



Mary Taylor, CPA
Auditor of State

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

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Mary Taylor, CPA

Auditor of State

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 the Troy City School District, Miami County, (the District), as of and for the year ended June 30, 2006, 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 the Troy City School District as of June 30, 2006, 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, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis 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 are 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.

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

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

Mary Taylor, CPA
Auditor of State

March 13, 2007

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. 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 2006 are as follows:

Overall:

- Total net assets increased by \$1,874,691, which represents a 12.07% increase from fiscal year 2005.
- Total assets of governmental activities increased by \$876 thousand, attributed almost exclusively to the payments made related to the construction projects on the new school buildings.
- General revenues accounted for \$35.8 million or 85.85% of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5.9 million or 14.15% of total revenues of \$41.6 million.
- Of the School District's \$39.8 million in expenses, only \$5.9 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$33.9 million.
- The General Fund had \$33.3 million in revenues and \$35.0 million in expenditures representing 79.61% and 63.71% 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 \$11.6 million, which all but \$63 thousand is cash and investments.

Using the Basic Financial Statements

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

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

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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 2006?" 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 14. 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 and Building Construction Project Fund are presented separate from the other governmental funds.

Governmental Funds

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

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

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For the Fiscal Year Ended June 30, 2006
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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 2006 and 2005:

TABLE 1
NET ASSETS, JUNE 30

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|-------------------|
| ASSETS: | | |
| Current and Other Assets | \$ 47,232,548 | 59,183,570 |
| Capital Assets | <u>21,087,825</u> | <u>8,261,002</u> |
| Total Assets | <u>68,320,373</u> | <u>67,444,572</u> |
| LIABILITIES | | |
| Current Liabilities | 25,274,958 | 24,870,954 |
| Noncurrent Liabilities | <u>25,633,596</u> | <u>27,036,490</u> |
| Total Liabilities | <u>50,908,554</u> | <u>51,907,444</u> |
| NET ASSETS: | | |
| Invested in Capital Assets, Net of Debt | 8,378,369 | 7,817,139 |
| Restricted | 1,425,943 | 2,292,385 |
| Unrestricted | <u>7,607,507</u> | <u>5,427,604</u> |
| Total Net Assets | \$ <u>17,411,819</u> | <u>15,537,128</u> |

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2006, the School District's net assets were \$17.4 million. Of that amount, approximately \$8.4 million was invested in capital assets, net of debt related to those assets. Another \$1.4 million was subject to external restrictions upon its use. The remaining \$7.6 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 2006, as compared to fiscal year 2005:

TABLE 2
CHANGE IN NET ASSETS, JUNE 30

| | 2006 | 2005 |
|---|--------------|-------------|
| REVENUES: | | |
| Program Revenues: | | |
| Charges for Services | \$ 2,688,908 | 2,436,787 |
| Operating Grants and Contributions | 3,171,275 | 3,235,974 |
| Capital Grants and Contributions | 32,924 | 38,197 |
| General Revenues: | | |
| Property Taxes | 23,079,564 | 22,565,361 |
| Grants and Entitlements | 11,352,645 | 9,033,887 |
| Investment Earnings | 1,153,744 | 890,587 |
| Loss on Sale of Capital Assets | (50,839) | (42,560) |
| Gifts and Donations | - | 13,995 |
| Other | 221,342 | 186,774 |
| Total Revenues | 41,649,563 | 38,359,002 |
| PROGRAM EXPENSES: | | |
| Instruction | 24,567,188 | 27,972,628 |
| Support Services: | | |
| Pupils and Instructional Staff | 2,810,980 | 2,898,779 |
| Board of Education, Administration | | |
| Fiscal and Business | 4,672,956 | 4,436,591 |
| Operation and Maintenance of Plant | 3,023,317 | 3,001,990 |
| Pupil Transportation | 1,620,978 | 1,811,872 |
| Central | 52,369 | 37,178 |
| Operation of Non-Instructional Services | 1,659,493 | 1,782,513 |
| Extracurricular Activities | 286,073 | 252,158 |
| Interest and Fiscal Charges | 964,588 | 555,492 |
| Depreciation Expense | 116,930 | 116,930 |
| Total Expenses | 39,774,872 | 42,866,131 |
| Change in Net Assets | \$ 1,874,691 | (4,507,129) |

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

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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 55.41% of revenues for governmental activities for the Troy City School District for fiscal year 2006. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 34.95% of the School District's total revenue was received from intergovernmental sources during fiscal year 2006.

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 61.77% of the School District's expenses for fiscal year 2006. Support services expenses make up 30.62% 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,**

| | 2006 | | 2005 | |
|--|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| Instruction | \$ 24,567,188 | 20,847,197 | 27,972,628 | 24,799,872 |
| Support Services: | | | | |
| Pupils and Instructional Staff | 2,810,980 | 2,712,665 | 2,898,779 | 2,663,849 |
| Board of Education, Administration, Fiscal and Business | 4,672,956 | 4,612,070 | 4,436,591 | 4,400,786 |
| Operation and Maintenance of Plant | 3,023,317 | 3,003,756 | 3,001,990 | 2,993,066 |
| Pupil Transportation | 1,620,978 | 1,620,978 | 1,811,872 | 1,778,986 |
| Central | 52,369 | 52,369 | 37,178 | 37,178 |
| Operation of Non-Instructional Services | 1,659,493 | 565 | 1,782,513 | 130,602 |
| Extracurricular Activities | 286,073 | (49,353) | 252,158 | (321,588) |
| Interest and Fiscal Charges | 964,588 | 964,588 | 555,492 | 555,492 |
| Depreciation Expense | 116,930 | 116,930 | 116,930 | 116,930 |
| Total Expenses | \$ <u>39,774,872</u> | <u>33,881,765</u> | <u>42,866,131</u> | <u>37,155,173</u> |

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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 \$19.1 million, or 91.14% of the total fund balance for all governmental funds.

The School District's primary operating fund, the General Fund, ended the year with expenditures exceeding revenues by \$1,756,809, which was significantly less than the \$220,196 increase reported in the prior year. The unreserved, undesignated ending fund balance of the General Fund (\$6.8 million) represents approximately 19.3% of the total expenditures reported in the General Fund. While the ending fund balance of the general fund decreased by \$1.6 million over the total balance reported at June 30, 2005, the unreserved, undesignated fund balance decreased by \$896 thousand 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 \$1.7 million available at June 30, 2006.

The School District's other major fund reported a negative change in fund balance for fiscal year 2006. This is due to the fact that the Building Construction Project was established during the prior year to account for the proceeds from the issuance of School Improvement Bonds in the amount of \$21.2 million. The proceeds from

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MIAMI COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

the issuance of these bonds were 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 \$34.2 million as compared to the original budget estimates of \$32.7 million. This difference included tax revenues initially budgeted at \$20.7 million with budget basis revenues coming in at \$21.5 million. Also included are intergovernmental revenues budgeted at \$10.9 million with revenues coming in at \$11.1 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$36.6 million, \$2.4 million over budget basis actual revenue, but \$232,117 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 2006, the School District had \$21.1 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2006 balances compared to 2005:

**TABLE 4
CAPITAL ASSETS, JUNE 30**

| | 2006 | 2005 |
|--------------------------------|---------------|--------------|
| Land | \$ 530,131 | 530,131 |
| Buildings | 9,848,933 | 9,848,933 |
| Improvements | 8,691,637 | 7,645,887 |
| Furniture and Equipment | 4,020,449 | 3,983,123 |
| Textbooks | 1,051,859 | 1,086,292 |
| Vehicles | 2,282,111 | 2,179,624 |
| Construction in Progress | 12,184,873 | - |
| Less: Accumulated Depreciation | (17,522,168) | (17,012,988) |
| | \$ 21,087,825 | 8,261,002 |

TROY CITY SCHOOL DISTRICT
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Overall, net capital assets increased approximately \$12.8 million from fiscal year 2005. 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 2006, the School District began construction on four new schools and incurred construction costs totaling \$12.18. In addition, three new school buses for pupil transportation were acquired for a total cost of \$191,520. Other capital asset additions, various improvements to buildings totaling \$1.5 million and various other equipment. Current year depreciation expense totaled \$1.08 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.

For more detailed disclosures regarding the School District's capital assets readers should refer to Note 7 to the basic financial statements.

Capital Lease/Debt Administration

At June 30, 2006, the School District had two separate debt issues. The had two separate capital leases with an outstanding balance of \$524,824, of which \$105,561 is due within one year. This lease consists of equipment that was capitalized as capital assets within the governmental activities. Principal payments for fiscal year 2006 totaled \$94,279.

The other debt issue of the School District that was outstanding was the School Improvement Bonds in the amount of \$21,107,787. These bonds were issued during 2005 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. Principal payments made in for the fiscal year ending June 30, 2006 were \$145,000 and \$450,000 of principal is due within one year.

At June 30, 2006, the School District's overall legal debt margin was \$44.02 million and the unvoted debt margin was \$717 thousand.

For more detailed disclosures regarding the School District's long-term debt obligations readers should refer to Note 13 to the basic financial statements.

For the Future

The district finished the fiscal year ending June 30, 2006 with cash on hand of \$9,789,653. This exceeded the forecast by \$1,120,668 and is the direct result of operating revenues exceeding our forecast for the year. The revenue from local Real Estate and Tangible Personal Property taxes, earnings on investments and the receipt of the first one-seventh installment of the Hold Harmless payment in May 2006, which was unplanned, contributed this favorable variance.

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The residents of the district approved on November 7, 2006 a 1.5% Continuing School District Income Tax to be levied on the earned income of the district's residents beginning January 1, 2007. The revenue that is projected from this new operating levy along with the revenue projected to be received from local Real Property tax, State Foundation funding and Hold Harmless payments provides the district with a good financial position into the future years.

Each element of revenue is critical to the total revenue plan. The legislature of the State of Ohio must fulfill the commitments made to the district for funding from the state and there can be no new legislation that will further erode our local tax revenue.

Just as important is the fiscally conservative management of the district's spending plan. The district has been following a responsible spending plan and will continue to do so. But specifically the cost of the health care plan provided to the district's employees and the cost of services provided to special needs students along with the costs of utilities and fuel for the bus fleet put continuing pressure on the operating costs for the district.

Contacting the School District's Financial Management

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

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Statement of Net Assets
June 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 9,939,009 |
| Investments | 14,672,963 |
| Receivables: | |
| Taxes | 21,328,260 |
| Accounts | 804,087 |
| Intergovernmental | 238,663 |
| Accrued Interest | 108,574 |
| Materials and Supplies Inventory | 122,882 |
| Prepaid Items | 18,110 |
| Capital Assets: | |
| Capital assets not subject to depreciation: | |
| Land | 530,131 |
| Construction in progress | 12,184,873 |
| Capital assets, net of accumulated depreciation | <u>8,372,821</u> |
| Total Assets | <u>68,320,373</u> |
| LIABILITIES: | |
| Accounts Payable | 510,701 |
| Contracts Payable | 1,676,914 |
| Accrued Wages and Benefits | 3,317,053 |
| Intergovernmental Payable | 18,493 |
| Claims Payable | 666,217 |
| Accrued Interest Payable | 74,436 |
| Deferred Revenue | 19,011,144 |
| Noncurrent Liabilities: | |
| Due Within One Year | 1,159,168 |
| Due In More Than One Year | <u>24,474,428</u> |
| Total Liabilities | <u>50,908,554</u> |
| NET ASSETS: | |
| Invested in capital assets, net of related debt | 8,378,369 |
| Restricted for: | |
| Special Revenue | 140,790 |
| Debt Service | 677,607 |
| Capital Projects | 607,546 |
| Unrestricted | <u>7,607,507</u> |
| Total Net Assets | \$ <u>17,411,819</u> |

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Statement of Activities
For the Fiscal Year Ended June 30, 2006

| <u>Functions/Programs:</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Capital</u> | <u>Net (Expense)/ Revenue and Changes in Net Assets</u> |
|--|----------------------|---------------------------------|---|-------------------------------------|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Grants and Contributions</u> | <u>Governmental Activities</u> |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 18,735,823 | 1,238,859 | 1,330,531 | - | (16,166,433) |
| Special | 4,063,176 | 221 | 1,150,380 | - | (2,912,575) |
| Vocational | 98,645 | - | - | - | (98,645) |
| Other | 1,669,544 | - | - | - | (1,669,544) |
| Support Services: | | | | | |
| Pupils | 1,645,927 | - | 94,390 | - | (1,551,537) |
| Instructional Staff | 1,165,053 | - | 3,925 | - | (1,161,128) |
| Board of Education | 662,978 | - | - | - | (662,978) |
| Administration | 3,012,019 | 463 | 21,913 | - | (2,989,643) |
| Fiscal | 458,375 | - | - | - | (458,375) |
| Business | 539,584 | - | 14,510 | 24,000 | (501,074) |
| Operation and Maintenance of Plant | 3,023,317 | - | 10,637 | 8,924 | (3,003,756) |
| Pupil Transportation | 1,620,978 | - | - | - | (1,620,978) |
| Central | 52,369 | - | - | - | (52,369) |
| Operation of Non-Instructional Services | 1,659,493 | 1,113,939 | 544,989 | - | (565) |
| Extracurricular Activities | 286,073 | 335,426 | - | - | 49,353 |
| Interest and Fiscal Charges | 964,588 | - | - | - | (964,588) |
| Unallocated Depreciation * | 116,930 | - | - | - | (116,930) |
| Total | \$ <u>39,774,872</u> | <u>2,688,908</u> | <u>3,171,275</u> | <u>32,924</u> | <u>(33,881,765)</u> |
| General Revenues: | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 20,764,173 |
| Hayner Cultural Center | | | | | 374,738 |
| Debt Service | | | | | 1,262,010 |
| Capital Outlay | | | | | 678,643 |
| Grants, Entitlements and Contributions not Restricted to | | | | | |
| Specific Programs | | | | | 11,352,645 |
| Investment Earnings | | | | | 1,153,744 |
| Loss on Sale of Capital Assets | | | | | (50,839) |
| Other Revenue | | | | | 221,342 |
| | | | | | <u>35,756,456</u> |
| | | | | | Change in Net Assets |
| | | | | | 1,874,691 |
| | | | | | Net Assets, Beginning of Year |
| | | | | | <u>15,537,128</u> |
| | | | | | Net Assets, End of Year |
| | | | | | \$ <u>17,411,819</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, 2006

| | General Fund | Building Construction Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|--|-----------------------------------|--------------------------------|
| ASSETS: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,719,250 | 4,850,531 | 2,044,228 | 9,614,009 |
| Investments | 8,036,485 | 6,636,478 | - | 14,672,963 |
| Receivables: | | | | |
| Taxes | 19,109,443 | - | 2,218,817 | 21,328,260 |
| Accounts | 344,068 | - | 67,101 | 411,169 |
| Intergovernmental | 22,440 | - | 216,223 | 238,663 |
| Accrued Interest | 43,757 | 63,236 | 1,581 | 108,574 |
| Due from Other Funds | 155,145 | - | - | 155,145 |
| Materials and Supplies Inventory | 82,161 | - | 40,721 | 122,882 |
| Prepaid Items | 13,057 | - | 5,053 | 18,110 |
| | <u>30,525,806</u> | <u>11,550,245</u> | <u>4,593,724</u> | <u>46,669,775</u> |
| Total Assets | \$ | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 306,294 | - | 204,407 | 510,701 |
| Contracts Payable | - | 1,676,914 | - | 1,676,914 |
| Accrued Wages and Benefits | 2,990,713 | - | 326,340 | 3,317,053 |
| Intergovernmental Payable | 16,338 | - | 2,155 | 18,493 |
| Compensated Absences Payable | 599,304 | - | 4,303 | 603,607 |
| Due to Other Funds | - | - | 155,145 | 155,145 |
| Deferred Revenue | 17,412,388 | - | 2,045,984 | 19,458,372 |
| | <u>21,325,037</u> | <u>1,676,914</u> | <u>2,738,334</u> | <u>25,740,285</u> |
| Total Liabilities | | | | |
| FUND BALANCES: | | | | |
| Reserved for: | | | | |
| Encumbrances | 650,787 | 8,050,947 | 542,156 | 9,243,890 |
| Materials and Supplies Inventory | 82,161 | - | 40,721 | 122,882 |
| Prepaid Items | 13,057 | - | 5,053 | 18,110 |
| Property Taxes | 1,697,055 | - | 187,705 | 1,884,760 |
| Unreserved, Undesignated: | | | | |
| General Fund | 6,757,709 | - | - | 6,757,709 |
| Special Revenue Funds | - | - | 374,440 | 374,440 |
| Debt Service Funds | - | - | 552,906 | 552,906 |
| Capital Projects Funds | - | 1,822,384 | 152,409 | 1,974,793 |
| | <u>9,200,769</u> | <u>9,873,331</u> | <u>1,855,390</u> | <u>20,929,490</u> |
| Total Fund Balances | | | | |
| Total Liabilities and Fund Balances | \$ <u>30,525,806</u> | <u>11,550,245</u> | <u>4,593,724</u> | <u>46,669,775</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, 2006

| | | |
|---|----|---------------------|
| Total Governmental Fund Balances | \$ | 20,929,490 |
| 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. | | 21,087,825 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | 447,228 |
| 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. | | 51,701 |
| Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds | | |
| Accrued Interest Payable | | (74,436) |
| Compensated Absences | | (3,397,618) |
| Intergovernmental Payable | | - |
| Capital Leases Payable | | (524,584) |
| Bonds Payable | | <u>(21,107,787)</u> |
| Net Assets of Governmental Activities | \$ | <u>17,411,819</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, 2006

| | General Fund | Building Construction Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|--|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Taxes | \$ 20,847,993 | - | 2,313,709 | 23,161,702 |
| Intergovernmental | 11,159,566 | - | 3,383,423 | 14,542,989 |
| Investment Earnings | 268,613 | 877,081 | 8,050 | 1,153,744 |
| Tuition and Fees | 865,237 | - | 49,010 | 914,247 |
| Charges for Services | - | - | 1,113,939 | 1,113,939 |
| Extracurricular Activities | 37,610 | - | 623,112 | 660,722 |
| Miscellaneous | 74,123 | 881 | 145,321 | 220,325 |
| Total Revenues | <u>33,253,142</u> | <u>877,962</u> | <u>7,636,564</u> | <u>41,767,668</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 18,070,737 | - | 1,603,108 | 19,673,845 |
| Special | 3,209,852 | - | 1,095,552 | 4,305,404 |
| Vocational | 93,852 | - | - | 93,852 |
| Other | 1,614,495 | - | 55,049 | 1,669,544 |
| Support Services: | | | | |
| Pupils | 1,732,677 | - | - | 1,732,677 |
| Instructional Staff | 1,036,813 | - | 117,220 | 1,154,033 |
| Board of Education | 662,978 | - | - | 662,978 |
| Administration | 2,613,935 | - | 333,710 | 2,947,645 |
| Fiscal | 427,645 | - | 39,515 | 467,160 |
| Business | 502,571 | - | 38,510 | 541,081 |
| Operation and Maintenance of Plant | 2,956,094 | - | 146,416 | 3,102,510 |
| Pupil Transportation | 1,746,351 | - | - | 1,746,351 |
| Central | 52,480 | - | - | 52,480 |
| Operation of Non-Instructional Services | - | - | 1,816,714 | 1,816,714 |
| Extracurricular Activities | - | - | 284,069 | 284,069 |
| Capital Outlay | 175,000 | 11,437,731 | 1,778,347 | 13,391,078 |
| Debt Service: | | | | |
| Principal | 94,279 | - | 145,000 | 239,279 |
| Interest | 20,192 | - | 1,047,493 | 1,067,685 |
| Total Expenditures | <u>35,009,951</u> | <u>11,437,731</u> | <u>8,500,703</u> | <u>54,948,385</u> |
| Excess (Deficiency) of Revenues Over/ (Under) Expenditures | <u>(1,756,809)</u> | <u>(10,559,769)</u> | <u>(864,139)</u> | <u>(13,180,717)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Inception of Capital Lease | 175,000 | - | - | 175,000 |
| Transfers In | 2,760 | - | 68,424 | 71,184 |
| Transfers Out | (68,423) | - | (2,761) | (71,184) |
| Total Other Financing Sources (Uses) | <u>109,337</u> | <u>-</u> | <u>65,663</u> | <u>175,000</u> |
| Net Change in Fund Balances | (1,647,472) | (10,559,769) | (798,476) | (13,005,717) |
| Fund Balance, Beginning of Year | <u>10,848,241</u> | <u>20,433,100</u> | <u>2,653,866</u> | <u>33,935,207</u> |
| Fund Balance, End of Year | <u>\$ 9,200,769</u> | <u>9,873,331</u> | <u>1,855,390</u> | <u>20,929,490</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, 2006

| | |
|--|-----------------|
| Total Net Change in Fund Balances - Total Governmental Funds | \$ (13,005,717) |
|--|-----------------|

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 | 13,955,159 |
| Current Year Depreciation | (1,077,499) |

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 | (50,839) |
|--|----------|

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

| | |
|--|-----------|
| | (242,266) |
|--|-----------|

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.

| | |
|--|---------|
| | 239,279 |
|--|---------|

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 | 1,390,656 |
| Accrued Interest Payable | 150,893 |
| Intergovernmental Payable | 256,750 |
| Interest Accrued on Capital Appreciation Bonds | (47,794) |

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>306,069</u> |
|--|----------------|

| | |
|---|----------------------------|
| Change in Net Assets of Governmental Activities | \$ <u><u>1,874,691</u></u> |
|---|----------------------------|

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, 2006

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| | <u>Internal Service Fund</u> |
| ASSETS: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 325,000 |
| Receivables: | |
| Accounts | <u>392,918</u> |
| Total Assets | <u>717,918</u> |
| LIABILITIES: | |
| Claims Payable | <u>666,217</u> |
| NET ASSETS: | |
| Unrestricted | \$ <u><u>51,701</u></u> |

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

| | Governmental Activities |
|-------------------------------|----------------------------|
| | Internal Service Fund |
| OPERATING REVENUES: | |
| Charges for Services | \$ <u>5,493,315</u> |
| Total Operating Revenues | <u>5,493,315</u> |
| OPERATING EXPENSES: | |
| Claims | <u>5,187,246</u> |
| Total Operating Expenses | <u>5,187,246</u> |
| Change in Net Assets | 306,069 |
| Net Assets, Beginning of Year | <u>(254,368)</u> |
| Net Assets, End of Year | \$ <u>51,701</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, 2006

| | 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 | \$ 5,158,309 |
| Cash Payments for Claims | <u>(5,158,309)</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 | \$ 306,069 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Changes in assets and liabilities: | |
| Accounts Receivable | (335,006) |
| Claims Payable | <u>28,937</u> |
| Total Adjustments | <u>(306,069)</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
June 30, 2006

| | Scholarship Private- Purpose Trust Funds | Agency Fund |
|--|---|----------------|
| ASSETS: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 124,276 | 74,442 |
| Investments | 142,950 | - |
| Receivables: | | |
| Accrued Interest | 2,372 | - |
| Total Assets | \$ 269,598 | 74,442 |
| LIABILITIES: | | |
| Accounts Payable | \$ 40,950 | 4,793 |
| Due to Students | - | 69,649 |
| Total Liabilities | 40,950 | 74,442 |
| NET ASSETS: | | |
| Held in Trust for Scholarships | \$ 228,648 | - |

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, 2006

| | Scholarship Private- Purpose Trust Funds |
|-------------------------------|---|
| ADDITIONS: | |
| Other Revenue | \$ 56,073 |
| Investment Earnings | <u>10,037</u> |
| Total Additions | <u>66,110</u> |
| DEDUCTIONS: | |
| Educational Outreach | <u>44,251</u> |
| Total Deductions | <u>44,251</u> |
| Change in Net Assets | 21,859 |
| Net Assets, Beginning of Year | <u>206,789</u> |
| Net Assets, End of Year | <u>\$ 228,648</u> |

See accompanying notes to the basic financial statements.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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.

Nonpublic Schools: Within the School District boundaries are four nonpublic schools, which are operated as private schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic 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 15 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, 2006

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, 2006

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, 2006

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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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, 2006

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 schedule reflect the amounts in the final amended certificate issued during fiscal year 2006.

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 2006, investments included federal government agency bonds, STAROhio, and non-negotiable certificates of deposit, money market funds, and commercial paper.

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 2006. 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, 2006.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 2006 amounted to \$268,613. Interest was also credited for the year ended June 30, 2006 to the Building Construction Project Fund, Hayner Cultural Fund and the Auxiliary Services Fund in the amount of \$877,081, \$2,173 and \$5,877, 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, 2006, 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, 2006

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 threshold of 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, 2006

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, 2006

NOTE 3 – ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2006:

| | <u>Deficit</u> <u>Fund Equity</u> |
|------------------------|--------------------------------------|
| Special Revenue Funds: | |
| Food Service Fund | \$ 202,448 |
| Title III Fund | \$ 1,206 |

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

NOTE 4 – 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” statuses 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 \$5,770,110 and the bank balance was \$6,303,731. Of the bank balance, \$300,000 was covered by federal depository insurance and \$6,003,731 was uninsured. The uninsured bank balance 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, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments

Investments are reported at fair value. As of June 30, 2006, the School District had the following investments:

| | Fair Value | Percent of Total Portfolio | Credit Rating | Weighted Avg. Maturity |
|-----------------------|--------------------------|-------------------------------|------------------|---------------------------|
| FHLB | \$ 3,283,100 | 17.12% | AAA | 0.03 years |
| FHLMC | 1,832,117 | 9.55% | AAA | 0.03 years |
| FHLMC Discount Note | 1,389,340 | 7.24% | AAA | 0.01 years |
| FNMA | 2,636,000 | 13.74% | AAA | 0.10 years |
| FNMA Con Note | 496,405 | 2.59% | AAA | 0.04 years |
| FNMA Discount Note | 673,936 | 3.51% | AAA | 0.01 years |
| FRE Discount Note | 1,554,140 | 8.10% | AAA | 0.01 years |
| Freddie Mac | 1,322,870 | 6.90% | AAA | 0.06 years |
| World Bank | 150,234 | 0.78% | AAA | 0.00 years |
| Treasury Bill | 184,785 | 0.96% | AAA | 0.00 years |
| Commercial Paper | 357,048 | 1.86% | A-1+ | 0.00 years |
| US Treasury N/B | 929,065 | 4.84% | N/A | 0.03 years |
| STAROhio | 675,765 | 3.52% | AAAm | N/A |
| Money Markets | <u>3,698,725</u> | <u>19.29%</u> | AAAm | N/A |
| Total Investments | \$ <u>19,183,530</u> | <u>100.00%</u> | | <u>0.32 years</u> |

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. Ohio Revised Code §135.14(B)(7)(a) limits commercial paper to those assigned the highest credit rating by two nationally recognized rating services.

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

NOTE 5 – 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – PROPERTY TAXES (Continued)

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 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006, and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. 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 2006 taxes were collected are:

| | 2006 First Half Collections | | 2005 Second Half Collections | |
|---|-----------------------------|---------|------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$ 571,023,370 | 79.59% | 548,407,960 | 78.16% |
| Public Utility | 19,371,810 | 2.70% | 19,868,040 | 2.84% |
| Tangible Personal Property | 127,061,310 | 17.71% | 133,313,470 | 19.00% |
| Total Assessed Value | \$ 717,456,490 | 100.00% | 701,589,470 | 100.00% |
| Tax rate per \$1,000 of assessed valuation | \$62.04 | | \$62.05 | |

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

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

The amount available as an advance at June 30, 2006, was \$1,697,055, \$30,390, \$102,316 and \$54,999 in the General, Hayner, Debt Service, and Capital Improvement funds, respectively.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2006, 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 | \$ 22,440 |
| Title VI-B | 867 |
| Title III Grant | 10,818 |
| Title I Grant | 170,113 |
| Title V | 4,007 |
| Safe & Drug Free School Grant | 195 |
| Reducing Class Size Grant | 28,309 |
| Title II-D | <u>1,914</u> |
| Total Intergovernmental Receivables | \$ <u><u>238,663</u></u> |

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

| | <u>Balance,</u> <u>6/30/2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/2006</u> |
|--|-------------------------------------|----------------------|-------------------|------------------------------------|
| <u>Capital Assets, not being depreciated:</u> | | | | |
| Land | \$ 530,131 | - | - | 530,131 |
| Construction in Progress | <u>-</u> | <u>12,184,873</u> | <u>-</u> | <u>12,184,873</u> |
| | <u>530,131</u> | <u>12,184,873</u> | <u>-</u> | <u>12,715,004</u> |
| <u>Capital Assets, being depreciated:</u> | | | | |
| Buildings | 9,848,933 | - | - | 9,848,933 |
| Improvements | 7,645,887 | 1,226,501 | (180,751) | 8,691,637 |
| Furniture and Equipment | 3,983,123 | 157,400 | (120,074) | 4,020,449 |
| Textbooks | 1,086,292 | 99,959 | (134,392) | 1,051,859 |
| Vehicles | <u>2,179,624</u> | <u>286,426</u> | <u>(183,939)</u> | <u>2,282,111</u> |
| | <u>24,743,859</u> | <u>1,770,286</u> | <u>(619,156)</u> | <u>25,894,989</u> |
| <u>Less: Accumulated Depreciation:</u> | | | | |
| Buildings | (8,882,526) | (116,930) | - | (8,999,456) |
| Improvements | (3,481,135) | (444,611) | 161,422 | (3,764,324) |
| Furniture and Equipment | (3,025,866) | (212,092) | 106,165 | (3,131,793) |
| Textbooks | (493,259) | (152,003) | 116,791 | (528,471) |
| Vehicles | <u>(1,130,202)</u> | <u>(151,861)</u> | <u>183,939</u> | <u>(1,098,124)</u> |
| | <u>(17,012,988)</u> | <u>(1,077,497) *</u> | <u>568,317</u> | <u>(17,522,168)</u> |
| Capital Assets, being depreciated, net | <u>7,730,871</u> | <u>692,789</u> | <u>(50,839)</u> | <u>8,372,821</u> |
| Capital Assets, net | <u>\$ 8,261,002</u> | <u>12,877,662</u> | <u>(50,839)</u> | <u>21,087,825</u> |

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 – CAPITAL ASSETS (Continued)

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

| | |
|---|--------------|
| Instruction: | |
| Regular | \$ 667,138 |
| Support Services: | |
| Instructional Staff | 1,025 |
| Administration | 116,306 |
| Operation and Maintenance of Plant | 20,109 |
| Pupil Transportation | 139,769 |
| Operation of Non-Instructional Services | 12,416 |
| Extracurricular Activities | 3,804 |
| | 960,567 |
| Unallocated Depreciation | 116,930 |
| Total Depreciation Expense | \$ 1,077,497 |

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 8 – RISK MANAGEMENT

A. Property and Liability

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

B. Health Insurance

The District provides health care coverage for its employees and is self-insured up to a stop loss limit of \$75,000 per employee for the cost of providing this coverage. This activity is accounted for in the General, Special Revenue, and Proprietary Funds. Paid claims are recorded as an expenditure/expense in the respective funds based on a per employee charge. For reporting purposes, this activity has been reclassified to the Employee Health Insurance Fund with in the Internal Service Fund.

Expenses for claims are recorded as other expenditures/expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for unpaid claims is based on past experience and large outstanding balances. The liability at June 30, 2006, 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, 2006, follows:

| <u>Year</u> | <u>Balance at</u> <u>Beginning of Year</u> | <u>Current</u> <u>Year Claims</u> | <u>Claim</u> <u>Payments</u> | <u>Balance at</u> <u>End of Year</u> |
|-------------|---|--------------------------------------|---------------------------------|---|
| 2005 | \$ 411,606 | 4,251,854 | (4,026,180) | 637,280 |
| 2006 | \$ 637,280 | 5,187,246 | (5,158,309) | 666,217 |

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$637,777, \$887,679, and \$739,763, respectively; 59.68% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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 to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$2,609,604, \$2,593,066, and \$2,333,212, respectively; 85.22 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$27,374 and \$21,821, respectively made by the School District and \$26,070 was contributed to the DC plan by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 – POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$200,739 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$285,243.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

NOTE 11 – 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 12 – 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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12 – CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$750,038, 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 2006 totaled \$94,279.

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, 2006.

| <u>Year</u> | <u>Amount</u> |
|---|-------------------|
| 2007 | \$ 132,150 |
| 2008 | 132,150 |
| 2009 | 132,150 |
| 2010 | 132,150 |
| 2011 | <u>42,895</u> |
| | 571,495 |
| Less: Amount representing interest | <u>(46,912)</u> |
| Total Present value of minimum lease payments | \$ <u>524,583</u> |

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

| | <u>Amount Outstanding June 30, 2005</u> | <u>Increase</u> | <u>Decrease</u> | <u>Amount Outstanding June 30, 2006</u> | <u>Amount Due Within One Year</u> |
|--------------------------------|---|------------------|--------------------|---|---|
| Long-Term Obligations: | | | | | |
| General Obligation Bonds: | | | | | |
| 2005 School Improvement Bonds: | | | | | |
| Serial - 3.00% - 5.00% | \$ 10,940,000 | - | (145,000) | 10,795,000 | 450,000 |
| Term - 4.50% - 5.00% | 9,980,000 | - | - | 9,980,000 | - |
| Capital Appreciation - 13.707% | 284,991 | 47,796 | - | 332,787 | - |
| Capital Leases | 443,862 | 175,000 | (94,279) | 524,583 | 105,561 |
| Compensated Absences | <u>5,387,636</u> | <u>4,001,225</u> | <u>(5,387,636)</u> | <u>4,001,225</u> | <u>603,607</u> |
| Total Governmental Activities | \$ <u>27,036,489</u> | <u>4,224,021</u> | <u>(5,626,915)</u> | <u>25,633,595</u> | <u>1,159,168</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.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

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> |
|-------------|----------------------|-------------------|-------------------|
| 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 | 595,000 | 819,090 | 1,414,090 |
| 2012-2016 | 3,522,787 | 4,218,734 | 7,741,521 |
| 2017-2021 | 4,300,000 | 2,925,494 | 7,225,494 |
| 2022-2026 | 3,735,000 | 2,075,270 | 5,810,270 |
| 2027-2031 | 4,715,000 | 1,068,763 | 5,783,763 |
| 2032-2033 | 2,210,000 | 100,575 | 2,310,575 |
| | <u>\$ 21,107,787</u> | <u>14,663,623</u> | <u>35,771,410</u> |

As of June 30, 2006, the overall legal debt margin was \$44,016,203 with an unvoted debt margin of \$717,456.

NOTE 14 - INTERFUND ACTIVITY

As of June 30, 2006, principal components of interfund balances and transactions were as follows:

| <u>Fund Due From</u> | <u>Fund Due To</u> | <u>Amount</u> |
|----------------------|------------------------------------|-------------------|
| General Fund | Public School Fund | \$ 7,276 |
| | Title VI-B Fund | 867 |
| | Title III Fund | 9,143 |
| | Title I Fund | 104,840 |
| | Title VI Fund | 4,007 |
| | Drug Free School Grant Fund | 195 |
| | Reducing Class Size Fund | 26,903 |
| | Assistive Tech Infusion Grant Fund | 1,914 |
| | | <u>\$ 155,145</u> |

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

During fiscal year 2006, the General Fund provided \$68,423 of operating funds to the non-major special revenue funds through a transfer-out.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 – 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 2006, the School District contributed \$2,116 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

NOTE 16 - 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, 2006.

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 17 - 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

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

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

| | Textbooks | Capital Acquisition |
|--|-----------------------|------------------------|
| Set-aside Cash Balance, As of June 30, 2005 | \$ (1,567,231) | - |
| Current Year Set-aside Requirement | 604,629 | 604,629 |
| Qualifying Disbursements | <u>(1,009,158)</u> | <u>(1,441,206)</u> |
| Total | <u>(1,971,760)</u> | <u>(836,577)</u> |
| Balance Carried Forward to FY 2006 | \$ <u>(1,971,760)</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.

NOTE 18 – CONSTRUCTION COMMITMENTS

The School District contracted for the renovation of Forest and Concord elementary schools and the renovation and addition to the high school. The outstanding construction commitments at June 30, 2006 are:

| | | |
|-------------------------------|----|-----------|
| Thomas & Marker Construction | \$ | 4,507,384 |
| Peterson Construction Compnay | \$ | 1,003,569 |
| Saturn Electric, Inc. | \$ | 872,368 |
| Regal Plumbing and Heating | \$ | 731,426 |
| Slagle Mechanical | \$ | 132,655 |

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, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|---------------------|--------------------|--------------------|-------------------------------|
| Revenues: | | | | |
| Taxes | \$ 20,714,993 | 20,714,993 | 21,527,995 | 813,002 |
| Intergovernmental | 10,879,836 | 10,879,836 | 11,147,535 | 267,699 |
| Interest | 300,000 | 300,000 | 577,948 | 277,948 |
| Tuition and Fees | 749,000 | 749,000 | 871,247 | 122,247 |
| Extracurricular Activities | 37,000 | 37,000 | 37,610 | 610 |
| Miscellaneous | 67,000 | 67,000 | 77,770 | 10,770 |
| Total Revenues | <u>32,747,829</u> | <u>32,747,829</u> | <u>34,240,105</u> | <u>1,492,276</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 19,401,203 | 18,983,099 | 18,856,170 | 126,929 |
| Special | 3,963,504 | 3,920,900 | 3,891,243 | 29,657 |
| Other | 1,552,100 | 1,908,604 | 1,908,325 | 279 |
| Support Services: | | | | |
| Pupils | 1,768,524 | 1,812,824 | 1,807,175 | 5,649 |
| Instructional Staff | 1,118,255 | 1,097,055 | 1,091,295 | 5,760 |
| Board of Education | 644,298 | 665,796 | 665,424 | 372 |
| Administration | 2,495,514 | 2,550,514 | 2,550,019 | 495 |
| Fiscal | 430,395 | 430,395 | 423,504 | 6,891 |
| Business | 589,833 | 545,833 | 518,338 | 27,495 |
| Operation and Maintenance of Plant | 3,115,995 | 3,115,995 | 3,107,659 | 8,336 |
| Pupil Transportation | 1,701,813 | 1,745,113 | 1,725,959 | 19,154 |
| Central | 35,832 | 52,232 | 52,132 | 100 |
| Other | 1,000 | 1,000 | - | 1,000 |
| Total Expenditures | <u>36,818,266</u> | <u>36,829,360</u> | <u>36,597,243</u> | <u>232,117</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(4,070,437)</u> | <u>(4,081,531)</u> | <u>(2,357,138)</u> | <u>1,724,393</u> |
| Other Financing Sources (Uses): | | | | |
| Advances In | - | - | 68,333 | 68,333 |
| Advances Out | - | (155,145) | (155,145) | - |
| Transfers In | - | - | 3,604 | 3,604 |
| Transfers Out | - | (69,349) | (69,349) | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(224,494)</u> | <u>(152,557)</u> | <u>71,937</u> |
| Net Change in Fund Balance | (4,070,437) | (4,306,025) | (2,509,695) | 1,796,330 |
| Fund Balance, Beginning of Year | 11,353,458 | 11,353,458 | 11,353,458 | - |
| Prior Year Encumbrances Appropriated | <u>1,095,891</u> | <u>1,095,891</u> | <u>1,095,891</u> | - |
| Fund Balance, End of Year | <u>\$ 8,378,912</u> | <u>8,143,324</u> | <u>9,939,654</u> | <u>1,796,330</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, 2006

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 2006.

TROY CITY SCHOOL DISTRICT
MIAMI COUNTY, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2006

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, 2006

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

| | <u>General Fund</u> |
|--------------------------------|------------------------------|
| GAAP Basis | \$ (1,647,472) |
| Revenue Accruals | 986,963 |
| Expenditure Accruals | (1,587,292) |
| Other Financing Sources (Uses) | <u>(261,894)</u> |
| Budget Basis | \$ <u><u>(2,509,695)</u></u> |

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Federal Grantor/ Pass Through Grantor Program Title | Federal CFDA Number | Pass Through Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|---------------------------|--|--|----------------------|---------------------------------------|---------------------------|
| U.S. Department of Agriculture | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Food Distribution Program | 10.550 | N/A | | \$137,524 | | \$137,524 |
| Nutrition Cluster: | | | | | | |
| School Breakfast Program | 10.553 | 05-PU-05 05-PU-06 | \$7,638 61,769 | | \$7,638 61,769 | |
| Total School Breakfast Program | | | 69,407 | | 69,407 | |
| National School Lunch Program | 10.555 | LL-P4-05 LL-P4-06 | 55,975 318,469 | | 55,975 318,469 | |
| Total National School Lunch Program | | | 374,444 | | 374,444 | |
| Total Nutrition Cluster | | | 443,851 | | 443,851 | |
| Team Nutrition Grant | 10.574 | TWNT-04 | 490 | | 490 | |
| Total U.S. Department of Agriculture | | | 444,341 | 137,524 | 444,341 | 137,524 |
| U.S. Department of Education | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-05 C1-S1-06 C1-SD-05 C1-SD-06 | 118,115 412,376 14,624 80,092 | | 89,329 468,706 11,251 99,814 | |
| Total Title I Grants to Local Educational Agencies | | | 625,207 | | 669,100 | |
| Special Education Grants to States | 84.027 | 6B-SF-06 | 1,137,140 | | 1,138,007 | |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | DR-S1-05 DR-S1-06 | 620 10,846 | | 1 10,857 | |
| Total Safe and Drug-Free Schools and Communities State Grants | | | 11,466 | | 10,858 | |
| State Grants for Innovative Programs | 84.298 | C2-S1-06 | 11,311 | | 15,016 | |
| Education Technology State Grants | 84.318 | TJ-S1-05 | 2,026 7,683 | | 1,507 9,597 | |
| Total Education Technology State Grants | | | 9,709 | | 11,104 | |
| English Language Acquisition Grants | 84.365 | T3-S1-05 T3-S1-06 T3-S2-05 T3-S2-06 | 8,429 16,192 498 5,206 | | 7,890 19,218 5,987 | |
| Total English Language Acquisition Grants | | | 30,325 | | 33,095 | |
| Improving Teacher Quality State Grants | 84.367 | TR-S1-05 TR-S1-06 | 22,626 142,006 | | 14,319 168,909 | |
| Total Improving Teacher Quality State Grants | | | 164,632 | | 183,228 | |
| Total U.S. Department of Education | | | 1,989,790 | | 2,060,408 | |
| U.S. Department of the Interior | | | | | | |
| <i>Passed through Ohio Department of Natural Resources</i> | | | | | | |
| Hunter Education and Safety Program | 15.626 | N/A | 1,000 | | | |
| U.S. Department of Health and Human Services | | | | | | |
| <i>Passed through Montgomery County Educational Services Center</i> | | | | | | |
| Medical Assistance Program | 93.778 | N/A | 9,302 | | 9,302 | |
| Total Federal Financial Assistance | | | <u>\$2,444,433</u> | <u>\$137,524</u> | <u>\$2,514,051</u> | <u>\$137,524</u> |

See accompanying notes to the Federal Awards Expenditures Schedule.

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - 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.



Mary Taylor, CPA

Auditor of State

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 the Troy City School District, Miami County, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2007. 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 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, 2007, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

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, 2007, we reported other matters related to noncompliance we deemed immaterial.

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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*
Page 2

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 13, 2007



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Auditor of State

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 the 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 each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 13, 2007.

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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 13, 2007

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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): | Child Nutrition Cluster (CFDA #10.553 and 10.555) Title I Grants to Local Educational Agencies (CFDA #84.010) |
| <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



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TROY CITY SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**