



**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Urbana City School District (the District), Champaign County, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types and non-expendable trust 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 February 26, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Urbana City School District
Champaign County
Report of Independent Accountants
Page 2

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

February 26, 2002

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash, cash equivalents and investments	\$2,099,819	\$681,043	\$13,911	\$921,744
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	9,231,705			712,238
Accounts	7,233			
Accrued interest	8,535	70		
Interfund loan receivable	185			
Due from other governments		82,763		
Materials and supplies inventory				
Restricted assets:				
Equity in pooled cash and cash equivalents	329,953			
Property, plant and equipment (net of accumulated depreciation where applicable)				
OTHER DEBITS:				
Amount available in Debt Service Fund				
Amount to be provided for retirement of General Long-Term Obligations				
Total assets and other debits	<u>11,677,430</u>	<u>763,876</u>	<u>13,911</u>	<u>1,633,982</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	67,753	17,987		36,174
Contracts payable				171,836
Accrued wages and benefits	1,207,614	49,512		
Compensated absences payable	24,342			
Pension obligation payable	218,122	94		
Interfund loan payable		185		
Deferred revenue	8,460,074	82,763		647,543
Due to other governments				
Due to students				
Claims payable	194,096			
General obligation bonds payable				
Energy conservation notes payable				
Obligation under capital lease				
Total liabilities	<u>10,172,001</u>	<u>150,541</u>		<u>855,553</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets				
Retained earnings: unreserved				
Fund balances:				
Reserved for encumbrances	132,810	150,266		395,070
Reserved for debt service			13,911	
Reserved for tax revenue unavailable for appropriation	771,631			64,695
Reserved for principal endowment				
Reserved for instructional materials	216,504			
Reserved for budget stabilization	113,449			
Unreserved-undesignated	271,035	463,069		318,664
Total equity and other credits	<u>1,505,429</u>	<u>613,335</u>	<u>13,911</u>	<u>778,429</u>
Total liabilities, equity and other credits	<u>\$11,677,430</u>	<u>\$763,876</u>	<u>\$13,911</u>	<u>\$1,633,982</u>

The Notes to the General Purpose Financial Statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$179,458	\$419,331	\$85,510 67,386			\$4,400,816 67,386
					9,943,943
29		264			7,262 8,869
28,062					185 110,825
17,556					17,556
					329,953
54,977			12,109,055		12,164,032
				13,911	13,911
				2,004,802	2,004,802
<u>280,082</u>	<u>419,331</u>	<u>153,160</u>	<u>12,109,055</u>	<u>2,018,713</u>	<u>29,069,540</u>
114,930		4,731			241,575 171,836
9,243					1,266,369
10,299				1,420,602	1,455,243
26,381				94,091	338,688 185
9,783					9,200,163
		5,855			5,855
		34,139			34,139
					194,096
				125,000	125,000
				280,000	280,000
				99,020	99,020
<u>170,636</u>		<u>44,725</u>		<u>2,018,713</u>	<u>13,412,169</u>
			12,109,055		12,109,055
109,446	419,331				528,777
		13,386			691,532 13,911
		42,562			836,326 42,562
					216,504 113,449
		52,487			1,105,255
<u>109,446</u>	<u>419,331</u>	<u>108,435</u>	<u>12,109,055</u>		<u>15,657,371</u>
<u>\$280,082</u>	<u>\$419,331</u>	<u>\$153,160</u>	<u>\$12,109,055</u>	<u>\$2,018,713</u>	<u>\$29,069,540</u>

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expensible Trust	
Revenues:						
From local sources:						
Taxes	\$7,599,291			\$597,912		\$8,197,203
Tuition	50,736					50,736
Earnings on investments	248,346	1,302		1,367	956	251,971
Other local revenues	76,647	371,415		12,500	31,979	492,541
Other revenue	59,219	20,830				80,049
Intergovernmental - State	6,474,482	250,806		117,044		6,842,332
Intergovernmental - Federal	79,561	598,083				677,644
Total revenue	<u>14,588,282</u>	<u>1,242,436</u>		<u>728,823</u>	<u>32,935</u>	<u>16,592,476</u>
Expenditures:						
Current:						
Instruction:						
Regular	6,612,603	212,081		115,501	17,802	6,957,987
Special	1,045,438	292,578				1,338,016
Vocational	269,242					269,242
Other	32,404					32,404
Support services:						
Pupil	1,125,865	204,953			11,000	1,341,818
Instructional staff	315,242	17,711				332,953
Board of Education	19,694					19,694
Administration	1,499,362	27,683		16,354		1,543,399
Fiscal	171,490					171,490
Business	129,711	180,563				310,274
Operations and maintenance	1,132,992			9,430		1,142,422
Pupil transportation	597,072					597,072
Central	123,772	1,975		44,076		169,823
Community services		77,910				77,910
Extracurricular activities	314,563	198,421		171,836		684,820
Facilities services				581,095	6,832	587,927
Claims expense	59,888					59,888
Debt service:						
Principal retirement			102,941			102,941
Interest and fiscal charges			32,996			32,996
Total expenditures	<u>13,449,338</u>	<u>1,213,875</u>	<u>135,937</u>	<u>938,292</u>	<u>35,634</u>	<u>15,773,076</u>
Excess (deficiency) of revenues over (under) expenditures	1,138,944	28,561	(135,937)	(209,469)	(2,699)	819,400
Other financing sources (uses):						
Operating transfers in			48,413			48,413
Operating transfers (out)				(48,413)		(48,413)
Proceeds from sale of assets	3,512					3,512
Total other financing sources (uses)	<u>3,512</u>		<u>48,413</u>	<u>(48,413)</u>		<u>3,512</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	1,142,456	28,561	(87,524)	(257,882)	(2,699)	822,912
Fund balance, July 1	362,973	584,774	101,435	1,036,311	43,748	2,129,241
Fund balance, June 30	<u>\$1,505,429</u>	<u>\$613,335</u>	<u>\$13,911</u>	<u>\$778,429</u>	<u>\$41,049</u>	<u>\$2,952,153</u>

The Notes to the General Purpose Financial Statements are an integral part of this statement.

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$8,154,386	\$7,577,637	(\$576,749)			
Tuition	46,757	50,736	3,979			
Earnings on investments	228,789	248,260	19,471	1,232	1,232	
Other local revenues	68,865	74,726	5,861	371,460	371,460	
Other revenue	47,909	51,986	4,077	20,830	20,830	
Intergovernmental - State	6,041,079	6,555,193	514,114	250,804	250,804	
Intergovernmental - Federal				693,572	693,573	1
Total revenues	<u>14,587,785</u>	<u>14,558,538</u>	<u>(29,247)</u>	<u>1,337,898</u>	<u>1,337,899</u>	<u>1</u>
Expenditures:						
Current:						
Instruction:						
Regular	6,726,283	6,383,087	343,196	353,245	280,912	72,333
Special	1,154,618	1,097,952	56,666	305,044	287,426	17,618
Vocational	333,271	301,115	32,156			
Other	113,008	38,487	74,521			
Support services:						
Pupil	1,218,058	1,151,376	66,682	246,018	212,578	33,440
Instructional staff	345,362	311,977	33,385	23,281	21,880	1,401
Board of Education	24,664	20,974	3,690			
Administration	1,600,339	1,521,497	78,842	48,677	27,677	21,000
Fiscal	183,806	171,077	12,729			
Business	135,557	131,849	3,708	193,806	184,075	9,731
Operations and maintenance	1,248,319	1,146,907	101,412	18,000		18,000
Pupil transportation	641,722	602,012	39,710			
Central	202,100	195,010	7,090	2,422	1,974	448
Community services				83,531	79,450	4,081
Extracurricular activities	351,699	317,163	34,536	264,119	221,649	42,470
Facilities services				100,000	100,000	0
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	<u>14,278,806</u>	<u>13,390,483</u>	<u>888,323</u>	<u>1,638,143</u>	<u>1,417,621</u>	<u>220,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>308,979</u>	<u>1,168,055</u>	<u>859,076</u>	<u>(300,245)</u>	<u>(79,722)</u>	<u>220,523</u>
Other financing sources (uses):						
Refund of prior year's expenditures	1,976	2,144	168			
Operating transfers in	279,050	302,798	23,748			
Operating transfers (out)	(350,000)	(302,798)	47,202			
Advances in	59,423	64,480	5,057	185	185	
Advances (out)	(50,000)	(185)	49,815	(61,200)	(61,200)	
Proceeds of sale of fixed assets	3,237	3,512	275			
Total other financing sources (uses)	<u>(56,314)</u>	<u>69,951</u>	<u>126,265</u>	<u>(61,015)</u>	<u>(61,015)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>252,665</u>	<u>1,238,006</u>	<u>985,341</u>	<u>(361,260)</u>	<u>(140,737)</u>	<u>220,523</u>
Fund balances, July 1	521,009	521,009		652,247	652,247	
Prior year encumbrances appropriated	<u>491,166</u>	<u>491,166</u>		<u>70,290</u>	<u>70,290</u>	
Fund balances, June 30	<u>\$1,264,840</u>	<u>\$2,250,181</u>	<u>\$985,341</u>	<u>\$361,277</u>	<u>\$581,800</u>	<u>\$220,523</u>

The Notes to the General Purpose Financial Statements are an Integral part of this statement.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$624,603	\$577,287	(\$47,316)	\$8,778,989	\$8,154,924	(\$624,065)
						46,757	50,736	3,979
			2,516	3,898	1,382	232,537	253,390	20,853
						440,325	446,186	5,861
						68,739	72,816	4,077
			75,543	117,045	41,502	6,367,426	6,923,042	555,616
						693,572	693,573	1
			702,662	698,230	(4,432)	16,628,345	16,594,667	(33,678)
			118,352	117,724	628	7,197,880	6,781,723	416,157
						1,459,662	1,385,378	74,284
						333,271	301,115	32,156
						113,008	38,487	74,521
						1,464,076	1,363,954	100,122
						368,643	333,857	34,786
						24,664	20,974	3,690
			16,380	16,354	26	1,665,396	1,565,528	99,868
						183,806	171,077	12,729
						329,363	315,924	13,439
			9,430	9,430		1,275,749	1,156,337	119,412
						641,722	602,012	39,710
			44,077	44,077		248,599	241,061	7,538
						83,531	79,450	4,081
						615,818	538,812	77,006
			1,168,904	1,155,120	13,784	1,268,904	1,255,120	13,784
77,941	77,941		25,000	25,000		102,941	102,941	
19,159	9,583	9,576	23,420	23,413	7	42,579	32,996	9,583
97,100	87,524	9,576	1,405,563	1,391,118	14,445	17,419,612	16,286,746	1,132,866
(97,100)	(87,524)	9,576	(702,901)	(692,888)	10,013	(791,267)	307,921	1,099,188
			8,068	12,500	4,432	10,044	14,644	4,600
						279,050	302,798	23,748
						(350,000)	(302,798)	47,202
						59,608	64,665	5,057
			(1,780)	(1,780)		(112,980)	(63,165)	49,815
						3,237	3,512	275
			6,288	10,720	4,432	(111,041)	19,656	130,697
(97,100)	(87,524)	9,576	(696,613)	(682,168)	14,445	(902,308)	327,577	1,229,885
101,435	101,435		706,502	706,502		1,981,193	1,981,193	
			294,330	294,330		855,786	855,786	
\$4,335	\$13,911	\$9,576	\$304,219	\$318,664	\$14,445	\$1,934,671	\$3,164,556	\$1,229,885

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$70,568			\$70,568
Sales/charges for services	371,332			371,332
Interest revenue			3,708	3,708
Other operating revenues	1,849		1,000	2,849
Total operating revenues	443,749		4,708	448,457
Operating expenses:				
Personal services	151,794			151,794
Contract services	497,224			497,224
Materials and supplies	112,002			112,002
Depreciation				
Depreciation	10,774			10,774
Other			2,000	2,000
Total operating expenses	771,794		2,000	773,794
Operating income (loss)	(328,045)		2,708	(325,337)
Nonoperating revenues:				
Operating grants	202,970			202,970
Federal commodities	58,787			58,787
Interest revenue	1,667	23,193		24,860
Total nonoperating revenues	263,424	23,193		286,617
Net income (loss)	(64,621)	23,193	2,708	(38,720)
Retained earnings/fund balance July 1 (Restated)	174,067	396,138	64,678	634,883
Retained earnings/fund balance June 30	\$109,446	\$419,331	\$67,386	\$596,163

The Notes to the General Purpose Financial Statements are an integral part of this statement.

URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$70,539			\$70,539
Cash received from sales/service charges	371,332			371,332
Cash received from other operations	1,849		1,000	2,849
Cash payments for personal services	(162,950)			(162,950)
Cash payments for contract services	(383,559)			(383,559)
Cash payments for supplies and materials	(58,182)			(58,182)
Cash payments for other expenses			(2,000)	(2,000)
Net cash used in operating activities	(160,971)		(1,000)	(161,971)
Cash flows from noncapital financing activities:				
Cash received from operating grants	174,908			174,908
Cash flows from investing activities:				
Interest received	2,110	25,219	3,880	31,209
Net increase in cash and cash equivalents	16,047	25,219	2,880	44,146
Cash and cash equivalents at beginning of year	163,411	394,112	64,506	622,029
Cash and cash equivalents at end of year	179,458	419,331	67,386	666,175
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	(328,045)		2,708	(325,337)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	10,774			10,774
Federal donated commodities	58,787			58,787
Interest reported as operating revenue			(3,880)	(3,880)
Changes in assets and liabilities:				
Increase in supplies inventory	(5,732)			(5,732)
Increase in accounts receivable	(29)			(29)
Decrease in accrued interest receivable			172	172
Increase in accounts payable	111,922			111,922
Decrease in accrued wages & benefits	(5,270)			(5,270)
Decrease in compensated absences payable	(949)			(949)
Decrease in pension obligation payable	(4,937)			(4,937)
Increase in deferred revenue	2,508			2,508
Net cash used in operating activities	(\$160,971)	\$0	(\$1,000)	(\$161,971)

The notes to the General Purpose Financial Statements are an integral part of this statements.

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**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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 provisions of public education to residents of the District.

The District is the 234th largest in the State of Ohio among 682 public and community school districts in terms of enrollment. It currently operates four elementary schools and one comprehensive junior high/high school. The District is staffed by 87 non-certified and 163 certificated personnel to provide services to approximately 2,324 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (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.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or 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 for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. 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). Financial information is available from Lewis Ivey, Jr., Administrator, 129 East Court Street, Sidney, Ohio 45265.

Metropolitan Education 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. 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.

The District is also a participant in a public entity risk sharing pool, discussed in Note 11.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Each category is divided into separate fund types.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund

The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

2. Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund types:

Enterprise Funds

The Enterprise Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Internal Service Fund

The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis.

3. Fiduciary Funds

Trust and Agency Funds

These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental funds. Nonexpendable Trust funds are accounted for in essentially the same manner as Proprietary funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have a measurement focus. Agency funds are reported on a cash basis, with note disclosure regarding items which, in other fund types, would be subject to accrual.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the Proprietary or Nonexpendable Trust funds.

General Long-Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the Proprietary or Nonexpendable Trust funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and the Expendable Trust Fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary Funds and the Nonexpendable Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2001, but which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental funds.

The Proprietary funds and the Nonexpendable Trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The Proprietary funds receive no revenue from property taxes.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. 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 2001 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 amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than Agency funds, are legally required to be budgeted and appropriated. Short-term interest loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a 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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

8. Appropriation 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.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses encumbrances outstanding for the Enterprise funds at fiscal year-end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" (both unrestricted and restricted) on the combined balance sheet.

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, and commercial paper.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

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 2001 amounted to \$248,346, which includes \$133,313 assigned from other District funds.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

Inventories of Proprietary Funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Assets Account Group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	7-20

H. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary fund operations (excluding commodities) are recognized as revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<p>Entitlements</p> <p>General Fund State Foundation Program State Property Tax Relief</p> <p>Special Revenue Funds Disadvantaged Pupil Impact Aid</p> <p>Capital Projects Funds State Property Tax Relief</p>	<p>Non-Reimbursable Grants - (Continued)</p> <p>Special Revenue Funds - (Continued) SchoolNet Professional Development Title I Title VI</p> <p>Capital Projects Funds SchoolNet Vocational Education Equipment Power-Up Grant</p>
<p>Non-Reimbursable Grants</p> <p>Special Revenue Funds Auxiliary Services Instructional Materials Subsidy Education for Economic Security Act Management Information Systems Title VI-B Teacher Development Ohio Reads Drug-Free School Grant School Improvement Models</p>	<p>Reimbursable Grants</p> <p>General Fund School Bus Purchase Reimbursement</p> <p>Special Revenue Funds Telecommunications</p> <p>Proprietary Funds National School Breakfast Program National School Lunch Program</p>

Grants and entitlements amounted to over 45% of the District's operating revenue during the 2001 fiscal year.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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.

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 the balance sheet date 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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Accumulated vacation and severance of Governmental Fund type employees meeting the above requirements have been recorded in the appropriate Governmental Fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

J. Statutory Reserves

The District is required by State law to set-aside certain (cash-basis) General fund revenue amounts, as defined by Statute, into various reserves. During the fiscal year ended June 30, 2001, 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, 2000	\$ 123,873	\$ 0	\$ 76,940
Current year set-aside requirement	302,798	302,798	36,509
Current year offsets		(657,600)	
Qualifying disbursements	<u>(210,167)</u>	<u> </u>	<u> </u>
Total, June 30, 2001	<u>216,504</u>	<u>(354,802)</u>	<u>113,449</u>
Cash balance carried forward to FY 2002	<u>\$ 216,504</u>	<u>\$ 0</u>	<u>\$113,449</u>

Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for instructional materials	\$216,504
Amount restricted for budget stabilization	<u>113,449</u>
Total restricted assets	<u>\$329,953</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Long-Term Obligations

In general, Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from Governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by Proprietary funds are reported as liabilities in the appropriate Proprietary funds.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, tax advance unavailable for appropriation, and instructional materials. In addition, although the Nonexpendable Trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment. The reserve for tax advance unavailable for appropriation represents property taxes recognized as revenue under GAAP but not available for appropriations under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents set aside to establish a budget stabilization and other reserves. These reserves are required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction and/or for statutorily-specified purposes. Fund balance reserves have also been established. See Note 2.J for statutory reserves.

N. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund, which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2001 is presented in Note 5.

O. Statement of Cash Flows

In September 1989, GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds in Governmental Entities That Use Proprietary Fund Accounting. The District has presented (Exhibit 5) a statement of cash flows for its Proprietary and Nonexpendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

P. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This Statement is effective for financial statements beginning after December 15, 1993. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Estimates

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Total Columns on the General Purpose Financial Statements

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. In accordance with this statement, certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions may have been reported in a manner inconsistent with prior fiscal years; however, the adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

B. Prior Period Adjustments

At July 1, 2000, the District has presented a restatement of fixed assets. The effect of these adjustments to fixed assets and retained earnings as previously reported is as follows:

	<u>Balances as Previously Reported June 30, 2000</u>	<u>Adjustment</u>	<u>Restated Amounts July 1, 2000</u>
General Fixed Assets Account Group	\$11,922,897	\$(301,700)	\$11,621,197
<u>Enterprise Funds</u>			
Property, plant and equipment	244,588	(9,406)	235,182
Accumulated depreciation	166,851	2,580	169,431
Retained earnings	186,053	(11,986)	174,067

C. Deficit Fund Balances

Fund balances at June 30, 2001 included the following individual fund deficit:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Miscellaneous Federal Grants	\$(266)

This deficit, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

A. Cash on hand:

At fiscal year-end, the District had \$100 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.

B. Deposits:

At year-end, the carrying amount of the District's deposits was \$3,263,054 and the bank balance was \$3,637,527 (both amounts include \$38,045 in non-negotiable certificates of deposit, but are exclusive of payroll clearance accounts). Of the bank balance:

1. \$243,960 was covered by federal deposit insurance.
2. \$3,393,567 was uninsured and unregistered because it was secured by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities were not in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

C. Investments:

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. STAR Ohio is an unclassified investment because it is not evidenced by securities that exist in physical or book entry form.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	Category of Risk 3	Fair Value
Commercial Paper	\$1,510,001	\$1,510,001
Not Subject to Categorization:		
Investment in State Treasurer's Investment Pool	_____	25,000
Total Investments	\$1,510,001	\$1,535,001

The classification of cash, cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of equity in pooled cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 4,798,155	
Investments of the cash management pool:		
Commercial Paper	(1,510,001)	\$1,510,001
STAR Ohio	(25,000)	25,000
Cash on hand	(100)	_____
GASB Statement No. 3	\$ 3,263,054	\$1,535,001

5. INTERFUND TRANSACTIONS

A. The following is a reconciliation of the District's operating transfers for fiscal year 2000:

	Transfers In	Transfers (Out)
Debt Service Fund	\$48,413	
<u>Capital Projects Funds</u>		
Permanent Improvements	_____	\$(48,413)
Total	\$48,413	\$(48,413)

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

B. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	Interfund Loans Receivable	Interfund Loans (Payable)
General Fund	\$185	
<u>Special Revenue Funds</u>		
Jr. High Health Grant	_____	\$(185)
Total	\$185	\$(185)

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

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

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value, and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

The assessed values upon which the fiscal year 2001 taxes were collected are as follows:

	2000 Second-Half Collections		2001 First-Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$175,386,449	73.93	\$177,473,980	70.02
Tangible Personal Property	45,625,570	19.23	60,880,200	24.02
Public Utility Personal	16,226,650	6.84	15,095,000	5.96
	<u>\$237,238,669</u>	<u>100.00</u>	<u>\$253,449,180</u>	<u>100.00</u>

Voted tax rate per \$1,000 of assessed valuation:

Operations	\$45.00	\$50.90
Permanent Improvement	3.50	3.50

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

6. PROPERTY TAXES (Continued)

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Champaign County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2001 totaled \$771,631 in the General fund and \$64,695 in the Permanent Improvements fund.

7. RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (rent and student fees), accrued interest and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current year). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. 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 fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$9,231,705
<u>Special Revenue Funds</u>	
Title I	
Due from other governments	82,763
<u>Capital Projects Funds</u>	
Taxes - current and delinquent	712,238
<u>Enterprise Funds</u>	
Due from other governments	28,062

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

8. FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	Restated Balance <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2001</u>
Land/improvements	\$ 594,570	\$ 24,131		\$ 618,701
Buildings/improvements	6,867,500			6,867,500
Furniture/equipment	3,584,702	294,568	\$(42,950)	3,836,320
Vehicles	574,425	172,379	(45,270)	701,534
Construction in Progress	<u> </u>	<u>85,000</u>	<u> </u>	<u>85,000</u>
Total	<u>\$11,621,197</u>	<u>\$576,078</u>	<u>\$(88,220)</u>	<u>\$12,109,055</u>

A summary of the Proprietary fixed assets at June 30, 2001 follows:

Furniture and equipment	\$ 235,182
Less: accumulated depreciation	<u>(180,205)</u>
Net fixed assets	<u>\$ 54,977</u>

9. CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capital lease agreements for modular classrooms. These leases meet the criteria of a 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 at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for the governmental fund types. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in the amount of \$260,200, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2001 fiscal year totaled \$45,477. This amount is reflected as principal retirement in the Debt Service fund.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

9. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2001:

General Long-Term Obligations

<u>Year Ending June 30</u>	<u>Modular Classrooms</u>
2002	\$ 53,858
2003	<u>53,858</u>
Total future minimum lease payments	107,716
Less: amount representing interest	<u>(8,696)</u>
Present value of future minimum lease payments	<u>\$ 99,020</u>

The District does not have capitalized lease obligations after fiscal year 2003.

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 General Long-Term Debt Obligations Group. 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, 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding June 1, 2000</u>	<u>Issued in 2001</u>	<u>Retired in 2001</u>	<u>Notes Outstanding June 30, 2001</u>
Energy Conservation Notes	7.4%	12/01/90	12/01/00	\$ 32,464		\$(32,464)	\$ 0
Energy Conservation Notes	5.6%	12/01/99	06/01/14	<u>295,000</u>		<u>(15,000)</u>	<u>280,000</u>
				<u>\$327,464</u>	<u>\$ 0</u>	<u>\$47,464</u>	<u>\$280,000</u>

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

<u>Year Ending June 30</u>	<u>Principal on Energy Conservation Notes</u>	<u>Interest on Energy Conservation Notes</u>	<u>Total</u>
2002	\$ 15,000	\$ 14,000	\$ 29,000
2003	15,000	13,383	28,383
2004	15,000	12,750	27,750
2005	20,000	13,365	33,365
2006	20,000	12,135	32,135
2007 - 2011	110,000	44,212	154,212
2012 - 2014	<u>85,000</u>	<u>10,303</u>	<u>95,303</u>
Total	<u>\$280,000</u>	<u>\$120,148</u>	<u>\$400,148</u>

- C. In the prior fiscal year, 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 unmaturing obligations of the District are accounted for in the General Long-Term Obligations Account Group.

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, 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding July 1, 2000</u>	<u>Issued in Fiscal 2001</u>	<u>Retired in Fiscal 2001</u>	<u>Bonds Outstanding 6/30/2001</u>
Facilities Improvement	5.501%	07/06/99	06/01/09	\$135,000	\$ 0	\$(10,000)	\$125,000
				<u>\$135,000</u>	<u>\$ 0</u>	<u>\$(10,000)</u>	<u>\$125,000</u>

- 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>
2002	\$ 15,000	\$ 6,250	\$ 21,250
2003	15,000	5,775	20,775
2004	15,000	4,988	19,988
2005	15,000	4,200	19,200
2006	15,000	3,575	18,575
2007 - 2009	<u>50,000</u>	<u>5,860</u>	<u>55,860</u>
Total	<u>\$125,000</u>	<u>\$30,648</u>	<u>\$155,648</u>

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

E. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance July 1, 2000	<u>Increase</u>	<u>Decrease</u>	Balance June 30, 2001
General obligation bonds	\$ 135,000		\$ (10,000)	\$ 125,000
Compensated absences	1,397,468	\$ 23,134		1,420,602
Pension obligation payable	107,085	94,091	(107,085)	94,091
Energy conservation notes	327,464		(47,464)	280,000
Capital lease obligation	<u>144,497</u>	<u> </u>	<u>(45,477)</u>	<u>99,020</u>
Total	<u>\$2,111,514</u>	<u>\$117,225</u>	<u>\$(210,026)</u>	<u>\$2,018,713</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, 2001 are a voted debt margin of \$22,824,337 (including available funds of \$13,911), an unvoted debt margin of \$128,449, and an unvoted energy conservation debt margin of \$2,001,043.

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

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

11. RISK MANAGEMENT (Continued)

During fiscal year 1999, the District began to provide employee 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. 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 2001. The District pays 100% of the monthly premium, which is \$50.99 for family coverage or \$35.35 for individual coverage.

The claims liability of \$194,096 reported at June 30, 2001, 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 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>
2001	\$134,208	\$891,909	\$832,021	\$194,096

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 2000.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

B. Worker's Compensation

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

12. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of food service, uniform school supplies and special enterprises. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise funds of the District as of and for the year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Special Enterprises</u>	<u>Total</u>
Operating revenue	\$ 371,332	\$70,568	\$ 1,849	\$ 443,749
Depreciation	10,774			10,774
Operating income (loss)	(332,564)	14,325	(9,806)	(328,045)
Non-operating revenues:				
Operating grants	202,970			202,970
Donated commodities	58,787			58,787
Net income (loss)	(69,140)	14,325	(9,806)	(64,621)
Net working capital	8,446	48,522	7,800	64,768
Total assets	222,487	49,787	7,808	280,082
Long-term liabilities				
Payable from fund revenues	10,299			10,299
Total equity	53,124	48,522	7,800	109,446
Encumbrances at 6/30/01	47,674	8,405		56,079

13. DEFINED BENEFIT PENSION PLANS

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 basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. 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, 2001, 2000, and 1999 were \$278,946, \$311,156, and \$290,982, respectively; 55% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$126,672, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,154,452, \$1,076,860, and \$1,073,735, respectively; 84% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$179,824, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

14. 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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$371,074 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 net health care costs paid by STRS were \$283.137 million and there were 99,011 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll, an increase from 8.45% for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$227,454 during the 2001 fiscal year.

15. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

15. BUDGETARY BASIS OF ACCOUNTING (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the Governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other
Financing Uses**

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$1,238,006	\$(140,737)	\$(87,524)	\$(682,168)
Net adjustment for revenue accruals	29,744	(95,463)		30,593
Net adjustment for expenditure accruals	(238,446)	42,003	(48,413)	(150,254)
Net adjustment for other financing sources (uses)	(66,439)	61,015	48,413	(59,133)
Encumbrances (budget basis)	<u>179,591</u>	<u>161,743</u>	<u> </u>	<u>603,080</u>
GAAP basis	<u>\$1,142,456</u>	<u>\$ 28,561</u>	<u>\$(87,524)</u>	<u>\$(257,882)</u>

16. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

The District is not currently a party to any legal proceedings.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

16. CONTINGENCIES (Continued)

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 7, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and re-determine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine the 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**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A		\$61,295		\$58,782
National School Breakfast Program	10.553	05-P1-01	23,457		23,457	
National School Lunch Program	10.555	LL-P1-00 LL-P4-01	104,776 35,482		104,776 35,482	
Total Nat'l School Lunch Program			<u>140,258</u>		<u>140,258</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			163,715	61,295	163,715	58,782
U.S. Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title I	84.010	C1-S1-00 C1-S1-01	32,991 231,652		97,177 202,870	
Total Title I			<u>264,643</u>		<u>300,047</u>	
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B	84.027	6B-SF-00 6B-SF-01			41,387 182,335	
Total IDEA Part B			<u>231,426</u>		<u>223,722</u>	
<i>Administered by Madison-Champaign Educational Service Center on Behalf of the District</i>						
Special Education - Preschool Grant	84.173	PG-S1-1P	27,798		27,798	
Total Special Education Cluster			259,224		251,520	
Drug Free Schools	84.186	DR-S1-00 DR-S1-01			4,934 6,020	
Total Drug Free Schools			<u>10,121</u>		<u>10,954</u>	
Goals 2000	84.276	G2-S2-00 G2-S2-01 G2-S8-00	21,000 14,000		7,708 1,007	
Total Goals 2000			<u>35,000</u>		<u>8,715</u>	
Eisenhower Professional Development State Grant	84.281	MS-S1-99 MS-S1-00 MS-S1-01			4,953 1,273 4,248	
Total Eisenhower Professional Development State Grant			<u>10,315</u>		<u>10,474</u>	
Title VI - Innovative Education Program	84.298	C2-S1-99 C2-S1-00 C2-S1-01			9,613 10,319 3,002	
Total Title VI			<u>12,079</u>		<u>22,934</u>	
Technology Center Grant	84.318	TF-32-00			24,380	
Teacher Quality Enhancement Subsidy	84.336	QE-S1-01	2,000			
Title VI-R - Class Reduction Grant	84.340	CR-S1-01	55,325		55,325	
Total U.S. Department of Education			<u>648,707</u>		<u>684,349</u>	
U.S. Department of Health and Human Services						
<i>Passed through Ohio Department of Mental Retardation</i>						
CAFS - Medicaid	93.778	N/A	35,888		35,888	
Total U. S. Department of Health and Human Services			<u>35,888</u>		<u>35,888</u>	
Total Federal Financial Assistance			<u>\$848,310</u>	<u>\$61,295</u>	<u>\$883,952</u>	<u>\$58,782</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards 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

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND
ON INTERNAL CONTROL 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 Urbana City School District (the District), Champaign County, as of and for the year ended June 30, 2001, and have issued our report thereon dated February 26, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 26, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 26, 2002.

Urbana City School District
Champaign County
Report of Independent Accountant on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Board of Education, audit committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 26, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND 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 (the District), Champaign County, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 26, 2002.

Internal Control Over Compliance

The management of the District 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 have a direct and material effect on a major federal program in order 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.

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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of 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 noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 26, 2002.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 26, 2002

**URBANA CITY SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010: Title I
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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URBANA CITY SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 21, 2002**