve for inventory		833	833
Fund balances at end of year	<u>\$3,967,437</u>	<u>\$2,345,459</u>	<u>\$6,312,896</u>

See accompanying notes to the basic financial statements.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>Net change in fund balances - total governmental funds</b>		\$949,119
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.</p>		
Capital asset additions	\$1,091,099	
Current year depreciation	(312,331)	
Total		778,768
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(900)
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		833
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(181,894)	
Intergovernmental revenue	44,565	
Total		(137,329)
<p>Repayment of bonds, notes and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		278,622
<p>Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.</p>		
		(1,072,478)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
Accrued interest		(1,661)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(88,242)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are estimated. The net revenue of the internal service fund is allocated among the governmental activities.</p>		
		213,528
<b>Change in net assets of governmental activities</b>		<b>\$920,260</b>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes	\$8,438,223	\$8,703,212	\$8,703,660	\$448
Tuition	434,656	448,306	448,329	23
Transportation fees	23,009	23,732	23,733	1
Earnings on investments	122,916	126,776	126,783	7
Other local revenues	12,795	13,196	13,197	1
Other revenue	143,003	147,493	147,501	8
Intergovernmental - State	8,536,418	8,804,491	8,804,944	453
Total revenue	<u>17,711,020</u>	<u>18,267,206</u>	<u>18,268,147</u>	<u>941</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	8,877,127	9,311,606	9,266,198	45,408
Special	2,080,184	2,181,996	2,171,355	10,641
Vocational	275,022	288,483	287,076	1,407
Other	52,413	54,978	54,710	268
Support services:				
Pupil	1,155,717	1,212,282	1,206,370	5,912
Instructional staff	449,329	471,320	469,022	2,298
Board of education	42,336	44,408	44,191	217
Administration	1,664,628	1,746,101	1,737,586	8,515
Fiscal	232,598	243,982	242,792	1,190
Business	162,951	170,927	170,093	834
Operations and maintenance	1,472,393	1,544,458	1,536,926	7,532
Pupil transportation	614,128	644,185	641,044	3,141
Central	245,484	257,499	256,243	1,256
Operation of non-instructional services	50,398	52,865	52,607	258
Extracurricular activities	368,889	386,944	385,057	1,887
Total expenditures	<u>17,743,597</u>	<u>18,612,034</u>	<u>18,521,270</u>	<u>90,764</u>
Excess of revenues over (under) expenditures	<u>(32,577)</u>	<u>(344,828)</u>	<u>(253,123)</u>	<u>91,705</u>
<b>Other financing sources (uses):</b>				
Transfers in	316,320	326,253	326,270	17
Transfers (out)	(480,223)	(503,727)	(501,270)	2,457
Advances in	4,963	5,119	5,119	
Advances (out)	(7,401)	(7,763)	(7,725)	38
Refund of prior year expenditure	867	894	894	
Total other financing sources (uses)	<u>(165,474)</u>	<u>(179,224)</u>	<u>(176,712)</u>	<u>2,512</u>
Net change in fund balance	(198,051)	(524,052)	(429,835)	94,217
<b>Fund balance at beginning of year</b>	5,396,669	5,396,669	5,396,669	
<b>Prior year encumbrances appropriated</b>	214,524	214,524	214,524	
<b>Fund balance at end of year</b>	<u><u>\$5,413,142</u></u>	<u><u>\$5,087,141</u></u>	<u><u>\$5,181,358</u></u>	<u><u>\$94,217</u></u>

See accompanying notes to the basic financial statements.

URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash, cash equivalents and investments	<u>\$1,293,241</u>
Total assets	<u>1,293,241</u>
<b>Liabilities:</b>	
Claims payable	<u>292,284</u>
Total liabilities	<u>292,284</u>
<b>Net assets:</b>	
Unrestricted	<u>1,000,957</u>
Total net assets	<u><u>\$1,000,957</u></u>

*See accompanying notes to the basic financial statements.*



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services	\$1,998,187
Total operating revenues	<u>1,998,187</u>
<b>Operating expenses:</b>	
Claims and administrative services	1,793,648
Total operating expenses	<u>1,793,648</u>
Operating income	<u>204,539</u>
<b>Nonoperating revenues:</b>	
Interest revenue	<u>8,989</u>
Total nonoperating revenues	<u>8,989</u>
Change in net assets	213,528
<b>Net assets at beginning of year</b>	<u>787,429</u>
<b>Net assets at end of year</b>	<u><u>\$1,000,957</u></u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services	\$1,998,187
Cash payments for claims and administrative services.	(1,761,333)
	<hr/>
Net cash provided by operating activities	236,854
	<hr/>
<b>Cash flows from investing activities:</b>	
Interest received	8,989
	<hr/>
Net cash provided by investing activities	8,989
	<hr/>
Net increase in cash and cash equivalents	245,843
	<hr/>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,047,398</b>
	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>1,293,241</b>
	<hr/> <hr/>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	204,539
Changes in liabilities:	
Increase in claims payable	32,315
	<hr/>
Net cash provided by operating activities	\$236,854
	<hr/> <hr/>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash, cash equivalents and investments	\$83,942	\$154,266
Receivables:		
Accounts		1,417
Total assets	83,942	155,683
<b>Liabilities:</b>		
Accounts payable		14,775
Due to students		60,908
Due to component unit		80,000
Total liabilities		\$155,683
<b>Net Assets:</b>		
Held in trust for scholarships	83,942	
Total net assets	\$83,942	

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$1,492
Gifts and contributions	<u>8,500</u>
Total additions	<u>9,992</u>
<b>Deductions:</b>	
Scholarships awarded	<u>14,569</u>
Change in net assets	(4,577)
Net assets at beginning of year	<u>88,519</u>
Net assets at end of year	<u><u>\$83,942</u></u>

*See accompanying notes to the basic financial statements.*

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**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 is the 225<sup>th</sup> largest in the State of Ohio among 614 public school districts in terms of enrollment. It currently operates 3 elementary schools, 1 intermediate, 1 junior high and 1 high school. The District is staffed by 89 non-certified and 174 certificated personnel to provide services to approximately 2,355 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. 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, preschool 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 government 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. Based upon the application of these criteria, the District has one component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**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 Director's consists of the District's Superintendent, Director of Business Affairs, High School Principal, Curriculum Director, and three additional Board members appointed by the District. The Urbana City School District is the sponsoring District of the School under Ohio Revised Code Section 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.

The District's services provided to the School are reimbursed from the School to the District. During the year, the District maintained \$80,000 of the School's federal start-up grant in an Agency Fund; however the money was due back to the District for establishment costs incurred by the District during the initial phases of the School development. The School also owed \$88,870 for District-incurred expenses on behalf of the School for fiscal year 2005 services. These amounts are shown on the government wide statements and fiduciary net assets as due to/due from primary government or component unit. Separately issued financial statements can be obtained from the Treasurer of 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, Miami 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 11 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). The District paid \$76,905 to WOCO during fiscal year 2005. Financial information is available from Lewis Ivey, Jr., Administrator, 129 East Court Street, Sidney, Ohio 45265.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**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 \$126,715 to MEC during fiscal year 2005. Financial information is available from Elmo Kallner, Director, 6100 Channingway Boulevard, Suite 604, Columbus, Ohio 43232.

**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 district's elected boards. The Board possesses its own budgeting and taxing authority. Financial information is available from the Treasurer of the Ohio Hi-Point Joint Vocational School District, 2280 State Route 540, Bellefontaine, Ohio 43311.

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

**3. Insurance Purchasing Pool**

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

**General Fund** - The general fund is used to account for all financial resources except those required to be accounted for 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.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

**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:

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

**C. Basis of Presentation and Measurement Focus**

**1. Government-wide Financial Statements**

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



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

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

The government-wide financial statements are prepared using the full accrual economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

**2. Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major 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.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**1. Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**3. Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**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 2005 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed 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 June 30, 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 is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate 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 Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the permanent improvement funds, and the fund level for all other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

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, Cash Equivalents and Investments" on the basic financial statements.

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, Money Market Mutual Funds, Federal Home Loan Bank Notes (FHLB), Federal National Mortgage Association Notes (FNMA), and Federal Home Loan Mortgage Corporation Notes (FHLMN). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and a Fifth Third Bank government money market 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 share price which is the price the investment could be sold for on June 30, 2005.

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 2005 amounted to \$173,330, which includes \$35,916 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.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District possesses underground wastewater equipment.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years
Infrastructure	25 - 50 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves/Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property tax revenue unavailable for appropriation, budget stabilization, loans to other funds, textbooks and school bus purchase allowance. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. The amount set-aside by the School Board for budget stabilization is reported as a designation of fund balance in the general fund.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**M. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. The District has also received state monies that are restricted for school bus purchases. Fund balance reserves have also been established. See Note 16 for details.

**Q. Interfund Activity**

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

**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 2005.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<b>General</b>	<b>Non-major</b>	<b>Total</b>
Fund Balances, June 30, 2004	\$3,629,704	\$1,860,890	\$5,490,594
GASB Technical Bulletin No. 2004-2	(120,494)	(7,156)	(127,650)
Restated Fund Balances, June 30, 2004	\$3,509,210	\$1,853,734	\$5,362,944

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<b>Non-major Funds</b>	<b>Deficit</b>
Entry Year Program	\$166
Food Service	8,584
Title I	2,644
Class Size Reduction	2,097

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**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 moneys 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.

Protection of 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.

Interim monies to 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 division (1) or (2) of this section 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 State Treasury Asset Reserve of Ohio (STAR Ohio);

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

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.

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

**A. Cash on Hand**

At year-end, the District had \$100 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$7,057,203. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$7,040,662 of the District's bank balance of \$7,292,698 was exposed to custodial risk as discussed below, while \$252,036 was covered by Federal Deposit Insurance Corporation.

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.

**C. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity</u>				
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
Money Market						
Mutual Funds	\$ 25,869	\$25,869				
FNMA	866,864				\$469,112	\$397,752
FHLB	1,090,126			\$492,190		597,936
FHLMN	247,027				247,027	
STAR Ohio	25,000	25,000				
	<u>\$2,254,886</u>	<u>\$50,869</u>	<u>\$0</u>	<u>\$492,290</u>	<u>\$716,139</u>	<u>\$995,688</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

The weighted average maturity of investments is 2.01 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:** The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

**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 investment or collateral securities that are in the possession of an outside party.

**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, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Credit Rating</u>
Money Mkt Mutual Funds	\$25,869	1.15	Standard & Poor's A-1+
FNMA	866,864	38.44	Moody's Aaa
FHLB	1,090,126	48.34	Moody's Aaa
FHLMN	247,027	10.96	Moody's Aaa
STAR Ohio	25,000	1.11	Standard & Poor's AAA
	<u>\$2,254,886</u>	<u>100.00</u>	

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

**Cash and Investments per footnote**

Carrying amount of deposits	\$7,057,203
Investments	2,254,886
Cash on hand	100
Total	<u>\$9,312,189</u>

**Cash and investments per Statement of Net Assets**

Governmental activities	\$9,073,981
Private-purpose trust funds	83,942
Agency funds	154,266
Total	<u>\$9,312,189</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**5. INTERFUND TRANSACTIONS**

- A.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Non-major governmental funds	\$7,726

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following long-term loans to other funds.

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Non-major governmental funds	\$58,854

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

- C.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<b>Transfers to Non-major Governmental funds from:</b>	<b>Amount</b>
General Fund	\$175,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$922,580 in the general fund and \$65,610 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$465,280 in the general fund and \$33,330 in the permanent improvement fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**6. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<b>2004 Second Half Collections</b>		<b>2005 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$220,974,134	78.76	\$220,540,550	78.61
Public Utility Personal	12,800,730	4.56	12,800,730	4.56
Tangible Personal Property	46,798,235	16.68	47,231,819	16.83
<b>Total</b>	<b>\$280,573,099</b>	<b>100.00</b>	<b>\$280,573,099</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation	\$58.00		\$60.30	

**7. RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities</b>	
Taxes	\$10,073,283
Accounts	3,769
Intergovernmental	<u>242,763</u>
<b>Total receivables</b>	<b><u><u>\$10,319,815</u></u></b>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**8. CAPITAL ASSETS (Continued)**

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$206,575	\$921,000		\$1,127,575
Total capital assets, not being depreciated	<u>206,575</u>	<u>921,000</u>		<u>1,127,575</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	553,300			553,300
Buildings and improvements	4,477,032	5,520		4,482,552
Furniture and equipment	2,987,599	93,722	(\$11,228)	3,070,093
Vehicles	1,161,196	70,857	(9,400)	1,222,653
Infrastructure	70,000			70,000
Total capital assets, being depreciated	<u>9,249,127</u>	<u>170,099</u>	<u>(20,628)</u>	<u>9,398,598</u>
<b>Less: accumulated depreciation</b>				
Land improvements	(375,425)	(19,250)		(394,675)
Buildings and improvements	(3,023,655)	(72,388)		(3,096,043)
Furniture and equipment	(2,343,286)	(134,095)	10,328	(2,467,053)
Vehicles	(784,615)	(84,265)	9,400	(859,480)
Infrastructure	(5,833)	(2,333)		(8,166)
Total accumulated depreciation	<u>(6,532,814)</u>	<u>(312,331)</u>	<u>19,728</u>	<u>(6,825,417)</u>
Governmental activities capital assets, net	<u>\$2,922,888</u>	<u>\$778,768</u>	<u>(\$900)</u>	<u>\$3,700,756</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$130,297
Special	4,996
Vocational	1,572
 <b>Support Services:</b>	
Pupil	6,497
Instructional staff	9,542
Administration	7,044
Fiscal	1,205
Business	402
Operations and maintenance	45,494
Pupil transportation	85,820
Food Service Operations	14,225
Extracurricular activities	<u>5,237</u>
 Total depreciation expense	 <u><u>\$312,331</u></u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**9. CAPITALIZED LEASES - LESSEE DISCLOSURE**

In fiscal year 2005, the Districted entered into a capitalized lease for land and additional computer equipment. During prior years, the District entered into capitalized leases for modular classrooms and computer equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and land have been capitalized in the amount of \$1,423,200 and equipment has been capitalized in the amount of \$213,771. This amount represents the present value of the minimum lease payments at the time of acquisition. The computer equipment entered into under capital lease during 2005 in the amount of \$151,478 has not been capitalized as the equipment individually does not meet the District's capitalization threshold described in Note 2.H. A corresponding liability is recorded in the government-wide financial statements for all capital lease obligations. Principal payments in fiscal year 2005 totaled \$243,622 paid by the debt service fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<b>Fiscal Year Ending June 30,</b>	
2006	\$319,105
2007	318,738
2008	319,112
2009	237,143
2010	<u>150,049</u>
Total minimum lease payments	1,344,147
Less: amount representing interest	<u>(130,168)</u>
Total	<u><u>\$1,213,979</u></u>

**10. LONG-TERM OBLIGATIONS**

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding June 30, 2004</u>	<u>Issued in Fiscal 2005</u>	<u>Retired in Fiscal 2005</u>	<u>Notes Outstanding June 30, 2005</u>
Energy conservation note	5.60%	12/01/99	06/01/14	\$235,000	\$0	(\$20,000)	\$215,000



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**10. LONG-TERM OBLIGATIONS (Continued)**

B. The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

<u>Year Ending June 30</u>	<u>Principal on Energy Conservation Notes</u>	<u>Interest on Energy Conservation Notes</u>	<u>Total</u>
2006	\$20,000	\$11,542	\$31,542
2007	20,000	10,497	30,497
2008	20,000	9,438	29,438
2009	20,000	8,353	28,353
2010	25,000	7,102	32,102
2011 - 2014	<u>110,000</u>	<u>13,504</u>	<u>123,504</u>
Total	<u>\$215,000</u>	<u>\$60,436</u>	<u>\$275,436</u>

C. During fiscal year 2000, the District issued un-voted general obligation bonds to provide funds for building improvements (new boilers). These bonds are general obligations of the District for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as expenditures of the debt service fund.

By agreement with the County Budget Commission, and in accordance with Ohio law, the District has converted a portion of its "inside", or un-voted millage to provide the source of repayment for these bonds. Ohio statutes allow for the issuance of un-voted general obligation debt to the extent that the par amount of said debt does not exceed 1/10 of 1% of the valuation (at issuance date) of the District.

The following is a description of the District's general obligation bonds outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding July 1, 2004</u>	<u>Issued in Fiscal 2005</u>	<u>Retired in Fiscal 2005</u>	<u>Bonds Outstanding June 30, 2005</u>
Facilities improvement	5.501%	07/06/99	06/01/09	\$80,000		(\$15,000)	\$65,000

D. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$15,000	\$3,235	\$18,235
2007	15,000	2,400	17,400
2008	15,000	1,574	16,574
2009	<u>20,000</u>	<u>575</u>	<u>20,575</u>
Total	<u>\$65,000</u>	<u>\$7,784</u>	<u>\$72,784</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**10. LONG-TERM OBLIGATIONS (Continued)**

E. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<b>Balance Outstanding June 30, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Outstanding June 30, 2005</b>	<b>Amounts Due in One Year</b>
<b>Governmental Activities:</b>					
General obligation bonds	\$80,000		(\$15,000)	\$65,000	\$15,000
Energy conservation notes	235,000		(20,000)	215,000	20,000
Capital lease obligation	385,123	1,072,478	(243,622)	1,213,979	279,772
Compensated absences	1,753,657	523,211	(396,074)	1,880,794	520,328
Total long-term obligations, governmental activities	<u>\$2,453,780</u>	<u>\$1,595,689</u>	<u>(\$674,696)</u>	<u>\$3,374,773</u>	<u>\$835,100</u>

**F. 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 further provides that un-voted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$25,186,579, an unvoted debt margin of \$215,573, and an unvoted energy conservation debt margin of \$2,310,158.

**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 reserves for this program to its employees. Monthly premiums and claims are paid from the fund from which each employee is paid. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Benefit Services, Inc., reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$60,000 per employee per year, and \$1.0 million group aggregate for fiscal 2005. The premiums are paid by the District at a rate of 100% for all employees. The premium is paid by the fund that paid the salary for the employee and is based on historical cost information.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**11. RISK MANAGEMENT (Continued)**

The claims liability of \$292,284 reported in the internal service fund at June 30, 2005, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the District's third party administrator.

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

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2005	\$ 259,969	\$ 1,793,648	\$ (1,761,333)	\$ 292,284
2004	251,029	1,518,655	(1,509,715)	259,969

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 2004.

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. Worker's Compensation**

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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 school districts 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**12. DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**12. DEFINED BENEFIT PENSION PLAN (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$268,379, \$333,635 and \$287,568, respectively; 47.24% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$141,600 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**12. DEFINED BENEFIT PENSION PLAN (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,325,846, \$1,444,760, \$1,182,516, respectively; 83.39% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$220,164 represents the unpaid contribution for fiscal year 2005.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education elected Social Security. The District's liability is 6.2% of wages paid.

**13. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$94,703 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**13. POSTEMPLOYMENT BENEFITS (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the District paid \$91,283 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

**14. BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP 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 GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

<b>Net Change in Fund Balance</b>	<b>General Fund</b>
Budget basis	(\$429,835)
Net adjustment for revenue accruals	611,895
Net adjustment for expenditure accruals	(90,054)
Net adjustment for other sources/uses	151,241
Adjustment for encumbrances	214,980
GAAP basis	<u>\$458,227</u>

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**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 involved in no material litigation as either plaintiff or defendant.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**16. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of July 1, 2004	\$424,121	(\$725,823)	\$113,449
Current year set-aside requirement	326,270	326,270	
Current year offsets			
Qualifying disbursements	<u>(150,029)</u>	<u>(589,049)</u>	
Total	<u>\$600,362</u>	<u>(\$988,602)</u>	<u>\$113,449</u>
Cash balance carried forward to FY 2006	<u>\$600,362</u>	<u>(\$988,602)</u>	<u>\$113,449</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The balance in the budget stabilization reserve at June 30, 2005 was \$113,449 and \$253,159 in the designation.

Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may be used to reduce the set-aside requirements of future years.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**16. STATUTORY RESERVES (Continued)**

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for instructional materials	\$600,362
Amount restricted for budget stabilization	113,449
Amount restricted for school bus purchases	<u>16,192</u>
Total restricted assets	<u><u>\$730,003</u></u>



**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursement</b>
<b>United States Department of Agriculture</b>						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A		\$33,478		\$33,478
School Breakfast Program	10.553	05-PU-04 05-PU-05	\$14,187 44,180		\$14,187 44,180	
Total National School Breakfast Program			58,367		58,367	
National School Lunch Program	10.555	LL-P4-04 LL-P4-05	62,593 202,594		62,593 202,594	
Total National School Lunch Program			265,187		265,187	
Total Nutrition Cluster			323,554	33,478	323,554	33,478
Team Nutrition Grants	10.574	TW-AD-04			10,000	
Total United States Department of Agriculture			323,554	33,478	333,554	33,478
<b>United States Department of Education</b>						
<i>(Passed through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-04 C1-S1-05	32,842 466,499		60,213 439,450	
Total Title I Grants to Local Educational Agencies			499,341		499,663	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-04 6B-SD-05 6B-SF-05	16,875 511,113		850 19,750 429,939	
Total Special Education Grants to States			527,988		450,539	
<i>(Passed through Madison-Champaign Educational Service Center )</i>						
Special Education - Preschool Grants	84.173	PG-S1-1P	39,602		39,602	
Total Special Education Cluster			567,590		490,141	
<i>(Passed through Ohio Department of Education)</i>						
Safe and Drug-Free Schools and Communities - State Grant	84.186	DR-S1-04 DR-S1-05	1,955 11,794		855 7,982	
Total Safe and Drug-Free Schools and Communities - State Grant			13,749		8,837	
Twenty First Century Community Learning Centers	84.287	T1-S1-05	73,185		49,120	
State Grants for Innovative Programs	84.298	C2-S1-04 C2-S1-05	4,368 4,516		11,591 6,799	
Total State Grants for Innovative Programs			8,884		20,086	
Education Technology State Grants	84.318	TJ-S1-04 TJ-S1-05	4,056 6,195		2,083 2,742	
			10,251		4,825	
Improving Teacher Quality State Grants	84.367	TR-S1-04 TR-S1-05	112,373 112,373		1,733 104,447	
Total United States Department of Education			1,285,373		1,178,852	
<b>United States Department of Health and Human Services</b>						
<i>(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	100,573		100,573	
State Children's Insurance Program	93.767	N/A	11,161		11,161	
Total U. S. Department of Health and Human Services			111,734		111,734	
<b>United States Department of Homeland Security</b>						
<i>(Passed through Ohio Department of Public Safety)</i>						
Disaster Grants - Public Assistance	97.036	N/A	2,894		2,894	
Total U. S. Department of Homeland Security			2,894		2,894	
Total Federal Financial Assistance			\$1,723,555	\$33,478	\$1,627,034	\$33,478

See accompanying notes to the Schedule of Federal Awards Expenditures.

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - NUTRITION CLUSTER**

Non-monetary assistance, such as food received from the United States Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the United States Department of Agriculture are commingled with State Grants and local funds. It is assumed federal monies are expended first.

**NOTE C - MATCHING REQUIREMENTS**

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



## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 19, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402  
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Urbana City School District  
Champaign County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Required By *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 19, 2006



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

#### Compliance

We have audited the compliance of Urbana City School District, Champaign County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Urbana City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402  
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

**Internal Control Over Compliance  
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

April 19, 2006

**URBANA CITY SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster CFDA #'s 10.550, 10.553, 10.555 Medical Assistance Program CFDA #93.778
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
MAY 23, 2006**