



**Auditor of State
Betty Montgomery**

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Troy City School District
Miami County
500 N Market Street
Troy, Ohio 45373

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Troy City School District, Miami County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Troy City School District, Miami County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof 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 January 7, 2005, 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.

Management's Discussion & Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards expenditure is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditure to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 7, 2005

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Troy City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

Overall:

- Total net assets increased \$1.58 million, which represents a 8.57 percent increase from fiscal year 2003.
- Total assets of governmental activities increased by \$2.97 million, attributed almost exclusively to the increase in equity in pooled cash and cash equivalents and investments.
- General revenues accounted for \$34.0 million or 87.27 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$5 million or 12.63 percent of total revenues of \$39.3 million.
- Of the School District's \$37.9 million in expenses, only \$4.9 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$33 million.
- The General Fund, the only major fund, had \$32.7 million in revenues and \$32.1 million in expenditures representing 85.36 percent and 85.11 percent of the total governmental funds revenues and expenditures, respectively. While the General Fund currently maintains a healthy fund balance, it is anticipated in the School District's five-year forecast that the fund balance in the General Fund will be negative for the year ended June 30, 2008.

Using the Basic Financial Statements

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Troy City School District, the General Fund is by far the most significant fund.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's General Fund begins on page 13. Fund financial reports provide detailed information about the General Fund. The School District uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the School District's most significant funds, and therefore only the General Fund is presented separate from the other governmental funds.

Governmental Funds

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 and 2003:

TABLE 1
NET ASSETS

	<u>2004</u>	<u>2003</u>
<i>Assets:</i>		
Current and Other Assets	\$ 39,486,493	37,844,426
Capital Assets	8,106,020	<u>6,779,381</u>
Total Assets	<u>47,592,513</u>	<u>44,623,807</u>
<i>Liabilities:</i>		
Current Liabilities	22,961,202	23,080,965
Noncurrent Liabilities	4,587,054	<u>3,081,247</u>
Total Liabilities	<u>27,548,256</u>	<u>26,162,212</u>
<i>Net Assets:</i>		
Invested in Capital Assets, Net of Debt	7,583,553	6,756,440
Restricted	1,824,989	1,824,989
Unrestricted	10,635,715	<u>9,880,166</u>
Total Net Assets	<u>\$ 20,044,257</u>	<u>18,461,595</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2004, the School District's net assets were \$20.04 million. Of that amount, approximately \$7.58 million was invested in capital assets, net of debt related to those assets. Another \$1.82 million was subject to external restrictions upon its use. The remaining \$10.64 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration.

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for fiscal year 2004.

TABLE 2
CHANGE IN NET ASSETS

	2004	2003
Revenues:		
Program Revenues:		
Charges for Services	\$ 2,297,330	2,200,971
Operating Grants and Contributions	2,627,813	2,309,146
Capital Grants and Contributions	32,924	28,000
General Revenues:		
Property Taxes	22,334,803	21,182,157
Grants and Entitlements	11,074,798	11,419,727
Investment Earnings	244,985	407,424
Loss on Sale of Capital Assets	(57,940)	(53,798)
Gifts and Donations	223,500	-
Other	182,882	136,086
Total Revenues	38,961,095	37,629,713
Program Expenses:		
Instruction	25,936,285	21,958,842
Support Services:		
Pupils and Instructional Staff	2,492,754	2,474,213
Board of Education, Administration		
Fiscal and Business	3,360,393	3,669,146
Operation and Maintenance of Plant	2,807,707	2,745,665
Pupil Transportation	1,439,755	1,419,215
Operation of Non-Instructional Services	1,494,217	1,628,787
Extracurricular Activities	271,913	245,791
Interest and Fiscal Charges	15,476	2,868
Unallocated Depreciation	131,093	483,905
Total Expenses	37,949,593	34,628,432
Increase in Net Assets	\$ 1,011,502	3,001,281

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 57.33 percent of revenues for governmental activities for the Troy City School District for fiscal year 2004. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 28.4 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2004.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Despite not having sought new operating funds through a property tax levy in the past six years, the School District has been able to regain stable financial footing after struggling through financial difficulties in the late 1990's. Through careful management of expenses, the School District has been able to maintain a stable fund balance. However, if additional revenue sources are not secured, the School District will have to implement spending reductions in order to avoid depleting cash reserves.

Instruction comprises 68.34 percent of the School District's expenses for fiscal year 2004. Support services expenses make up 26.62 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

TABLE 3
Total and Cost of Program Services
Governmental Activities
For Fiscal Year Ended June 30

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 25,936,285	23,163,654	21,958,842	19,906,114
Support Services:				
Pupils and Instructional Staff	2,492,754	2,330,305	2,474,213	2,468,213
Board of Education, Administration				
Fiscal and Business	3,360,393	3,303,204	3,669,146	3,624,319
Operation and Maintenance of Plant	2,807,707	2,786,807	2,745,665	2,745,665
Pupil Transportation	1,439,755	1,418,800	1,419,215	1,402,058
Operation of Non-Instructional Services	1,494,217	12,285	1,628,787	(424,093)
Extracurricular Activities	271,913	(170,098)	245,791	(118,734)
Interest and Fiscal Charges	15,476	15,476	2,868	2,868
Unallocated Depreciation	131,093	131,093	483,905	483,905
Total Expenses	\$ 37,949,593	32,991,526	34,628,432	30,090,315

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Plant operation and maintenance activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instructional services includes the preparation, delivery and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, as well as services provided to the community at-large.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transaction associated with the payment of interest charges related capital leases of the School District.

Unallocated depreciation represents current period depreciation charges associated with capital assets that are utilized by several different functions, typically school buildings throughout the District.

The School District's Funds

Information about the School District's General Fund, the only major fund, starts on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$38.0 million and expenditures of \$37.7 million. The net change in fund balance was most significant in the General Fund with an increase of \$844,273. Unreserved fund balance increased from \$11.9 million in 2003 to \$12 million.

General Fund Budgeting Highlights

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

For the General Fund, budget basis revenue was \$32.5 million as compared to the original budget estimates of \$32.1 million. This difference included tax revenues initially budgeted at \$20.2 million with budget basis revenues coming in at \$20.5 million. Also included are intergovernmental revenues budgeted at \$10.8 million with revenues coming in at \$11 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$32.3 million, \$200 thousand under revenues, as well as \$1.16 million below final budget estimates.

As the budget for the General Fund is amended throughout the fiscal year for unanticipated revenues and expenditures, the final amended budgets amounts approximate the actual budgetary results realized by the School District.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets

At the end of fiscal year 2004, the School District had \$8.1 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2004 balances compared to 2003:

TABLE 4
Capital Assets at June 30

	<u>2004</u>	<u>2003</u>
Land	\$ 490,031	490,031
Buildings	9,710,366	9,710,366
Improvements	6,854,739	6,436,685
Furnitures and Equipment	5,302,496	4,829,318
Vehicles	2,091,888	1,991,872
Less: Accumulated Depreciation	<u>(16,343,500)</u>	<u>(16,107,731)</u>
	<u>\$ 8,106,020</u>	<u>7,350,541</u>

Overall capital assets decreased approximately \$755,000 from fiscal year 2003. This decrease was attributable to the disposal of capital assets during the year. Increases in capital assets (primarily equipment and textbooks) were offset by depreciation expense for the year.

Since fiscal year 2000, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2004, this amounts to approximately \$575,611 for each set aside requirement. Conversely, the School District spent approximately \$286,439 on capital improvements and capital levy proceeds of \$515,399 and approximately \$1,004,820 on textbooks and instructional materials during fiscal year 2004, significantly more than the required amounts.

Costs associated with repair and maintenance of the School District's facilities and other assets that do not extend the useful life of the capitalized item is included within the operation and maintenance of plant function.

Capital Lease/Debt Administration

At June 30, 2004, the only debt of the School District was two capital leases with an outstanding balance of \$522,466, of which \$78,604 is due within one year. These leases consisting of equipment and vehicles have been capitalized as capital assets within the governmental activities. Principal payments for fiscal year 2004 totaled \$75,512.

At June 30, 2004, the School District's overall legal debt margin was \$60.33 million and the unvoted debt margin was \$670 thousand.

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

For the Future

The financial position of the Troy City School District (district) was positively impacted by the financial results reported for fiscal year ending June 30, 2004. Cash on hand at June 30, 2004 was \$1,547,301 greater than forecasted due to \$382,655 in improved revenue and \$1,164,646 in expense savings as compared to the forecast.

The district continues to have a relatively strong financial position but there are several significant factors that will impact the district's finances in the near future. Recent legislative decisions by the legislature of the State of Ohio will reduce the district's operating funds and will have the effect of shifting the responsibility for providing the needed funding to operate the district from the state to local tax payers and locally, from business and industry to individual tax payers.

State legislative action has created change in the state aid funding formula that reduced state funding to the district by \$366,000 in fiscal year 2003-2004 and we are projecting an additional \$332,000 reduction in fiscal year 2004-2005. Other legislative action has created a planned phase out of the tax paid by business and industry on inventories for which the district is projecting to lose \$3,886,000 in revenue over the next five years and has a planned phase out of the Tangible Personal Property Tax Exemption Reimbursement payment for which the district is projecting to lose \$395,000 over the next five years. There has been no provision made to replace these lost tax revenues.

With these reductions the district has had to increase its reliance on local property taxes to fund its operations. This area poses significant uncertainty as well. Three term operating levies totaling 16.2 mills will expire over the next three fiscal years. The district's financial forecasts indicate that even with the successful renewal of these levies at the current rates, and without any interruption in tax collections, the district could realize a negative financial position as early as fiscal year 2007-2008.

There certainly is a threat to the district's various instructional programs and other activities currently being provided to students as well as community members with revenues being projected to decrease and operating costs continuing to increase due to additional mandates and inflationary pressures. Looking at present legislative provisions, any needed additional funding must be requested and approved at the local level, which increases the tax burden from local property taxes.

The renewal of the district's 1.1 mill, five year limited capital improvement levy by the community, which begins January 1, 2005, will continue to provide funding to maintain the facilities of the district. Funding from this levy supplements the repair and maintenance costs, which if the levy were not available, would be paid exclusively from operating revenue.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Troy City School District, 500 North Market Street, Troy, Ohio 45373 or call (937) 332-6700.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 8,584,332
Investments	7,143,693
Receivables:	
Taxes	21,119,722
Accounts	471,070
Intergovernmental	2,056,273
Accrued Interest	8,245
Materials and Supplies Inventory	81,332
Prepaid Items	21,826
Capital Assets:	
Capital assets not subject to depreciation:	
Land	490,031
Capital assets, net of accumulated depreciation	<u>7,615,989</u>
 Total Assets	 \$ <u>47,592,513</u>
LIABILITIES:	
Accounts Payable	\$ 645,200
Accrued Wages and Benefits	2,579,897
Intergovernmental Payable	1,485,031
Claims Payable	411,606
Deferred Revenue	17,839,468
Noncurrent Liabilities:	
Due Within One Year	358,235
Due In More Than One Year	<u>4,228,819</u>
 Total Liabilities	 <u>27,548,256</u>
NET ASSETS:	
Invested in capital assets, net of related debt	7,583,553
Restricted for:	
Special Revenue	78,808
Capital Projects	1,746,181
Unrestricted	<u>10,635,715</u>
 Total Net Assets	 \$ <u>20,044,257</u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Functions/Programs:	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 20,658,860	773,993	1,376,207	-	(18,508,660)
Special	4,177,538	-	622,431	-	(3,555,107)
Vocational	96,374	-	-	-	(96,374)
Other	1,003,513	-	-	-	(1,003,513)
Support Services:					
Pupils	1,376,608	-	-	-	(1,376,608)
Instructional Staff	1,116,146	-	162,449	-	(953,697)
Board of Education	564,703	-	-	-	(564,703)
Administration	1,863,269	-	15,622	-	(1,847,647)
Fiscal	402,715	-	-	-	(402,715)
Business	529,706	-	17,567	24,000	(488,139)
Operation and Maintenance of Plant	2,807,707	-	11,976	8,924	(2,786,807)
Pupil Transportation	1,439,755	20,955	-	-	(1,418,800)
Operation of Non-Instructional Services	1,494,217	1,060,371	421,561	-	(12,285)
Extracurricular Activities	271,913	442,011	-	-	170,098
Interest and Fiscal Charges	15,476	-	-	-	(15,476)
Unallocated Depreciation *	131,093	-	-	-	(131,093)
Total	\$ <u>37,949,593</u>	<u>2,297,330</u>	<u>2,627,813</u>	<u>32,924</u>	<u>(32,991,526)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					21,428,648
Hayner Cultural Center					242,027
Capital Outlay					664,128
Grants, Entitlements and Contributions not Restricted to					
Specific Programs					11,074,798
Investment Earnings					244,985
Loss on Sale of Capital Assets					(57,940)
Gifts and Donations					223,500
Other Revenue					182,882
					<u>34,003,028</u>
					Change in Net Assets
					1,011,502
					Net Assets, Beginning of Year, as restated
					<u>19,032,755</u>
					Net Assets, End of Year
					\$ <u><u>20,044,257</u></u>

* - This amount excludes the depreciation that is included in the direct expense of the various functions.

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 5,470,293	2,789,039	8,259,332
Investments	7,143,693	-	7,143,693
Receivables:			
Taxes	20,171,107	948,615	21,119,722
Accounts	231,651	25,823	257,474
Intergovernmental	1,871,321	184,952	2,056,273
Accrued Interest	7,944	301	8,245
Due from Other Funds	120,380	-	120,380
Materials and Supplies Inventory	55,350	25,982	81,332
Prepaid Items	17,973	3,853	21,826
	<u>35,089,712</u>	<u>3,978,565</u>	<u>39,068,277</u>
Total Assets	\$ <u>35,089,712</u>	<u>3,978,565</u>	<u>39,068,277</u>
LIABILITIES:			
Accounts Payable	\$ 219,079	426,121	645,200
Accrued Wages and Benefits	2,409,182	170,715	2,579,897
Intergovernmental Payable	1,080,910	163,050	1,243,960
Compensated Absences Payable	279,631	-	279,631
Due to Other Funds	-	120,380	120,380
Deferred Revenue	20,377,815	1,072,796	21,450,611
	<u>24,366,617</u>	<u>1,953,062</u>	<u>26,319,679</u>
Total Liabilities	<u>24,366,617</u>	<u>1,953,062</u>	<u>26,319,679</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	376,833	320,267	697,100
Materials and Supplies Inventory	55,350	30,531	85,881
Prepaid Items	17,973	3,853	21,826
Property Taxes	1,548,269	58,306	1,606,575
Unreserved, Undesignated:			
General Fund	8,724,670	-	8,724,670
Special Revenue Funds	-	169,955	169,955
Capital Projects Funds	-	1,442,591	1,442,591
	<u>10,723,095</u>	<u>2,025,503</u>	<u>12,748,598</u>
Total Fund Balances	<u>10,723,095</u>	<u>2,025,503</u>	<u>12,748,598</u>
Total Liabilities and Fund Balances	\$ <u>35,089,712</u>	<u>3,978,565</u>	<u>39,068,277</u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balances	\$	12,748,598
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		8,106,020
<p>Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.</p>		3,611,143
<p>The Internal Service fund is used by management to charge the cost of providing medical insurance to the individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.</p>		126,990
<p>Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds</p>		
Compensated Absences		(3,784,956)
Intergovernmental Payable		(241,071)
Capital Leases Payable		<u>(522,467)</u>
Net Assets of Governmental Activities	\$	<u>20,044,257</u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 20,389,098	871,229	21,260,327
Intergovernmental	11,019,541	2,783,804	13,803,345
Investment Earnings	241,602	3,383	244,985
Tuition and Fees	728,355	45,638	773,993
Charges for Services	-	1,060,371	1,060,371
Transportation	20,955	-	20,955
Extracurricular Activities	37,847	404,164	442,011
Gifts and Donations	189,500	34,000	223,500
Miscellaneous	68,830	114,052	182,882
	<u>32,695,728</u>	<u>5,316,641</u>	<u>38,012,369</u>
Total Revenues			
EXPENDITURES:			
Current:			
Instruction:			
Regular	16,881,780	1,630,947	18,512,727
Special	3,475,123	622,297	4,097,420
Vocational	91,808	-	91,808
Other	998,959	4,554	1,003,513
Support Services:			
Pupils	1,309,214	-	1,309,214
Instructional Staff	919,978	182,670	1,102,648
Board of Education	564,703	-	564,703
Administration	2,080,220	271,733	2,351,953
Fiscal	390,937	9,709	400,646
Business	482,852	39,506	522,358
Operation and Maintenance of Plant	2,676,651	129,393	2,806,044
Pupil Transportation	1,597,697	-	1,597,697
Operation of Non-Instructional Services	-	1,543,279	1,543,279
Extracurricular Activities	-	273,630	273,630
Capital Outlay	575,038	899,468	1,474,506
Debt Service:			
Principal	65,166	10,346	75,512
Interest	14,882	594	15,476
	<u>32,125,008</u>	<u>5,618,126</u>	<u>37,743,134</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>570,720</u>	<u>(301,485)</u>	<u>269,235</u>
OTHER FINANCING SOURCES (USES):			
Inception of Capital Lease	575,038	-	575,038
Transfers In	610	37,908	38,518
Transfers Out	(37,908)	(610)	(38,518)
	<u>537,740</u>	<u>37,298</u>	<u>575,038</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	1,108,460	(264,187)	844,273
Fund Balance, Beginning of Year	<u>9,614,635</u>	<u>2,289,690</u>	<u>11,904,325</u>
Fund Balance, End of Year	<u>\$ 10,723,095</u>	<u>2,025,503</u>	<u>12,748,598</u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Total Net Change in Fund Balances - Total Governmental Funds \$ 844,273

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which depreciation
exceeded capital outlay in the current period.

Capital Asset Additions	1,863,600
Current Year Depreciation	(1,050,181)

Governmental funds only report the disposal of assets to the
extent proceeds are received from the sale. In the statement
of activities, a gain or loss is reported for each disposal. This
is the amount of the loss on the disposal of fixed assets.

Proceeds from the sale of capital assets	(575,038)
Loss on the disposal of capital assets	(57,940)

Revenues in the statement of activities that do not provide
current financial resources are not reported as
revenues in the funds.

1,006,666

Repayment of capital lease principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets.

75,512

Some expenses reported in the statement of activities, such as
compensated absences and intergovernmental payables which
represents contractually required pension contributions, do
not require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Compensated Absences	(1,164,805)
Intergovernmental Payable	(22,025)

The Internal Service fund is used by management to charge the
cost of providing medical insurance to the individual funds is
not reported in the district-wide statement of activities.

Governmental fund expenditures and the related internal service
fund revenue is eliminated. The net revenue of the internal
service fund is allocated among the governmental activities.

91,440

Change in Net Assets of Governmental Activities \$ 1,011,502

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Fund Net Assets
Internal Service Fund
June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 325,000
Receivables:	
Accounts	<u>213,596</u>
Total Assets	<u><u>538,596</u></u>
LIABILITIES:	
Claims Payable	<u>411,606</u>
NET ASSETS:	
Unrestricted	\$ <u><u>126,990</u></u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES:	
Charges for Services	\$ <u>3,371,956</u>
Total Operating Revenues	<u>3,371,956</u>
OPERATING EXPENSES:	
Claims	<u>3,280,516</u>
Total Operating Expenses	<u>3,280,516</u>
Change in Net Assets	91,440
Net Assets, Beginning of Year	<u>35,550</u>
Net Assets, End of Year	\$ <u>126,990</u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Governmental Activities
	Internal Service Fund
Increase in Equity in Pooled Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Quasi-External Transactions with Other Funds	\$ 3,162,953
Cash Payments for Claims	<u>(3,162,953)</u>
Net Cash Provided by Operating Activities	<u>-</u>
Net Increase in Equity in Pooled Cash and Cash Equivalents	-
Equity in Pooled Cash and Cash Equivalents, Beginning of Year	<u>325,000</u>
Equity in Pooled Cash and Cash Equivalents, End of Year	\$ <u><u>325,000</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 91,440
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in assets and liabilities:	
Increase in Accounts Receivable	(209,003)
Decrease in Claims Payable	<u>117,563</u>
Total Adjustments	<u>(91,440)</u>
Net Cash Provided by Operating Activities	\$ <u><u>-</u></u>

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

	Scholarship Private- Purpose Trust Funds	Agency Fund
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 93,160	68,052
Investments	142,037	-
Receivables:		
Accounts	-	1,136
Accrued Interest	(1,444)	-
Total Assets	\$ 233,753	69,188
LIABILITIES:		
Accounts Payable	\$ 26,579	4,948
Due to Students	-	64,240
Total Liabilities	26,579	69,188
NET ASSETS:		
Held in Trust for Scholarships	\$ 207,174	-

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

		Scholarship Private- Purpose Trust Funds
ADDITIONS:		
Other Revenue	\$	40,494
Investment Earnings		(1,904)
Total Additions		38,590
DEDUCTIONS:		
Educational Outreach		32,329
Total Deductions		32,329
Change in Net Assets		6,261
Net Assets, Beginning of Year		200,913
Net Assets, End of Year	\$	207,174

See accompanying notes to the basic financial statements.

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TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Troy City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The School District operates under a locally elected, five-member Board of Education (Board) to provide educational and other services as required and permitted by the laws and regulations of the State of Ohio and United States of America. The School District is not a part of, or under the control of, the City of Troy, Ohio.

Reporting Entity: A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Troy City School District, this includes general operations, food service, student guidance, extracurricular activities, educational media, care and upkeep of grounds and buildings, preschool and student related activities of the School District. The following activities are included within the reporting entity:

Hayner Cultural Center: About fifty years ago, title to the real and personal property which presently comprises the bulk of Hayner Cultural Center passed from the estate of Mary Jane Hayner to the School District under Mrs. Hayner's will. This facility is now being operated as a fine arts center to provide fine arts exhibits, educational opportunities, and meeting facilities for the citizens of Troy and its surrounding communities. The School District has provided for a Governing Board whose responsibility in part is to preserve, maintain, and operate the Center. The School District has the authority to reject the recommendations of the Governing Board. Likewise, there is a financial benefit and financial burden relationship between the School District and the Center. Accordingly, the Hayner Cultural Center's financial statements are included within the special revenue funds.

Parochial Schools: Within the School District boundaries are four parochial schools, which are operated as private schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activity of these State monies is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has assumed responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the levying of taxes or the issuance of debt for the organization. The School District has no component units.

The School District is associated with two jointly governed organizations. These organizations are presented in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Southwestern Ohio Educational Purchasing Council
Metropolitan Dayton Educational Cooperative Association

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Troy City School 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. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its government-wide and proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund was eliminated to avoid the "doubling up" of revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund is the only major fund of the School District.

General Fund – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources and capital projects of the School District whose uses are restricted to a particular purpose.

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund – The internal service fund accounts for the financing of services provided by one department or agency to other department or agencies of the School District on a cost reimbursement basis. The School District has one internal service fund, which accounts for the self-insurance program which provides medical benefits to employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has various funds established to provide scholarships to its students that are classified as private-purpose trust funds. Funds used to account for the activity of the numerous student-managed activities within the School District are classified as agency funds.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

Fund Financial Statements

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within ninety days of fiscal year end.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue.

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

E. Budget Data

All funds, other than agency funds and the Auxiliary Services special revenue fund, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board has established the legal level of control at the function level within the individual funds, with the exception of the grant funds, which are at the special cost center level.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

The appropriation resolution is subject to amendment by the Board throughout the school year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2004, investments included federal government agency bonds, STAROhio, and non-negotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The School District has invested funds in the State Treasury Assets Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$241,602. Interest was also credited for the year ended June 30, 2004 to the Hayner Cultural Fund and the Auxiliary Services Fund in the amount of \$1,957 and \$1,426, respectively.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, and purchased food. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

I. Restricted Assets

Restricted assets in the general fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required to be deposited into retainage accounts based on contractual obligations. See Note 19 for the year-end restricted asset balance and the corresponding fund balance reserves.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

K. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization two thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also not capitalized.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Estimated Lives
Buildings	40 years
Improvements	10 – 40 years
Furniture and Equipment	5 – 20 years
Textbooks	7 years
Vehicles	7 – 12 years

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statement.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave and additional salary related payments is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

O. Net Assets

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

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

P. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepaid items, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

NOTE 3 – PRIOR PERIOD ADJUSTMENT

For fiscal year 2004, the School District evaluated the capital asset listing for its textbooks. The School District noted that the capital asset listing was not properly updated for the recycling of textbooks. This discovery resulted in the amount reported for textbooks and accumulated depreciation of these textbooks at the beginning of the year to be restated to \$1,527,985 and \$899,235, respectively, from the amount previously reported at June 30, 2003 of \$577,449 and \$519,859. This revision increased the governmental activities net assets reported at June 30, 2003 from the \$18,461,595 to \$19,032,755.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2004:

	<u>Deficit Fund Equity</u>
Special Revenue Funds:	
Food Service Fund	\$ 94,812
Chapter 1	99,037
Reducing Class Size	14,042
Miscellaneous Federal Grants	589

The deficits in the special revenue funds were created by the application of generally accepted accounting principles. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 5 – DEPOSITS AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 School 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 and interest by the United States;

Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association,

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

2. Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interest 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: As fiscal year end, the School District had \$8,197 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits: At year-end, the carrying amount of the School District's deposits was \$1,178,285 and the bank balance was \$495,692. \$261,442 of the bank balance was covered by federal depository insurance and remaining balance was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in mutual funds and STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

		<u>Category 2</u>	<u>Carrying/ Fair Value</u>
Government Securities	\$	7,285,730	7,285,730
STAR Ohio		-	7,559,062
	\$	<u>7,285,730</u>	<u>14,844,792</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

		<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$	8,745,544	7,285,730
Cash on Hand		(8,197)	-
Investments:			
STAR Ohio		<u>(7,559,062)</u>	<u>7,559,062</u>
GASB Statement 3	\$	<u>1,178,285</u>	<u>14,844,792</u>

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 – PROPERTY TAXES (Continued)

2004 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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 assessed values upon which fiscal year 2004 taxes were collected are:

	<u>2004 First Half Collections</u>		<u>2003 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$509,442,940	76.00%	\$496,453,440	75.63%
Public Utility	19,827,540	2.96%	20,340,880	3.10%
Tangible Personal Property	<u>141,054,040</u>	<u>21.04%</u>	<u>139,656,484</u>	<u>21.27%</u>
Total Assessed Value	<u><u>\$670,324,520</u></u>	<u><u>100.00%</u></u>	<u><u>\$656,450,804</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$60.06		\$59.50	

The School District receives property taxes from Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 – PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance was recognized as revenue. On the Statement of Activities, the delinquent taxes that were levied in previous years are recognized as revenue.

The amount available as an advance at June 30, 2004, was \$1,617,452, \$22,528 and \$35,778 in the General, Hayner, and Capital Improvement funds, respectively.

One of the School District's major taxpayers has overpaid its tangible personal property taxes to Miami County, Ohio, in the amount of \$1,578,152 for the years 1994 through 1996 and has underpaid \$159,974 for 1997. Accrued interest on the overpayment totals \$463,718.

The School District has negotiated repayment over a five-year period which began in fiscal year 1999-2000. The School District's share of the repayment for the first year was 72.4% of the amount, or \$165,250. For the second year, the School District's share was 72%, or \$294,029, and for the third, fourth, and fifth years, the School District's share is 73%, or \$298,113 for each of the three years. The total amount repayable by the School District is \$1,353,628.

NOTE 7 – RECEIVABLES

Receivables at June 30, 2004, consisted of current and delinquent property taxes, accounts (rent and student fees), intergovernmental grants and interfund transactions. 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 intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
State of Ohio – Rollbacks & Homestead Exemptions	\$ 1,871,321
Chapter 1	75,978
Class Size Reduction Grant	18,331
Other Non-major Funds	90,643
Total Intergovernmental Receivables	<u>\$ 2,056,273</u>

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 – CAPITAL ASSETS

	Balance, 6/30/2003 <u>(as restated)</u>	<u>Additions</u>	<u>Deductions</u>	Balance 6/30/2004
<u>Capital Assets, not being depreciated:</u>				
Land	\$ 490,031	-	-	490,031
 <u>Capital Assets, being depreciated:</u>				
Buildings	9,710,366	-	-	9,710,366
Improvements	6,436,685	442,159	(24,105)	6,854,739
Furniture and Equipment	3,301,333	832,378	(115,306)	4,018,405
Textbooks	1,527,985	333,555	(577,449)	1,284,091
Vehicles	1,991,872	255,508	(155,492)	2,091,888
	<u>22,968,241</u>	<u>1,863,600</u>	<u>(872,352)</u>	<u>23,959,489</u>
 <u>Less: Accumulated Depreciation:</u>				
Buildings	(8,634,503)	(131,093)	-	(8,765,596)
Improvements	(2,735,522)	(375,677)	23,755	(3,087,444)
Furniture and Equipment	(2,644,135)	(287,881)	115,306	(2,816,710)
Textbooks	(899,235)	(140,846)	519,859	(520,222)
Vehicles	(1,194,336)	(114,684)	155,492	(1,153,528)
	<u>(16,107,731)</u>	<u>(1,050,181) *</u>	<u>814,412</u>	<u>(16,343,500)</u>
Capital Assets, being depreciated, net	<u>6,860,510</u>	<u>813,419</u>	<u>(57,940)</u>	<u>7,615,989</u>
Capital Assets, net	<u>\$ 7,350,541</u>	<u>813,419</u>	<u>(57,940)</u>	<u>8,106,020</u>

* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 695,368
Support Services:	
Instructional Staff	1,676
Administration	91,748
Operation and Maintenance of Plant	19,124
Pupil Transportation	103,480
Operation of Non-Instructional Services	4,271
Extracurricular Activities	3,421
	<u>919,088</u>
Unallocated Depreciation	131,093
Total Depreciation Expense	<u>\$ 1,050,181</u>

Unallocated depreciation is depreciation of the individual school buildings throughout the District that essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 – RISK MANAGEMENT

A. Property and Liability

The School District covers the remainder of its risk (property, liability, etc.) through commercial insurance. There were no significant changes in coverage's, retentions or limits during the fiscal year. Settled claims have not exceeded the commercial coverage's in any of the previous three years.

B. Health Insurance

The District provides health care coverage for its employees and is self-insured up to a stop loss limit of \$50,000 per employee for the cost of providing this coverage. This activity is accounted for in the General, Special Revenue, and Proprietary Funds. Paid claims are recorded as an expenditure/expense in the respective funds based on a per employee charge. For reporting purposes, this activity has been reclassified to the Employee Health Insurance Fund with in the Internal Service Fund.

Expenses for claims are recorded as other expenditures/expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for unpaid claims is based on past experience and large outstanding balances. The liability at June 30, 2004, is not discounted. An actuary was used in determining its liability. A summary of changes in self-insured claims for the year ended June 30, 2004, follows:

<u>Year</u>		<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$	407,566	2,744,693	(2,858,216)	294,043
2004	\$	294,043	3,280,517	(3,162,954)	411,606

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$739,763, \$710,964 and \$644,742, respectively; 46.16 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,333,212, \$2,206,646, and \$2,219,618 respectively; 70.89 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2003. For the School District, this amount equaled \$166,658 during the 2004 fiscal year.

For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five 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 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2004, the minimum pay has been established at \$25,400. For the School, the amount to fund health care benefits, including the surcharge, was \$330,281 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

Administrators and classified staff who work twelve-month contracts are granted vacation leave. The leave amount is based on length of service and position. Accrued vacation leave may, in some cases, be carried over from one contract year to another, for up to three years. The School District accrues vacation leave benefits as earned.

District employees earn sick leave at fifteen days per year. Upon retirement or termination an employee is paid 25% of the accrued sick leave days, not to exceed a total of 50 days' severance pay. Sick leave benefits are accrued as a liability using the termination payment method.

NOTE 13 – CAPITALIZED LEASES – LESSEE DISCLOSURE

The Troy City School District entered into a capital lease for equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are recorded in the general fund and the public school special revenue fund directly in the fund financial statements. Amortization applicable to assets acquired through capital lease arrangements is included with depreciation for financial statement presentation.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$649,057, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was split between long-term liabilities due within a year and long-term liabilities due within more than one year on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$75,512.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

<u>Year</u>	
2005	\$ 95,457
2006	92,722
2007	92,722
2008	92,722
2009	92,722
2010-2011	<u>115,903</u>
	582,248
Less: Amount representing interest	<u>(59,782)</u>
Total present value of minimum lease payments	<u>\$522,466</u>

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Amount Outstanding June 30, 2003	Increase	Decrease	Amount Outstanding June 30, 2004	Amount Due Within One Year
Compensated Absences	\$ 3,058,306	1,629,576	(623,295)	4,064,587	279,631
Capital Leases	22,941	575,037	(75,512)	522,466	78,604
Total Governmental Activities	\$ 3,081,247	2,204,613	(698,807)	4,587,053	358,235

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital lease obligations will be paid from the general fund and the public school special revenue fund.

As of June 30, 2004, the overall legal debt margin was \$60,329,207 with an unvoted debt margin of \$670,325.

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2004, principal components of interfund balances and transactions were as follows:

Fund Due From	Fund Due To	Amount
General	Permanent Improvement Fund	\$ 70,000
	Title III	2,081
	Title I	44,023
	Miscellaneous Federal Grants	4,276
		\$ 120,380

The due to represents cash advances to grant funds for cash flow purposes by the general fund.

During fiscal year 2004, the General Fund received transfers-in of \$610 from various non-major governmental funds which were closed during the year. In addition, the General Fund provided \$37,908 of operating funds to the non-major Food Service special revenue fund through a transfer-out. These transfers represent permanent transfers to fund different programs and operations with general fund unrestricted revenues as allowed by statute.

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Educational Purchasing Council – The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council 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 the SOEPC.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2004, the School District contributed \$2,468 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Metropolitan Dayton Educational Cooperative Association – The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a data acquisition site used by the School District. MDECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. MDECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative instructional functions among member districts. The Board of MDECA consists of one representative from each of the participating members. Complete financial information can be obtained from MDECA located in Dayton, Ohio.

NOTE 17 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

NOTE 18 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Cash Balance, As of June 30, 2003	\$ (943,497)	(1,117,314)
Current Year Set-aside Requirement	575,611	575,611
Current Year Offsets	-	(515,399)
Qualifying Disbursements	(1,004,820)	(286,439)
Total	(1,372,706)	(1,343,541)
Balance Carried Forward to FY 2005	\$ (1,372,706)	-

The School District had qualifying disbursements during the year that reduced the set-aside below zero for the textbook set-aside, the extra amounts may be used to reduce the set-aside requirements of future years.

NOTE 20 – SUBSEQUENT EVENT

On November 2, 2004, the School District voters approved a levy to authorize the bond issuance of \$21,205,000. The School District has issued two bond anticipation notes in the amounts of \$14,900,000 and \$6,305,000 that shall mature on June 28, 2005, and will be paid from the proceeds of the bond sale that is scheduled in March of 2005. These bonds will mature substantially in equal semi-annual installments over a period not exceeding twenty-eight years. The monies will be used for financing the cost of improvements, renovations, additions, and site improvements to Concord Elementary School, Forest Elementary School, Van Cleve Elementary School, and Troy High School.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Non-GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 20,211,688	20,211,688	20,524,356	312,668
Intergovernmental	10,784,408	10,813,525	11,010,111	196,586
Interest	275,000	275,000	172,579	(102,421)
Tuition and Fees	751,000	751,000	716,945	(34,055)
Extracurricular Activities	40,000	40,000	36,827	(3,173)
Miscellaneous	60,000	60,000	71,450	11,450
Total Revenues	<u>32,122,096</u>	<u>32,151,213</u>	<u>32,532,268</u>	<u>381,055</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	17,581,912	17,620,421	16,982,491	637,930
Special	3,651,287	3,824,448	3,695,378	129,070
Other	1,126,751	1,307,894	1,294,207	13,687
Support Services:				
Pupils	1,392,856	1,406,752	1,355,263	51,489
Instructional Staff	992,534	1,125,679	1,117,315	8,364
Board of Education	604,885	615,935	576,785	39,150
Administration	2,043,948	2,064,273	2,063,895	378
Fiscal	385,439	394,121	378,359	15,762
Business	503,059	530,174	503,366	26,808
Operation and Maintenance of Plant	2,817,458	2,865,586	2,746,576	119,010
Pupil Transportation	1,664,681	1,747,910	1,624,912	122,998
Total Expenditures	<u>32,764,810</u>	<u>33,503,193</u>	<u>32,338,547</u>	<u>1,164,646</u>
Excess of Revenues Over (Under) Expenditures	<u>(642,714)</u>	<u>(1,351,980)</u>	<u>193,721</u>	<u>1,545,701</u>
<u>Other Financing Sources (Uses):</u>				
Advances In	46,745	46,745	46,715	(30)
Advances Out	-	(120,380)	(120,380)	-
Operating Transfers In	-	-	1,630	1,630
Operating Transfers Out	-	(37,908)	(37,908)	-
Total Other Financing Sources (Uses)	<u>46,745</u>	<u>(111,543)</u>	<u>(109,943)</u>	<u>1,600</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(595,969)	(1,463,523)	83,778	1,547,301
Fund Balance, Beginning of Year	10,706,665	10,706,665	10,706,665	-
Prior Year Encumbrances Appropriated	<u>884,725</u>	<u>884,725</u>	<u>884,725</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 10,995,421</u>	<u>10,127,867</u>	<u>11,675,168</u>	<u>1,547,301</u>

See accompanying notes to the required supplementary information.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

Basis of Budgeting

Basis of budgeting refers to when revenues and expenditures or expenses are recognized in the accounts. The Troy City School District's (the School District) budget for all legislated funds are prepared on a cash-encumbrance basis wherein transactions are recorded when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

The basis of budgeting differs from generally accepted accounting principles (GAAP) used for the School District's year-end financial statements contained in the basic financial statements. Under that basis of accounting, revenues are generally recognized when the obligation to the School District arises; the budget basis however, recognizes revenue only when cash has been received. In the basic financial statements, expenditures are generally recognized in the period in which they are incurred. Under that budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

General Budget Policies

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 appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All governmental funds are subject to annual expenditure budgets except for the Auxiliary Service Fund (Special Revenue Fund), which are deemed to be appropriated. The School District follows the procedures outlined below in establishing the expenditures budget data reported in the required supplementary information.

Prior to January 20, 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund or function level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission.

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. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. The encumbered appropriations balance is carried forward to the subsequent fiscal year and need not be reappropriated.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

	<u>General Fund</u>
GAAP Basis	\$ 1,108,460
Revenue Accruals	(163,460)
Expenditure Accruals	(213,539)
Inception of Capital Lease	(575,038)
Advances	(73,665)
Transfers	<u>1,020</u>
Budget Basis	\$ <u><u>83,778</u></u>

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA 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	Not Available	10.550		\$108,234		\$108,234
National School Breakfast Program	05PU-2003 05PU-2004	10.553	\$6,084 39,141 <u>45,225</u>		\$6,084 39,141 <u>45,225</u>	
National School Lunch Program	LLP4 2003 LLP4 2004	10.555	38,588 263,617 <u>302,205</u>		38,588 263,617 <u>302,205</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>347,430</u>	<u>108,234</u>	<u>347,430</u>	<u>108,234</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Education Agencies (ESEA Title I)	C1S1-2003 C1S1-2004 C1SD-2003 C1SD-2004	84.010	71,878 439,458 11,947 76,691 <u>599,974</u>		72,712 459,509 10,828 76,691 <u>619,740</u>	
Special Education Grants to States (IDEA Part B)	6BSF-2004	84.027	643,072		642,927	
Drug Free Schools and Communities	DRS1-2003 DRS1-2004	84.186	1,286 12,860 <u>14,146</u>		1,373 10,766 <u>12,139</u>	
Eisenhower Professional Development Grant	MSS1-2002	84.281			(12,557)	
Innovation Education Program Strategies	C2S1-2002 C2S1-2003 C2S1-2004	84.298	13,709 38,893 <u>52,602</u>		985 6,779 34,753 <u>42,517</u>	
Title II-D, Technology Program	TJS1-2003 TJS1-2004	84.318	6,475 10,651 <u>17,126</u>		6,213 9,811 <u>16,024</u>	
Assistive Technology Grant	ATS4-2002	84.352A	435		435	
Title III	T3S1 2004	84.365	12,027		11,996	
Improving Teacher Quality State Grants (Title II Part A)	TRS1-2003 TRS1-2004	84.367	3,882 169,923 <u>173,805</u>		13,115 159,897 <u>173,012</u>	
Total U.S. Department of Education			<u>1,513,187</u>		<u>1,506,233</u>	
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Direct Receipt</i>						
Public Assistance Grant Program	Not Available	97.036	2,946			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Dept. of Jobs and Family Services</i>						
<i>Passed Through Montgomery County ESC</i>						
Medical Assistance Program	Not Available	93.778	7,424		7,424	
Total Federal Assistance			<u><u>\$1,868,041</u></u>	<u><u>\$108,234</u></u>	<u><u>\$1,861,087</u></u>	<u><u>\$108,234</u></u>

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

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004, the District had no significant food commodities in inventory.

NOTE C – MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Troy City School District
Miami County
500 N Market Street
Troy, Ohio 45373

To the Board of Education:

We have audited the financial statements of Troy City School District, Miami County, (the "District") as of and for the year ended June 30, 2004, and have issued our report dated January 7, 2005. 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 the management of the District in a separate letter dated January 7, 2005.

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 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 January 7, 2005.

Troy City School District
Miami County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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.

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

Betty Montgomery
Auditor of State

January 7, 2005



Auditor of State Betty Montgomery

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

Troy City School District
Miami County
500 N Market Street
Troy, Ohio 45373

To the Board of Education:

Compliance

We have audited the compliance of Troy City School District, Miami County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are 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 each of its major federal programs 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 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 each of its major federal programs for the year ended June 30, 2004.

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.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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.

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.

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

Betty Montgomery
Auditor of State

January 7, 2005

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
FOR THE YEAR ENDED JUNE 30, 2004**

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):	Title I (CFDA #84.010) Special Education Grants (CFDA #84.027)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A -133 ' .315 (b)
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	No internal control audit Was performed for the District's third-party Administrator as required by SAS 70/88	Yes	



**Auditor of State
Betty Montgomery**

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**TROY CITY SCHOOL DISTRICT
MIAMI 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
FEBRUARY 10, 2005**