



**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, each 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Troy City School District, as of June 30, 2005, and the respective changes in financial position and where applicable cash flows, 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 March 13, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion & Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Basis) – General Fund, are not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The 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 expenditures 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

March 13, 2006

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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 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 2005 are as follows:

Overall:

- Total net assets decreased \$4.5 million, which represents a 22.49% decrease from fiscal year 2004.
- Total assets of governmental activities increased by \$19.9 million, attributed almost exclusively to the proceeds received from the issuance of School Improvement Bonds in the amount of \$21.2 million.
- General revenues accounted for \$32.6 million or 85.11% of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5.7 million or 14.89% of total revenues of \$38.4 million.
- Of the School District's \$42.9 million in expenses, only \$5.7 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 \$37.1 million.
- The General Fund had \$34.1 million in revenues and \$33.9 million in expenditures representing 82.25% and 81.68% 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.
- The School District's only other major fund other than the General Fund is the Building Construction Project Fund. The Building Construction fund accounts for the proceeds from the School Improvement Bonds that were issued during the current fiscal year. This fund has total assets of \$20.6 million, which all but \$66 thousand is cash.

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

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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 and the Building Construction Project Fund are by far the most significant funds.

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 2005?" 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 15. 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

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activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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 2005 and 2004:

TABLE 1
NET ASSETS, JUNE 30

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current and Other Assets	\$ 59,183,570	39,486,493
Capital Assets	<u>8,261,002</u>	<u>8,106,020</u>
Total Assets	<u>67,444,572</u>	<u>47,592,513</u>
LIABILITIES		
Current Liabilities	24,870,954	22,961,202
Noncurrent Liabilities	<u>27,036,490</u>	<u>4,587,054</u>
Total Liabilities	<u>51,907,444</u>	<u>27,548,256</u>
NET ASSETS:		
Invested in Capital Assets, Net of Debt	7,817,139	7,583,553
Restricted	2,292,385	1,824,989
Unrestricted	<u>5,427,604</u>	<u>10,635,715</u>
Total Net Assets	\$ <u>15,537,128</u>	<u>20,044,257</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2005, the School District's net assets were \$15.5 million. Of that amount, approximately \$7.8 million was invested in capital assets, net of debt related to those assets. Another \$2.3 million was subject to external restrictions upon its use. The remaining \$5.4 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration.

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Table 2 shows the changes in net assets for fiscal year 2005, as compared to fiscal year 2004:

TABLE 2
CHANGE IN NET ASSETS, JUNE 30

	2005	2004
REVENUES:		
Program Revenues:		
Charges for Services	\$ 2,436,787	2,297,330
Operating Grants and Contributions	3,235,974	2,627,813
Capital Grants and Contributions	38,197	32,924
General Revenues:		
Property Taxes	22,565,361	22,334,803
Grants and Entitlements	9,033,887	11,074,798
Investment Earnings	890,587	244,985
Loss on Sale of Capital Assets	(42,560)	(57,940)
Gifts and Donations	13,995	223,500
Other	186,774	182,882
Total Revenues	38,359,002	38,961,095
PROGRAM EXPENSES:		
Instruction	27,972,628	25,936,285
Support Services:		
Pupils and Instructional Staff	2,898,779	2,492,754
Board of Education, Administration		
Fiscal and Business	4,436,591	3,360,393
Operation and Maintenance of Plant	3,001,990	2,807,707
Pupil Transportation	1,811,872	1,439,755
Central	37,178	-
Operation of Non-Instructional Services	1,782,513	1,494,217
Extracurricular Activities	252,158	271,913
Interest and Fiscal Charges	555,492	15,476
Depreciation Expense	116,930	131,093
Total Expenses	42,866,131	37,949,593
Change in Net Assets	\$ (4,507,129)	1,011,502

**TROY CITY SCHOOL DISTRICT
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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 58.76% of revenues for governmental activities for the Troy City School District for fiscal year 2005. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 32.05% of the School District's total revenue was received from intergovernmental sources during fiscal year 2005.

Despite not having sought new operating funds through a property tax levy in the past six years, the School District has been able regain stable financial footing after a struggling through financial difficulties in the late 1990's. Through careful management of expenses, the School District has been able maintain 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 65.26% of the School District's expenses for fiscal year 2005. Support services expenses make up 28.43% 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
FOR THE FISCAL YEAR ENDED JUNE 30,**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 27,972,628	24,799,872	25,936,285	23,163,654
Support Services:				
Pupils and Instructional Staff	2,898,779	2,663,849	2,492,754	2,330,305
Board of Education, Administration, Fiscal and Business	4,436,591	4,400,786	3,360,393	3,303,204
Operation and Maintenance of Plant	3,001,990	2,993,066	2,807,707	2,786,807
Pupil Transportation	1,811,872	1,778,986	1,439,755	1,418,800
Central	37,178	37,178	-	-
Operation of Non-Instructional Services	1,782,513	130,602	1,494,217	12,285
Extracurricular Activities	252,158	(321,588)	271,913	(170,098)
Interest and Fiscal Charges	555,492	555,492	15,476	15,476
Depreciation Expense	116,930	116,930	131,093	131,093
Total Expenses	\$ 42,866,131	37,155,173	37,949,593	32,991,526

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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 School District.

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 to the 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

On the modified accrual basis of accounting, the School District's two major governmental funds had ending fund balances totaling \$31.3 million, or 92.18% of the total fund balance for all governmental funds.

The School District's primary operating fund, the General Fund, ended the year with revenues exceeding expenditures by \$220,196, which was significantly less than the \$1.1 million increase reported in the prior year. The unreserved, undesignated ending fund balance of the General Fund (\$7.65 million) represents approximately 22.6% of the total expenditures reported in the General Fund. While the ending fund balance of the general fund increased by \$125,146 over the total balance reported at June 30, 2005, the unreserved, undesignated fund balance decreased by \$1.0 million due to a higher amount of fund balance being reserved for property taxes. This amount represents property taxes held by the County Auditor that were available to the School District at the end of the fiscal year. In prior years, this amount had been much less than the \$2.4 million available at June 30, 2005.

The School District's other major fund reported a positive change in fund balances for fiscal year 2005. This is due to the fact that the Building Construction Project was established during the current year to account for the proceeds from the issuance of School Improvement Bonds in the amount of \$21.2 million. The proceeds

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from the issuance of these bonds 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.

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 \$33.2 million as compared to the original budget estimates of \$32.3 million. This difference included tax revenues initially budgeted at \$20.7 million with budget basis revenues coming in at \$21.2 million. Also included are intergovernmental revenues budgeted at \$10.6 million with revenues coming in at \$10.8 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$34.2 million, \$1.1 million over budget basis actual revenue, but \$74,369 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.

Capital Assets

At the end of fiscal year 2005, the School District had \$8.3 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2005 balances compared to 2004:

TABLE 4
CAPTIAL ASSETS, JUNE 30

	2005	2004
Land	\$ 530,131	490,031
Buildings	9,848,933	9,710,366
Improvements	7,645,887	6,854,739
Furniture and Equipment	3,983,123	4,018,405
Textbooks	1,086,292	1,284,091
Vehicles	2,179,624	2,091,888
Less: Accumulated Depreciation	<u>(17,012,988)</u>	<u>(16,343,500)</u>
	<u>\$ 8,261,002</u>	<u>8,106,020</u>

TROY CITY SCHOOL DISTRICT
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Overall, net capital assets increased approximately \$156,000 from fiscal year 2004. The increase in capital assets results from the amount of capital assets acquired during the year being a larger amount than the amount of depreciation being charged.

During fiscal year 2005, the School District had various capital improvement projects totaling \$791,148 which added to the value of or extended the useful lives of its school facilities. In addition, four new school buses for pupil transportation were acquired for a total cost of \$246,360. Other capital asset additions, included a purchase of property located at 115 Washington Road for \$178,667, various equipment and textbook purchases totaling \$109,377 during fiscal year 2005. Current year depreciation expense totaled \$1.128 million.

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, 2005, the School District had two separate debt issues. The first was a capital lease with an outstanding balance of \$443,863, of which \$78,543 is due within one year. This lease consists of equipment that has capitalized as capital assets within the governmental activities. Principal payments for fiscal year 2005 totaled \$75,912.

The other debt issue of the School District that was outstanding was the School Improvement Bonds in the amount of \$21,204,991. These bonds were issued during the current fiscal year and as previously mentioned will be used to finance the cost of improvements, renovations, additions, and site improvements to Concord Elementary School, Forest Elementary School, Van Cleve Elementary School, and Troy High School. No principal or interest payments were made as of June 30, 2005 and \$145,000 of principal is due within one year.

At June 30, 2005, the School District's overall legal debt margin was \$42.43 million and the unvoted debt margin was \$702 thousand.

For more detailed disclosures regarding the School District's long-term debt obligations readers should refer to Note 14 to the basic financial statements.

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, 2005. Cash on hand at June 30, 2005 was \$646,477 greater than forecasted due to \$767,252 in improved revenue 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. Legislative actions by the legislature of the State of Ohio will reduce the district's operating revenues 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 to individual taxpayers.

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The state legislature has created change to the state aid funding formula that has reduced state funding to the district by \$248,002 in fiscal year 2004-2005 when compared to the prior fiscal year and will hold this funding at the current amount for the next fiscal year 2005-2006.

Other action taken by the current legislature calls for a phasing out over the next four years of the Tangible Personal Property taxes paid by business and industry. This same legislation provides for the district to receive replacement revenues based on the actual amount of Tangible Personal Property tax revenues received in fiscal year 2004. However this replacement revenue will not include lost tax revenues that had already been eliminated on the inventories held by business and industry.

These actions by the state legislature create two very critical issues relative to the district's receipt of operating revenues. First, in fiscal year 2004-2005 the district received \$7,199,457 or 18% of total operating revenue from Tangible Personal Property tax and this revenue source is being phased out, and second, Tangible Personal Property tax, one of our three major sources of operating revenues with local Real Estate tax and State Foundation the other two, provided us with a source of inflationary growth in our revenue. Now, with that being eliminated, it has also eliminated any opportunity for inflationary growth in any of our operating revenue sources. The district will need to generate a new source of revenue to keep pace with projected growth in operating expenses.

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.

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TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 9,145,468
Investments	27,182,286
Receivables:	
Taxes	22,240,264
Accounts	144,309
Intergovernmental	243,135
Accrued Interest	96,562
Materials and Supplies Inventory	114,459
Prepaid Items	17,087
Capital Assets:	
Capital assets not subject to depreciation:	
Land	530,131
Capital assets, net of accumulated depreciation	7,730,871
Total Assets	67,444,572
LIABILITIES:	
Accounts Payable	615,300
Accrued Wages and Benefits	2,691,314
Intergovernmental Payable	1,591,521
Claims Payable	637,280
Accrued Interest Payable	225,329
Deferred Revenue	19,110,210
Noncurrent Liabilities:	
Due Within One Year	822,905
Due In More Than One Year	26,213,585
Total Liabilities	51,907,444
NET ASSETS:	
Invested in capital assets, net of related debt	7,817,139
Restricted for:	
Special Revenue	107,272
Debt Service	646,894
Capital Projects	1,538,219
Unrestricted	5,427,604
Total Net Assets	\$ 15,537,128

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
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Statement of Activities
For the Fiscal Year Ended June 30, 2005

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 22,297,970	781,620	1,420,642	-	(20,095,708)
Special	4,373,800	-	970,494	-	(3,403,306)
Vocational	96,303	-	-	-	(96,303)
Other	1,204,555	-	-	-	(1,204,555)
Support Services:					
Pupils	1,768,682	-	230,790	-	(1,537,892)
Instructional Staff	1,130,097	-	4,140	-	(1,125,957)
Board of Education	576,107	-	-	-	(576,107)
Administration	2,838,202	-	249	-	(2,837,953)
Fiscal	439,545	-	292	-	(439,253)
Business	582,737	-	11,264	24,000	(547,473)
Operation and Maintenance of Plant	3,001,990	-	-	8,924	(2,993,066)
Pupil Transportation	1,811,872	23,279	9,607	-	(1,778,986)
Central	37,178	-	-	-	(37,178)
Operation of Non-Instructional Services	1,782,513	1,063,415	588,496	-	(130,602)
Extracurricular Activities	252,158	568,473	-	5,273	321,588
Interest and Fiscal Charges	555,492	-	-	-	(555,492)
Unallocated Depreciation *	116,930	-	-	-	(116,930)
Total	\$ <u>42,866,131</u>	<u>2,436,787</u>	<u>3,235,974</u>	<u>38,197</u>	<u>(37,155,173)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					20,872,661
Hayner Cultural Center					377,740
Debt Service					691,860
Capital Outlay					623,100
Grants, Entitlements and Contributions not Restricted to					
Specific Programs					9,033,887
Investment Earnings					890,587
Loss on Sale of Capital Assets					(42,560)
Gifts and Donations					13,995
Other Revenue					<u>186,774</u>
			Total General Revenues		<u>32,648,044</u>
			Change in Net Assets		(4,507,129)
			Net Assets, Beginning of Year		<u>20,044,257</u>
			Net Assets, End of Year	\$	<u>15,537,128</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, 2005

	General Fund	Building Construction Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 4,471,876	1,557,241	2,791,351	8,820,468
Investments	8,157,026	19,025,260	-	27,182,286
Receivables:				
Taxes	20,025,957	-	2,214,307	22,240,264
Accounts	63,439	-	22,958	86,397
Intergovernmental	53,272	-	189,863	243,135
Accrued Interest	29,002	66,439	1,121	96,562
Due from Other Funds	68,333	-	-	68,333
Materials and Supplies Inventory	85,815	-	28,644	114,459
Prepaid Items	13,886	-	3,201	17,087
	<u>32,968,606</u>	<u>20,648,940</u>	<u>5,251,445</u>	<u>58,868,991</u>
Total Assets	\$ <u>32,968,606</u>	<u>20,648,940</u>	<u>5,251,445</u>	<u>58,868,991</u>
LIABILITIES:				
Accounts Payable	\$ 234,067	215,840	165,393	615,300
Accrued Wages and Benefits	2,499,443	-	191,871	2,691,314
Intergovernmental Payable	1,138,593	-	196,178	1,334,771
Compensated Absences Payable	599,362	-	-	599,362
Due to Other Funds	-	-	68,333	68,333
Deferred Revenue	17,648,900	-	1,975,804	19,624,704
	<u>22,120,365</u>	<u>215,840</u>	<u>2,597,579</u>	<u>24,933,784</u>
Total Liabilities	<u>22,120,365</u>	<u>215,840</u>	<u>2,597,579</u>	<u>24,933,784</u>
FUND BALANCES:				
Reserved for:				
Encumbrances	718,050	2,133,491	754,848	3,606,389
Materials and Supplies Inventory	85,815	-	28,644	114,459
Prepaid Items	13,886	-	3,201	17,087
Property Taxes	2,377,057	-	238,503	2,615,560
Unreserved, Undesignated:				
General Fund	7,653,433	-	-	7,653,433
Special Revenue Funds	-	-	444,876	444,876
Debt Service Funds	-	-	360,402	360,402
Capital Projects Funds	-	18,299,609	823,392	19,123,001
	<u>10,848,241</u>	<u>20,433,100</u>	<u>2,653,866</u>	<u>33,935,207</u>
Total Fund Balances	<u>10,848,241</u>	<u>20,433,100</u>	<u>2,653,866</u>	<u>33,935,207</u>
Total Liabilities and Fund Balances	\$ <u>32,968,606</u>	<u>20,648,940</u>	<u>5,251,445</u>	<u>58,868,991</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, 2005

Total Governmental Fund Balances	\$	33,935,207
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,261,002
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		514,494
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.		(254,368)
Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds		
Accrued Interest Payable		(225,329)
Compensated Absences		(4,788,274)
Intergovernmental Payable		(256,750)
Capital Leases Payable		(443,863)
Bonds Payable		<u>(21,204,991)</u>
Net Assets of Governmental Activities	\$	<u>15,537,128</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, 2005

	General Fund	Building Construction Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 21,946,277	-	1,707,992	23,654,269
Intergovernmental	10,786,039	-	3,529,760	14,315,799
Investment Earnings	521,000	366,148	3,439	890,587
Tuition and Fees	737,199	-	44,421	781,620
Charges for Services	-	-	1,063,415	1,063,415
Transportation	23,279	-	-	23,279
Extracurricular Activities	37,426	-	531,047	568,473
Gifts and Donations	-	-	13,995	13,995
Miscellaneous	80,815	-	104,429	185,244
	<u>34,132,035</u>	<u>366,148</u>	<u>6,998,498</u>	<u>41,496,681</u>
Total Revenues				
EXPENDITURES:				
Current:				
Instruction:				
Regular	18,272,203	-	1,866,648	20,138,851
Special	3,260,821	-	970,980	4,231,801
Vocational	93,405	-	-	93,405
Other	1,204,555	-	-	1,204,555
Support Services:				
Pupils	1,673,577	-	-	1,673,577
Instructional Staff	960,611	-	124,116	1,084,727
Board of Education	576,107	-	-	576,107
Administration	2,320,748	-	311,738	2,632,486
Fiscal	411,820	-	12,035	423,855
Business	546,025	-	37,579	583,604
Operation and Maintenance of Plant	2,813,911	-	132,943	2,946,854
Pupil Transportation	1,648,155	-	-	1,648,155
Central	37,178	-	-	37,178
Operation of Non-Instructional Services	-	-	1,737,014	1,737,014
Extracurricular Activities	-	-	248,291	248,291
Capital Outlay	-	1,106,236	741,130	1,847,366
Debt Service:				
Principal	75,912	-	2,692	78,604
Interest	16,811	33,333	280,019	330,163
	<u>33,911,839</u>	<u>1,139,569</u>	<u>6,465,185</u>	<u>41,516,593</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>220,196</u>	<u>(773,421)</u>	<u>533,313</u>	<u>(19,912)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Issuance of Long-Term Bonds	-	21,204,991	-	21,204,991
Premium on Issuance of Long-Term Bonds	-	1,530	-	1,530
Transfers In	1,214,706	-	1,309,756	2,524,462
Transfers Out	(1,309,756)	-	(1,214,706)	(2,524,462)
	<u>(95,050)</u>	<u>21,206,521</u>	<u>95,050</u>	<u>21,206,521</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	125,146	20,433,100	628,363	21,186,609
Fund Balance, Beginning of Year	<u>10,723,095</u>	<u>-</u>	<u>2,025,503</u>	<u>12,748,598</u>
Fund Balance, End of Year	\$ <u>10,848,241</u>	<u>20,433,100</u>	<u>2,653,866</u>	<u>33,935,207</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, 2005

Total Net Change in Fund Balances - Total Governmental Funds	\$ 21,186,609
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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	1,325,202
Current Year Depreciation	(1,127,660)

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.

Loss on the disposal of capital assets	(42,560)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

	(24,301,640)
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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.

	78,604
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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	(1,003,318)
Accrued Interest Payable	(225,329)
Intergovernmental Payable	(15,679)

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.

	<u>(381,358)</u>
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Change in Net Assets of Governmental Activities	\$ <u><u>(4,507,129)</u></u>
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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, 2005

	Governmental Activities
	Internal Service Fund
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 325,000
Receivables:	
Accounts	57,912
Total Assets	382,912
LIABILITIES:	
Claims Payable	637,280
NET ASSETS:	
Unrestricted	\$ (254,368)

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, 2005

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES:	
Charges for Services	\$ <u>4,096,170</u>
Total Operating Revenues	<u>4,096,170</u>
OPERATING EXPENSES:	
Claims	<u>4,477,528</u>
Total Operating Expenses	<u>4,477,528</u>
Change in Net Assets	(381,358)
Net Assets, Beginning of Year	<u>126,990</u>
Net Assets, End of Year	\$ <u>(254,368)</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, 2005

	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	\$ 4,251,854
Cash Payments for Claims	<u>(4,251,854)</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>\$ 325,000</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ (381,358)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in assets and liabilities:	
Decrease in Accounts Receivable	155,684
Increase in Claims Payable	<u>225,674</u>
Total Adjustments	<u>381,358</u>
Net Cash Provided by Operating Activities	<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, 2005

	Scholarship Private- Purpose Trust Funds	Agency Fund
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 101,195	79,687
Investments	137,749	-
Total Assets	\$ 238,944	79,687
LIABILITIES:		
Accounts Payable	\$ 32,155	8,704
Due to Students	-	70,983
Total Liabilities	32,155	79,687
NET ASSETS:		
Held in Trust for Scholarships	\$ 206,789	-

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, 2005

		Scholarship Private- Purpose Trust Funds
ADDITIONS:		
Other Revenue	\$	32,468
Investment Earnings		4,665
Total Additions		37,133
DEDUCTIONS:		
Educational Outreach		37,518
Total Deductions		37,518
Change in Net Assets		(385)
Net Assets, Beginning of Year		207,174
Net Assets, End of Year	\$	206,789

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, 2005

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, 2005

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 segregated 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, 2005

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 and the Building Construction Project Fund are the only major funds 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.

Building Construction Project Fund – The Building Construction Project Fund is used to account for all transactions related to the School Improvement Bonds. Proceeds from the sale of the bonds were paid into this fund.

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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2005.

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 2005, 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 2005. 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, 2005.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005 amounted to \$521,000. Interest was also credited for the year ended June 30, 2005 to the Building Construction Project Fund, Hayner Cultural Fund and the Auxiliary Services Fund in the amount of \$366,148, \$820 and \$2,619, 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.

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, 2005, 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. 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.

J. 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

K. 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.

L. 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 is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date and on leave balances accumulated by other employees expected to become eligible in the future to receive 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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.

N. 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.

O. 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.

P. Compounded Interest on Capital Appreciation Bonds

Capital appreciation bonds are accreted each year for the compounded interest accrued during the year. The compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which revised the necessary disclosures that address risk related to deposits and investments and amended Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 involves required disclosures about:

- Custodial Credit Risk
- Credit Risk
- Concentration of Credit Risk
- Interest Rate Risk, and
- Foreign Currency Risk

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Implementation of this new accounting principle had no effect on these financial statements.

NOTE 4 – ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2005:

	<u>Deficit</u> <u>Fund Equity</u>
Special Revenue Funds:	
Food Service Fund	\$ 110,667
Title II Fund	\$ 526
Reducing Class Size Fund	\$ 8,464
Internal Service Fund:	
Self Insurance Fund	\$ 254,368

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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 – DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the School District into three categories.

Active Monies – Those monies required to be kept in “cash” or “near-cash” status for the immediate use of the district. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested in legal securities (see Note 2F).

Deposits

Custodial credit risk is the risk that in the event of bank failure, the School District’s deposits may not be returned to it. Protection of the School District’s deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end, the carrying amount of the School District’s deposits was \$9,326,350 and the bank balance was \$8,738,768. Of the bank balance, \$236,584 was covered by federal depository insurance and \$6,934,714 was uninsured. Of the uninsured bank balance, \$8,502,184 was collateralized with securities held by the pledging institution’s trust department but not in the School District’s name.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	Fair Value	Percent of Total Portfolio	Credit Rating	Weighted Avg. Maturity
Federal Home Loan Bank	\$ 7,147,690	26.16%	AAA	0.76 years
Federal Home Loan Bank Discount Notes	149,835	0.55%	AAA	0.04 years
Federal Farm Credit Bank	513,228	1.88%	AAA	0.38 years
Fannie Mae	9,823,181	35.96%	AAA	0.80 years
FNMA Discount Notes	1,720,391	6.30%	AAA	0.27 years
Federal Home Loan Mortgage Corp.	3,262,434	11.94%	AAA	0.81 years
FHLMC Discount Notes	1,814,635	6.64%	AAA	0.16 years
US Treasury Bill	475,731	1.74%	N/A	0.24 years
STAR Ohio	<u>2,412,910</u>	<u>8.83%</u>	AAA _m	N/A
 Total Investments	 \$ <u>27,320,035</u>	 <u>100.00%</u>		

Portfolio Weighted Average Maturity 0.63 years

The School District's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code and includes the following:

Interest Rate Risk – 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.

Concentration of Credit Risk – The School District should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers.

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 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax payments received during calendar 2005 for tangible personal property (other than public utility property) is for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 – PROPERTY TAXES (Continued)

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005, and are collected in 2005 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. 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 2005 taxes were collected are:

	2005 First Half Collections		2004 Second Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 548,407,960	78.16%	509,442,940	76.00%
Public Utility	19,868,040	2.84%	19,827,540	2.96%
Tangible Personal Property	<u>133,313,470</u>	<u>19.00%</u>	<u>141,054,040</u>	<u>21.04%</u>
Total Assessed Value	\$ <u>701,589,470</u>	<u>100.00%</u>	<u>670,324,520</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$62.05</u>		<u>\$60.06</u>	

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

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, 2005. 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 – PROPERTY TAXES (Continued)

The amount available as an advance at June 30, 2005, was \$2,377,057, \$39,152, \$129,391 and \$69,960 in the General, Hayner, Debt Service, and Capital Improvement funds, respectively.

NOTE 7 – RECEIVABLES

Receivables at June 30, 2005, 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>Governmental Activities:</u>	<u>Amount</u>
General - Tuition	\$ 53,272
Ohio Reads Grant	6,205
Summer Intervention Grant	16,718
Title III Grant	8,927
Title I Grant	132,740
Safe & Drug Free School Grant	621
Reducing Class Size Grant	22,627
Assistive Tech Infusion Grant	<u>2,025</u>
 Total Intergovernmental Receivables	 \$ <u><u>243,135</u></u>

NOTE 8 – CAPITAL ASSETS

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

	Balance, 6/30/2004	Additions	Deductions	Balance 6/30/2005
<u>Capital Assets, not being depreciated:</u>				
Land	\$ <u>490,031</u>	<u>40,100</u>	<u>-</u>	<u>530,131</u>
 <u>Capital Assets, being depreciated:</u>				
Buildings	9,710,366	138,567	-	9,848,933
Improvements	6,854,739	791,148	-	7,645,887
Furniture and Equipment	4,018,405	62,317	(97,599)	3,983,123
Textbooks	1,284,091	47,060	(244,859)	1,086,292
Vehicles	2,091,888	246,360	(158,624)	2,179,624
	<u>23,959,489</u>	<u>1,285,452</u>	<u>(501,082)</u>	<u>24,743,859</u>

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – CAPITAL ASSETS (Continued)

	Balance, 6/30/2004	Additions	Deductions	Balance 6/30/2005
<u>Less: Accumulated Depreciation:</u>				
Buildings	(8,765,596)	(116,930)	-	(8,882,526)
Improvements	(3,087,444)	(393,691)	-	(3,481,135)
Furniture and Equipment	(2,816,710)	(293,710)	84,554	(3,025,866)
Textbooks	(520,222)	(190,077)	217,040	(493,259)
Vehicles	(1,153,528)	(133,602)	156,928	(1,130,202)
	<u>(16,343,500)</u>	<u>(1,128,010) *</u>	<u>458,522</u>	<u>(17,012,988)</u>
Capital Assets, being depreciated, net	<u>7,615,989</u>	<u>157,442</u>	<u>(42,560)</u>	<u>7,730,871</u>
Capital Assets, net	<u>\$ 8,106,020</u>	<u>197,542</u>	<u>(42,560)</u>	<u>8,261,002</u>

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

Instruction:	
Regular	\$ 731,429
Support Services:	
Instructional Staff	1,676
Administration	121,070
Operation and Maintenance of Plant	19,124
Pupil Transportation	122,398
Operation of Non-Instructional Services	11,474
Extracurricular Activities	3,909
	<u>1,011,080</u>
Unallocated Depreciation	116,930
Total Depreciation Expense	<u>\$ 1,128,010</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.

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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – RISK MANAGEMENT (Continued)

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 within 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, 2005, 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, 2005, 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>
2004	\$ 294,043	3,280,517	(3,162,954)	411,606
2005	\$ 411,606	4,251,854	(4,026,180)	637,280

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% 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% 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 2005, 10.57% 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, 2005, 2004 and 2003 were \$887,679, \$739,763, and \$710,964, respectively; 51.70% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% 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, 2005, 2004, and 2003 were \$2,593,066, \$2,333,212, and \$2,206,646, respectively; 71.92% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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. Both systems are on a pay-as-you-go basis. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% 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, 2005, the Board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$167,491 during the 2005 fiscal year. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005 (the latest information available).

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 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. Effective August 1, 1989 members with less than twenty-five years of service credit are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, was \$521,789.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits of \$267.5 million, which is about 168% of next years projected health care costs. The number of benefit recipients currently receiving health care benefits is 58,123.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 vesting 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 2005 totaled \$78,604.

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, 2005.

Year	Amount
2006	\$ 92,722
2007	92,722
2008	92,722
2009	92,722
2010	92,722
2011	23,181
	486,791
Less: Amount representing interest	(42,929)
Total Present value of minimum lease payments	\$ 443,862

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS

During the year, \$21,204,991 of general obligation bonds were issued to finance the cost of improvements, renovations, additions, and site improvements to Concord Elementary School, Forest Elementary School, Van Cleve Elementary School, and Troy High School. The bonds were issued as current interest bonds and as capital appreciation bonds. The Capital Appreciation Bonds will not pay current interest but will accrete in value in lieu thereof. Interest on the Current Issue Bonds will be payable on December 1, 2005 and semi-annually thereafter on June 1 and December 1 each year.

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

	Amount Outstanding <u>June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	Amount Outstanding <u>June 30, 2005</u>	Amount Due Within <u>One Year</u>
Long-Term Obligations:					
General Obligation Bonds:					
2005 School Improvement Bonds:					
Serial - 3.00% - 5.00%	\$ -	10,940,000	-	10,940,000	145,000
Term - 4.50% - 5.00%	-	9,980,000	-	9,980,000	-
Capital Appreciation - 13.707%	-	284,991	-	284,991	-
Capital Leases	522,466	-	(78,604)	443,862	78,543
Compensated Absences	<u>4,064,587</u>	<u>2,143,927</u>	<u>(820,878)</u>	<u>5,387,636</u>	<u>599,362</u>
Total Governmental Activities	<u>\$ 4,587,053</u>	<u>23,348,918</u>	<u>(899,482)</u>	<u>27,036,489</u>	<u>822,905</u>

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.

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 145,000	1,047,492	1,192,492
2007	450,000	886,477	1,336,477
2008	480,000	872,528	1,352,528
2009	535,000	857,302	1,392,302
2010	565,000	839,390	1,404,390
2011-2015	3,179,991	4,335,422	7,515,413
2016-2020	4,535,000	3,114,913	7,649,913
2021-2025	3,570,000	2,244,729	5,814,729
2026-2030	4,500,000	1,289,550	5,789,550
2031-2032	<u>3,245,000</u>	<u>223,312</u>	<u>3,468,312</u>
	<u>\$ 21,204,991</u>	<u>15,711,115</u>	<u>36,916,106</u>

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2005, the overall legal debt margin was \$42,427,854 with an unvoted debt margin of \$701,589.

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2005, principal components of interfund balances and transactions were as follows:

Fund Due From	Fund Due To	Amount
General Fund	Public School Fund	\$ 7,798
	Ohio Reads Fund	6,205
	Summer Intervention Fund	3,458
	Title III Fund	7,370
	Title I Fund	32,549
	Drug Free School Grant Fund	621
	Reducing Class Size Fund	8,307
	Miscellaneous Federal Grant Fund	2,025
		\$ 68,333

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

During fiscal year 2005, the General Fund transferred \$1,212,206 to the Permanent Improvement Fund to provide financing for various school improvement projects. In addition, the General Fund provided \$97,550 of operating funds to the non-major Food Service special revenue fund through a transfer-out. The \$1,214,706 transfer of funds from two non-major funds which were closed during the year.

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.

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 2005, the School District contributed \$2,102 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 - 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, 2005.

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.

NOTE 18 - 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance, As of June 30, 2004	\$ (1,372,706)	-
Current Year Set-aside Requirement	590,897	590,897
Qualifying Disbursements	<u>(785,422)</u>	<u>(1,067,909)</u>
Total	<u>(1,567,231)</u>	<u>(477,012)</u>
Balance Carried Forward to FY 2006	\$ <u>(1,567,231)</u>	<u>-</u>

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

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 20,697,086	20,697,086	21,186,672	489,586
Intergovernmental	10,618,715	10,618,715	10,799,436	180,721
Interest	165,000	165,000	308,849	143,849
Tuition and Fees	718,254	718,254	806,916	88,662
Extracurricular Activities	37,000	37,000	37,426	426
Miscellaneous	60,246	60,246	74,254	14,008
Total Revenues	<u>32,296,301</u>	<u>32,296,301</u>	<u>33,213,553</u>	<u>917,252</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	17,797,318	17,738,818	17,731,679	7,139
Special	3,762,869	3,833,634	3,828,984	4,650
Other	1,519,149	1,525,149	1,514,604	10,545
Support Services:				
Pupils	1,616,864	1,642,364	1,634,954	7,410
Instructional Staff	1,066,195	1,038,195	1,032,240	5,955
Board of Education	605,887	605,887	603,827	2,060
Administration	2,319,740	2,348,240	2,347,621	619
Fiscal	406,885	406,885	404,570	2,315
Business	588,565	576,065	567,687	8,378
Operation and Maintenance of Plant	2,888,646	2,888,646	2,879,197	9,449
Pupil Transportation	1,693,455	1,693,455	1,678,606	14,849
Other	1,000	1,000	-	1,000
Total Expenditures	<u>34,266,573</u>	<u>34,298,338</u>	<u>34,223,969</u>	<u>74,369</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,970,272)</u>	<u>(2,002,037)</u>	<u>(1,010,416)</u>	<u>991,621</u>
<u>Other Financing Sources (Uses):</u>				
Advances In	120,380	120,380	120,380	-
Advances Out	-	(68,333)	(68,333)	-
Transfers In	-	1,212,206	1,214,706	2,500
Transfers Out	-	(1,309,756)	(1,309,756)	-
Total Other Financing Sources (Uses)	<u>120,380</u>	<u>(45,503)</u>	<u>(43,003)</u>	<u>2,500</u>
Net Change in Fund Balance	(1,849,892)	(2,047,540)	(1,053,419)	994,121
Fund Balance, Beginning of Year	11,675,168	11,675,168	11,675,168	-
Prior Year Encumbrances Appropriated	<u>731,709</u>	<u>731,709</u>	<u>731,709</u>	-
Fund Balance, End of Year	<u>\$ 10,556,985</u>	<u>10,359,337</u>	<u>11,353,458</u>	<u>994,121</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, 2005

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 2005.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2005

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 and 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, 2005

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	\$ 125,146
Revenue Accruals	(918,482)
Expenditure Accruals	(312,130)
Other Financing Sources (Uses)	<u>52,047</u>
Budget Basis	<u><u>\$ (1,053,419)</u></u>

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

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

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		\$106,573		\$106,573
National School Breakfast Program	05PU-2004	10.553	\$7,073		\$7,073	
	05PU-2005		41,347		41,347	
Total National School Breakfast Program			48,420		48,420	
National School Lunch Program	LLP4 2003	10.555	45,929		45,929	
	LLP4 2004		283,573		283,573	
Total National School Lunch Program			329,502		329,502	
Total U.S. Department of Agriculture - Nutrition Cluster			377,922	106,573	377,922	106,573
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Education Agencies (ESEA Title I)	C1S1-2004	84.010	119,040		98,990	
	C1S1-2005		451,244		480,029	
	C1SD-2005		78,986		82,360	
Total Title I Grant			649,270		661,379	
Special Education Grants to States (IDEA Part B)	6BSF-2005	84.027	1,012,051		1,012,196	
Drug Free Schools and Communities	DRS1-2004	84.186			2,094	
	DRS1-2005		13,505		14,124	
			13,505		16,218	
Innovative Education Program Strategies	C2S1-2005	84.298	23,058		27,198	
Title II-D, Technology Program	TJS1-2004	84.318	4,276		5,116	
	TJS1-2005		12,909		13,428	
			17,185		18,544	
Title III	T3S1 2004	84.365	2,081		2,112	
	T3S1 2005		16,109		16,648	
	T3S2 2005		5,837		6,335	
			24,027		25,095	
Title II-A Improving Teacher Quality	TRS1-2004	84.367	18,331		28,358	
	TRS1-2005		150,423		158,730	
Total Title II-A			168,754		187,088	
Total Department of Education			1,907,850		1,947,718	
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Direct Receipt</i>						
Disaster Grants - Public Assistance	Not Available	97.036	7,420		7,420	
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	7,141		7,141	
Total Federal Assistance			\$2,300,333	\$106,573	\$2,340,201	\$106,573

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 EXPENDITURE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Non-monetary 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, 2005, 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 matching funds is not included on the Schedule.

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Auditor of State Betty Montgomery

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

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 the governmental activities, each 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 13, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 13, 2006, we reported other matters related to noncompliance we deemed immaterial.

Troy City School District
Miami County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and other Matters
Required by *Government Auditing Standards*

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

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

Betty Montgomery
Auditor of State

March 13, 2006



Auditor of State Betty Montgomery

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

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 apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

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

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

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

Betty Montgomery
Auditor of State

March 13, 2006

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States (IDEA Part B) CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
APRIL 11, 2006**