



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Troy City School District, Miami County, (the "District") as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

Insurance claims reported in the internal service self insurance fund are processed by a service organization that is independent of the District. The service organization did not provide us with evidence we requested regarding the design or proper operation of its internal controls relative to the processing of the District's health insurance claim transactions. We were unable to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 100% of the expenses and 100% of the accrued liabilities for the Internal Service Fund Type.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine the evidence regarding health insurance claims, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Troy City School District, Miami County, as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

November 8, 2002

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**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS:			
Cash and Cash Equivalents (note 5)	\$2,170,567	\$484,787	\$1,534,404
Investments	6,986,042		
Receivables:			
Property Taxes - Current	19,075,723		481,181
Property Taxes - Delinquent	471,325		12,758
Accounts Receivable	225,612	8,904	2,672
Accrued Interest	9,591		
Due From:			
Other Governments	1,846,193	87,966	48,827
Inventory - Material and Supplies	57,615		
Prepaid Items	7,599	241	
Property, Plant and Equipment (Net, where applicable, of accumulated depreciation) (note 7)			
Amount to be provided for retirement of General Long-Term Obligations			
TOTAL ASSETS AND OTHER DEBITS	30,850,267	581,898	2,079,842
LIABILITIES:			
Accounts Payable	149,651	12,709	164,680
Accrued Wages and Benefits	4,006,071	19,028	
Claims Payable - Health Care			
Due to:			
Other Government	15,813	63,067	
Others			
Deferred Revenue:			
Property Taxes	18,010,788		456,448
Other	1,821,236	68,316	48,827
Capital Leases Payable			
TOTAL LIABILITIES	24,003,559	163,120	669,955
EQUITY AND OTHER CREDITS:			
Investment in General Fixed Assets			
Contributed Equity			
Retained Earnings			
Fund Balances (Deficit):			
Reserved for Encumbrances	509,584	83,983	225,958
Reserved for Property Taxes	1,536,260		37,491
Reserved for Inventory	57,615		
Reserved for Prepays	7,599	241	
Reserved for Claims Payable			
Reserved for Endowments and Cash Awards			
Unreserved	4,735,650	334,554	1,146,438
Total Contributed Equity, Retained Earnings, & Fund Balances(Deficit)	6,846,708	418,778	1,409,887
TOTAL EQUITY AND OTHER CREDITS	6,846,708	418,778	1,409,887
TOTAL LIABILITIES, EQUITY & OTHER CREDITS	\$30,850,267	\$581,898	\$2,079,842

See accompanying notes to the general purpose financial statements.

			ACCOUNT GROUPS		TOTALS	
PROPRIETARY	FIDUCIARY		GENERAL	GENERAL	(MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL	TRUST	FIXED	LONG-TERM	2002	2001
(NOTE 16)	SERVICE	AND AGENCY	ASSETS	OBLIGATIONS		
\$448,683	\$300,000	\$314,661			\$5,253,102	\$9,329,441
					6,986,042	
336,953					19,893,857	20,039,736
8,419					492,502	279,233
11,459		84			248,731	55,035
186		1,497			11,274	36,411
38,671					2,021,657	2,054,820
35,202					92,817	77,914
1,591					9,431	16,839
383,689			\$25,081,256		25,464,945	24,803,775
					\$3,002,048	3,002,048
1,264,853	300,000	316,242	25,081,256	3,002,048	63,476,406	59,376,047
20,218		36,637			383,895	428,008
268,264				2,960,529	7,253,892	6,579,221
	407,566				407,566	389,271
					78,880	94,028
		80,489			80,489	78,889
					18,467,236	19,085,339
					1,938,379	2,028,488
				41,519	41,519	58,571
288,482	407,566	117,126		3,002,048	28,651,856	28,741,815
			25,081,256		25,081,256	24,392,377
155,811					155,811	155,811
820,560					820,560	414,905
					819,525	533,015
					1,573,751	1,233,630
					57,615	50,053
					7,840	15,385
	(107,566)				(107,566)	(89,271)
		141,460			141,460	140,060
		57,656			6,274,298	3,788,267
976,371	(107,566)	199,116			9,743,294	6,241,855
976,371	(107,566)	199,116	25,081,256		34,824,550	30,634,232
\$1,264,853	\$300,000	\$316,242	\$25,081,256	\$3,002,048	\$63,476,406	\$59,376,047

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES &
CHANGES IN FUND BALANCES --ALL GOVERNMENTAL FUND
TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			FIDUCIARY	TOTALS	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	EXPENDABLE	(MEMORANDUM ONLY)	
				TRUST	2002	2001
REVENUES:						
Taxes	\$20,320,181		\$513,801		\$20,833,982	\$20,616,128
Tuition and Fees	541,212				541,212	354,392
Interest	346,872	\$3,823			350,695	611,778
Intergovernmental	11,072,926	1,426,765	102,411		12,602,102	11,295,125
Extracurricular Activities	43,368	316,104			359,472	408,756
Miscellaneous	55,062	19,066	56,592	\$28,214	158,934	148,437
TOTAL REVENUES	32,379,621	1,765,758	672,804	28,214	34,846,397	33,434,616
EXPENDITURES:						
Current:						
Instruction:						
Regular	16,363,419	1,133,593	16,066		17,513,078	16,584,470
Special	2,247,781	362,358			2,610,139	2,294,715
Other	1,393,793		40,321		1,434,114	1,198,471
TOTAL INSTRUCTIONAL SERVICES	20,004,993	1,495,951	56,387		21,557,331	20,077,656
Support Services:						
Pupil	1,359,516	1,800			1,361,316	1,228,333
Instructional Staff	690,439	65,578			756,017	749,168
Board of Education	552,126				552,126	507,716
Administration	2,032,925	13,608			2,046,533	1,857,994
Fiscal	334,070		8,791		342,861	333,048
Business	393,960	16,648		26,154	436,762	443,818
Operation and Maintenance of Plant	2,264,100	2,706			2,266,806	2,279,323
Pupil Transportation	1,192,355				1,192,355	1,326,976
Other	323	5,020			5,343	43,285
TOTAL SUPPORT SERVICES	8,819,814	105,360	8,791	26,154	8,960,119	8,769,661
Extracurricular Activities		152,638		1,074	153,712	212,522
Capital outlay	456,073	29,017	562,301		1,047,391	1,183,350
Debt service:						
Principal Retirement	7,950	9,103			17,053	13,888
Interest	2,556	1,837			4,393	4,823
TOTAL EXPENDITURES	29,291,386	1,793,906	627,479	27,228	31,739,999	30,261,900
Excess of Revenue Over (Under) expenditures	3,088,235	(28,148)	45,325	986	3,106,398	3,172,716
OTHER FINANCING SOURCES (USES):						
Refund of Prior Year Receipt						(422,353)
Transfers in			300,000		300,000	612,206
Transfers out	(300,000)				(300,000)	(612,206)
Other Financing Sources-Capital Leases						72,460
TOTAL OTHER FINANCING SOURCES (USES)	(300,000)		300,000			(349,893)
Excess of Revenue and Other Financing Sources Over (under) Expenditures and Other Uses	2,788,235	(28,148)	345,325	986	3,106,398	2,822,823
Increase (decrease) in reserve for inventory	7,562				7,562	2,452
Net change in unreserved fund balance for year	2,795,797	(28,148)	345,325	986	3,113,960	2,825,275
FUND BALANCES AT BEGINNING OF YEAR	4,050,911	446,926	1,064,562	53,577	5,615,976	2,790,703
FUND BALANCES AT END OF YEAR	\$6,846,708	\$418,778	\$1,409,887	\$54,563	\$8,729,936	\$5,615,978

See accompanying notes to the general purpose financial statements.

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**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES--BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND (NOTE 4)
FOR THE YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)	BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)
REVENUES:						
Taxes	\$19,422,529	\$19,989,419	\$566,890			
Tuition and Fees	228,300	453,523	225,223			
Interest	385,000	334,280	(50,720)			
Intergovernmental	11,098,589	11,073,026	(25,563)	\$1,027,372	\$960,517	(\$66,855)
Extracurricular Activities	45,148	43,368	(1,780)	298,852	315,345	16,493
Miscellaneous	45,500	59,747	14,247	16,200	19,066	2,866
TOTAL REVENUES	31,225,066	31,953,363	728,297	1,342,424	1,294,928	(47,496)
EXPENDITURES:						
Current:						
Instruction						
Regular	16,196,070	16,156,970	39,100	889,507	801,106	88,401
Special	2,283,681	2,277,950	5,731	364,030	363,967	63
Other	2,191,440	2,189,648	1,792			
TOTAL INSTRUCTIONAL SERVICES	20,671,191	20,624,568	46,623	1,253,537	1,165,073	88,464
Support Services						
Pupil	1,350,263	1,333,750	16,513	2,268	2,268	
Instructional Staff	842,594	804,220	38,374	55,278	35,116	20,162
Board of Education	566,110	560,589	5,521			
Administration	2,113,615	2,026,603	87,012	20,335	19,937	398
Fiscal	335,876	335,384	492			
Business	428,707	394,701	34,006	16,648	16,648	
Operation and Maintenance of Plant	2,398,544	2,374,227	24,317			
Pupil Transportation	1,422,798	1,390,221	32,577			
Other	500	323	177	3,034	3,034	
TOTAL SUPPORT SERVICES	9,459,007	9,220,018	238,989	97,563	77,003	20,560
Extracurricular Activities				297,837	230,126	67,711
Capital Outlay						
TOTAL EXPENDITURES	30,130,198	29,844,586	285,612	1,648,937	1,472,202	176,735
Excess of Revenue Over (Under) Expenditures	1,094,868	2,108,777	1,013,909	(306,513)	(177,274)	129,239
OTHER FINANCING SOURCES (USES):						
Transfers In						
Transfers Out	(300,000)	(300,000)				
TOTAL OTHER FINANCING SOURCES (USES)	(300,000)	(300,000)				
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	794,868	1,808,777	1,013,909	(306,513)	(177,274)	129,239
FUND BALANCES AT BEGINNING OF YEAR	6,072,386	6,072,386		380,904	380,904	
Prior Year Encumbrances Appropriated	572,434	572,434		88,852	88,852	
FUND BALANCES AT END OF YEAR	\$7,439,688	\$8,453,597	\$1,013,909	\$163,243	\$292,482	\$129,239

See accompanying notes to the general purpose financial statements.

CAPITAL PROJECTS FUND			FIDUCIARY FUNDS			TOTALS (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)	BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)	BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)
\$497,140	\$504,442	\$7,302				\$19,919,669	\$20,493,861	\$574,192
						228,300	453,523	225,223
						385,000	334,280	(50,720)
100,977	101,966	989				12,226,938	12,135,509	(91,429)
						344,000	358,713	14,713
50,000	53,920	3,920	\$31,185	\$28,214	(\$2,971)	142,885	160,947	18,062
648,117	660,328	12,211	31,185	28,214	(2,971)	33,246,792	33,936,833	690,041
34,528	29,371	5,157				17,120,105	16,987,447	132,658
						2,647,711	2,641,917	5,794
87,865	87,865					2,279,305	2,277,513	1,792
122,393	117,236	5,157				22,047,121	21,906,877	140,244
						1,352,531	1,336,018	16,513
						897,872	839,336	58,536
						566,110	560,589	5,521
						2,133,950	2,046,540	87,410
11,000	8,791	2,209				346,876	344,175	2,701
			80,843	34,954	45,889	526,198	446,303	79,895
						2,398,544	2,374,227	24,317
						1,422,798	1,390,221	32,577
						3,534	3,357	177
11,000	8,791	2,209	80,843	34,954	45,889	9,648,413	9,340,766	307,647
			10,000	1,074	8,926	307,837	231,200	76,637
969,815	708,329	261,486				969,815	708,329	261,486
1,103,208	834,356	268,852	90,843	36,028	54,815	32,973,186	32,187,172	786,014
(455,091)	(174,028)	281,063	(59,658)	(7,814)	51,844	273,606	1,749,661	1,476,055
300,000	300,000					300,000	300,000	
						(300,000)	(300,000)	
300,000	300,000							
(155,091)	125,972	281,063	(59,658)	(7,814)	51,844	273,606	1,749,661	1,476,055
888,036	888,036		53,576	53,576		7,394,902	7,394,902	
129,764	129,764		8,800	8,800		799,850	799,850	
\$862,709	\$1,143,772	\$281,063	\$2,718	\$54,562	\$51,844	\$8,468,358	\$9,944,413	\$1,476,055

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND
BALANCES--ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	PROPRIETARY		FIDUCIARY	TOTALS	
	ENTERPRISE (NOTE 16)	INTERNAL SERVICE	NON-EXPENDABLE TRUST	(MEMORANDUM ONLY)	
				2002	2001
OPERATING REVENUES:					
Sales	\$1,071,658			\$1,071,658	\$1,047,331
Classroom Fees	49,798			49,798	56,875
Miscellaneous Receipts	42,761			42,761	45,912
Charge for Services		\$2,922,652		2,922,652	2,482,491
TOTAL REVENUES	1,164,217	2,922,652		4,086,869	3,632,609
OPERATING EXPENSES:					
Salaries and Wages	695,194			695,194	695,723
Fringe Benefits	319,757			319,757	284,013
Contractual Services	133,480			133,480	130,183
Materials and Supplies	730,619			730,619	734,693
Claims Expense		2,940,947		2,940,947	2,599,262
Depreciation	27,208			27,208	26,305
Other Expense	13,339		\$5,300	18,639	14,184
TOTAL OPERATING EXPENSES	1,919,597	2,940,947	5,300	4,865,844	4,484,363
OPERATING INCOME (LOSS)	(755,380)	(18,295)	(5,300)	(778,975)	(851,754)
NONOPERATING REVENUES:					
Property Taxes	688,204			688,204	329,375
Grants	396,055			396,055	369,134
Interest	2,687		5,421	8,108	15,775
Other	74,089			74,089	32,559
TOTAL NONOPERATING REVENUES	1,161,035		5,421	1,166,456	746,843
NET INCOME (LOSS)	405,655	(18,295)	121	387,481	(104,911)
Retained Earnings/Fund Balances at Beginning of Year	414,905	(89,271)	144,432	470,066	574,977
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	820,560	(107,566)	144,553	857,547	470,066
Contributed Capital Beginning of Year	155,811			155,811	155,811
Contributed Capital End of Year	155,811			155,811	155,811
Total Fund Equity at End of Year	\$976,371	(\$107,566)	\$144,553	\$1,013,358	\$625,877

See accompanying notes to the general purpose financial statements.

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
YEAR ENDED JUNE 30, 2002**

	PROPRIETARY		FIDUCIARY	TOTALS	
	ENTERPRISE FUNDS	INTERNAL SERVICE	NON-EXPENDABLE TRUST	(MEMORANDUM ONLY)	
				2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating (Loss)	(\$755,380)	(\$18,295)	(\$5,300)	(\$778,975)	(\$851,754)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Donated Commodities Used	68,932			68,932	65,282
Depreciation	27,208			27,208	26,305
Change in Assets and Liabilities:					
(Increase) in Taxes Receivable	(12,574)			(12,574)	(9,004)
(Increase) Decrease in Accounts Receivable	(9,853)			(9,853)	713
(Increase) Decrease in Accrued Interest	(100)		(544)	(644)	6,658
(Increase) Decrease in Due From Other Governments	(4,358)			(4,358)	502
(Increase) Decrease in Inventory	(7,341)			(7,341)	11
(Increase) in Prepays	(137)			(137)	(110)
Increase (Decrease) in Accounts Payable	(1,830)		2,100	270	7,383
Increase (Decrease) in Accrued Wages Payable	(64)			(64)	35,969
Increase (Decrease) in Deferred Revenue	(379,927)			(379,927)	7,718
Increase in Claims Payable		18,295		18,295	116,771
TOTAL ADJUSTMENTS	(320,044)	18,295	1,556	(300,193)	258,198
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,075,424)		(3,744)	(1,079,168)	(593,556)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Property Taxes	688,204			688,204	329,375
Grants Received	327,123			327,123	303,852
Other	74,089			74,089	32,559
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	1,089,416			1,089,416	665,786
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and Construction of Capital Assets	(501)			(501)	141,902
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(501)			(501)	141,902
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest	2,687		5,421	8,108	15,775
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,687		5,421	8,108	15,775
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,180		1,677	18,857	(53,897)
Cash & Cash Equivalents at Beginning of Year	431,503	300,000	146,679	878,182	932,079
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$448,683	\$300,000	\$148,356	\$897,039	\$878,182

See accompanying notes to the general purpose financial statements.

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TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Troy City School District (District), organized in 1849, is located in Miami County, Ohio, and is a fiscally independent political subdivision of the State of Ohio. The 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 District is not a part of, nor under the control of, the City of Troy, Ohio.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, and functions for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (i) the District's ability to impose its will over a component unit, or (ii) the possibility that the component unit will provide a financial benefit or impose a financial burden on the District. On that basis, the reporting entity of the District includes the services of the school district as well as the Hayner Cultural Center (Center).

Blended Component Unit: 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 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 District has provided for a Governing Board whose responsibility in part is to preserve, maintain, and operate the Center. The District has the authority to reject the recommendations of the Governing Board. Likewise, there is a financial benefit and financial burden relationship between the District and the Center. Accordingly, the Hayner Cultural Center's financial statements are included within the proprietary funds.

Based on these criteria, the school district is considered a primary government and there are no organizations, other than Hayner Cultural Center, whose financial statements should be combined and presented with the general purpose financial statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation-Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the District:

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENTAL FUND TYPES

General Fund -- The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds -- Special Revenue Funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, requiring separate accounting because of legal or regulatory provisions or administrative action.

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

PROPRIETARY FUND TYPES

Enterprise Funds -- Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

Internal Service Fund -- Internal Service Funds account for operations that provide services to other departments of the government, or to other governments, on a cost reimbursement basis. The Employee Health Insurance Fund is used to account for the expenses incurred by the District in providing health insurance to District employees through a self insurance program as discussed in Note 10.

FIDUCIARY FUND TYPES

Trust and Agency Funds -- Trust and Agency Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust funds are accounted for and reported as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

ACCOUNT GROUP

General Fixed Assets Account Group -- This account group is established to account for fixed assets of the District other than those accounted for in proprietary or nonexpendable trust funds.

General Long-Term Obligations Account Group -- This account group is established to account for all unmatured long-term indebtedness of the District except that accounted for in the proprietary funds.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

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

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is followed by governmental funds, agency funds and expendable trust funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenue. The district considers property taxes available if they are collected by year-end. A 90 day or three month availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, which is recorded in the general long-term obligations account group.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non exchange transactions, in which the District receives value without directly giving equal value in return include property taxes, grants, entitlements, and donations. On the accrual basis, 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non exchange transactions must also be available before it can be recognized.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Those revenues susceptible to accrual are taxes, tuition and fees, interest and intergovernmental revenues.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon when the expenditures are incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The accrual basis of accounting, i.e., revenues are recorded when earned and expenses are recorded when incurred, is utilized by the proprietary funds and non-expendable trust funds.

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

C. Budgetary Process

All governmental and proprietary fund types are subject to annual expenditures budgets except for Auxiliary Service Funds (Special Revenue Funds), which are deemed to be appropriated and therefore are not included in the budgetary statement. The Board follows the procedures outlined below in establishing the expenditures budget data reported in the general purpose financial statements:

1. Tax Budget

A Tax Budget of estimated cash receipts and disbursements is submitted to the Miami County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions on the budget to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any additional revenue to be received by a fund and any unencumbered balances from the preceding year.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Appropriations

An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. Unencumbered appropriations lapse at year-end and encumbered appropriations are reported as expenditures in the year encumbered. In some years the Board has adopted a temporary appropriation measure to allow the District to operate until its annual appropriations are adopted. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund at the fund or function level. The appropriation measure may be amended or supplemented during the year as new information becomes available.

During fiscal year 2002, the Board made several supplemental appropriations but none are considered to be material.

4. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in all funds. Encumbrances are reported as reservations of fund balance, since they do not constitute expenditures or liabilities.

5. Lapsing of Appropriations

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 appropriations. The encumbered appropriations balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual -- All Governmental Fund Types and Expendable Trust Fund in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- c. Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance (GAAP basis).

D. Cash and Investments

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

During fiscal year 2002, investments included federal government agency bonds, STAROhio and non-negotiable certificates of deposit.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2002. STAROhio is an investment pool managed by the State Treasurer's Office, which 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, 2002.

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 2002 amounted to \$346,872.

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 District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Restricted Assets

House Bill 412 required school districts to establish and maintain a Budget Stabilization reserve. At June 30, 2000, the District had set aside \$546,514 to comply with this statute. In 2001, House Bill 345 deleted from law the requirement for the budget reserve set-aside. The District has transferred the balance in the reserve to the Capital Projects Fund 070 to be used for future capital improvements.

F. Inventory of Supplies

Inventory is valued at the lower of cost (first-in, first-out) or market. The cost of inventory in the Governmental Funds is recorded as an expenditure at the time individual inventory items are

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

purchased. Inventory outstanding at June 30, 2002, is capitalized and shown as a reserve of fund balance.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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/expense is reported in the year in which services are consumed.

H. Fixed Assets -- Governmental Funds

Fixed assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and capitalized at cost (or estimated historical cost for assets for which cost is not available) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at their estimated fair market value at the date received. No depreciation is provided on general fixed assets.

I. Fixed Assets -- Proprietary Funds

Fixed assets used by proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction where applicable. The original cost of the property, buildings and equipment was not available. Accordingly, such costs were estimated using standard industry assumptions as determined by an outside consultant. Contributed fixed assets are recorded at estimated fair market value at the date received. Depreciation is provided using the straight-line method over estimated useful lives ranging from 30 to 50 years for buildings, 10 to 40 years for building improvements, 10 to 20 years for improvements other than buildings, and 5 to 20 years for equipment.

J. 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 District accrues vacation leave benefits as earned.

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

For governmental funds, the cost of accumulated vacation and sick leave expected to be paid in the next 12 months is recorded as a fund liability, and amounts expected to be paid after 12 months are recorded in the General Long-Term Obligations Account Group. For proprietary funds, the cost of vacation and sick leave is recorded as a liability when earned.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, prepaids, claims payable, endowments and cash awards, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. Proprietary Fund Type Accounting

Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date the district accounts for its proprietary funds as presented by the GASB.

N. Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenditure/expenses during the reporting period. Actual results could differ from those estimates.

O. Comparative Data

Comparative total data for the prior year has been presented in the accompanying general purpose financial statements in order to provide an understanding of overall changes in the District's financial position and operations.

P. Total Columns

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Proprietary and Nonexpendable Trust Funds consider all highly liquid investments held by trustees, with a maturity of three months or less when purchased, to be cash equivalents. In addition, all cash and investments with the Treasurer are also considered to be cash equivalents since they are available to the Proprietary and Nonexpendable Trust Funds on demand.

Reconciliation of Non-Expendable Trust ending cash to balance sheet:

Non-Expendable Trust	\$148,356
Expendable Trust	79,621
Agency	<u>86,684</u>
	<u>\$314,661</u>

NOTE 3 - DEFICIT FUND BALANCE

At June 30, 2002, the Food Service Fund has a deficit fund balance of \$144,740 which was created by the application of generally accepted accounting principles. The Internal Service Fund has a deficit fund balance of \$107,566 as of that date also, resulting from a difference between the reserved funds of \$300,000 available to pay IBNR claims and the total of the estimated IBNR claims. According to the Actuarial Valuation of Claim Liability and Funded Status for the period ended June 30, 2002, the District is under funded by \$17,219 for this reserved fund, based on §9.833 of the Ohio Revised Code.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budget Basis), All Governmental Fund Types and Expendable Trust 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis.)
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Proceeds from and principal payments on short-term obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess of Revenues and Other Financing Sources Over (Under)
Expenditures and Other Financing Uses
Governmental Fund Types and Expendable Trust Fund**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals</u> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
GAAP Basis	2,788,235	(\$28,148)	\$345,325	\$986	\$3,106,398
Revenue Accruals	(426,258)	(20,409)	(12,476)	0	(459,143)
Expenditure Accruals	112,654	(107,892)	183,761	16,258	204,781
Outstanding Encumbrances					
at Fiscal Year End	(665,854)	(85,623)	(390,638)	(25,058)	(1,167,173)
Auxiliary Services Fund	0	64,798	0	0	64,798
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Budget Basis	<u>\$1,808,777</u>	<u>(\$177,274)</u>	<u>\$125,972</u>	<u>(\$7,814)</u>	<u>\$1,749,661</u>

NOTE 5 - CASH AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the District into three categories:

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW accounts), or in money market deposit accounts.

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

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 5 - CASH AND INVESTMENTS (continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may be made only through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 5 - CASH AND INVESTMENTS (continued)

investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At fiscal year end, the District had \$7,650 in undeposited cash on hand which is included on the balance sheet of the District as part of "Cash and Cash Equivalents."

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

Deposits At year end the carrying amount of the District's deposits was \$2,213,833 and the bank balance was \$2,472,622. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$2,172,622 was collateralized with securities held by its agent not in the District's name.

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

	Category			Cost	Fair Value
	1	2	3		
U.S. Government Securities			\$6,986,042	\$6,986,042	\$6,986,042
Investment in State Treasurer's Investment Pool			<u> </u>	<u>\$3,031,619</u>	<u>\$3,031,619</u>
 Total Investments			<u>\$6,986,042</u>	<u>\$10,017,661</u>	<u>\$10,017,661</u>

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

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 5 - CASH AND INVESTMENTS (continued)

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$5,253,102	\$6,986,042
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(<u>\$3,031,619</u>)	<u>\$3,031,619</u>
 GASB Statement 3	 <u>\$2,221,483</u>	 <u>\$10,017,661</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued sexennially with a triennial update. The last revaluation was completed in 2001. Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 14; if paid semi-annually, the first payment is due February 14, with the remainder payable by July 20. In certain circumstances, state statute permits earlier or later payment dates to be established.

Taxpayers become liable for tangible personal property taxes (other than public utilities) on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined as of the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. In calendar year 2001, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding year on assessed values as of the lien date, January 1, of that preceding year. Public utility tangible personal property currently is generally assessed at 25% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the county including the District. The County Auditor periodically remits to the taxing districts their portion of the taxes collected, with final settlement in June and December for taxes payable in the first and second halves of the year, respectively.

The assessed values of real and tangible personal property for collection in 2002 upon which 2001 property tax levies were based totaled \$640,722,219, which was comprised of \$488,791,665 in real property, \$20,013,240 in public utility property, and \$131,917,314 in personal property.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 6 - PROPERTY TAXES (continued)

Accrued taxes receivable represent taxes on real property, personal property and public utility property which became measurable as of June 30, 2002. Although these tax revenues for the next fiscal year are measurable, they are not intended to finance current-year operations; therefore, the receivable is offset by a credit to deferred revenue.

The only exception to this approach occurs when second half property taxes are available as an advance prior to year-end. The amount representing property taxes available for advance at June 30, 2002, is reported as a reserved fund balance of the total fund equity.

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

The district has negotiated repayment over a five-year period beginning in fiscal year 1999-2000. The district's share of the repayment for the first year was 72.4% of the amount, or \$165,260. For the second year, the district's share is 72%, or \$294,029, and for the third, fourth, and fifth years, the district's share is 73%, or \$298,113 for each of the three years.

The total amount repayable by the district is \$1,353,628.

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT

Fixed assets are reported as General Fixed Assets for all fund types except Proprietary (Enterprise and Internal Service) Funds. The summary of the General Fixed Assets Account Group for 2002 is as follows:

	Balance June 30, 2001	Additions	Removals	Balance June 30, 2002
Furniture and Fixtures	\$9,750,152	\$405,207	\$249,100	\$9,906,259
Buildings and Improvements	14,224,868	462,646		14,687,514
Land	<u>417,358</u>	<u>70,125</u>	<u> </u>	<u>487,483</u>
TOTAL	<u>\$24,392,378</u>	<u>\$937,978</u>	<u>\$249,100</u>	<u>\$25,081,256</u>

Proprietary fund type property, plant and equipment at June 30, 2002, for the Enterprise Fund consist of the following:

	<u>Enterprise</u>
Furniture and Fixtures	\$649,852
Buildings and Improvements	494,687
Land	3,148
Sub-Total	<u>1,147,687</u>
Accumulated Depreciation	<u>(763,998)</u>
Net Carrying Value	<u>\$383,689</u>

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 State statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2001, 4.2 percent was 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 years ended June 30, 2002, 2001, and 2000 were \$644,742, \$659,339, and \$583,211 respectively; 47.94 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$335,631, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$2,219,618, \$2,102,762, and \$1,990,731 respectively; 70.34 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$658,267 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 9 – POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$680,283 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$399,888.

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 expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 10 – SELF INSURANCE FUND

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

Expenses for claims are recorded as other expenditures/expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for unpaid claims is based on past experience and large outstanding balances. The liability at June 30, 2002, is not discounted. An actuary was used in determining this liability. A summary of changes in self-insured claims for the year ended June 30, 2002, follows:

	<u>Internal Service Fund</u>
Claims liability at June 30, 2000	\$ 272,500
Claims incurred	2,832,420
Claims paid	(2,715,649)
Claims liability at June 30, 2001	\$ 389,271
Claims incurred	3,268,640
Claims paid	(3,250,345)
Claims liability at June 30, 2002	\$ <u>407,566</u>

NOTE 11 - RISK MANAGEMENT

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

NOTE 12 - OPERATING LEASES

The District leases office equipment under non-cancellable operating leases. Total costs for such leases were \$15,539 for the year ended June 30, 2002. The future minimum lease payments as of June 30, 2002, are as follows:

<u>Year Ending June 30</u>	<u>Amounts</u>
2003	\$3,184
2004	\$3,184
2005	\$2,388

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 13 - CAPITAL LEASE COMMITMENTS

The District is obligated under two leases accounted for as capital leases. The cost of the leased assets is accounted for in the General Fixed Assets Account Group and the related liability in the General Long-Term Obligations Account Group. The original cost of the assets under capital lease was \$72,460.

The following is a schedule of the future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2002:

Year ending June 30,	Capital Lease Payments
2003	\$21,446
2004	\$21,446
2005	<u>\$2,735</u>
Minimum Lease Payments	45,627
Less: Amount representing interest at the District's incremental borrowing rate	<u>(4,108)</u>
Present value of minimum lease payments	<u><u>\$41,519</u></u>

NOTE 14 - LONG TERM DEBT

A summary of changes in long-term obligations for the year ended June 30, 2002, follows:

	Balance <u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
General long-term Debt Account Group:				
Accrued Wages and Benefits	\$2,624,272	\$336,257		\$2,960,529
Capital Leases Payable	<u>58,571</u>		<u>(\$17,052)</u>	<u>41,519</u>
Total Long-Term Debt	<u>\$2,682,843</u>	<u>\$336,257</u>	<u>(\$17,052)</u>	<u>\$3,002,048</u>

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the school district as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed 0.1% of the total assessed value of property. The unvoted net debt at June 30, 2002, was 0%. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At June 30, 2002, the District had no debt. The aggregate amount of the District's unvoted debt is also subject to overlapping debt restrictions with Miami County and the City of Troy. As of June 30, 2002, these entities have complied with the requirement that debt service payments on unvoted overlapping debt must not exceed in the aggregate 1% (10 mills) of the assessed property value.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 14 - LONG TERM DEBT (continued)

Additions and deletions of accrued wages and benefits are shown net since it is impractical for the District to determine these amounts separately. The criteria for determining vested vacation and sick leave components are derived from Board policy, negotiated agreements, state statutes, and contracts with individual employees. Accumulated vacation and sick leave of governmental fund type employees meeting the eligibility requirements have been recorded in the appropriate governmental fund as a current liability to the extent that amounts are expected to be payable within the current period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees paid from the Proprietary Funds are recorded as an expense when earned.

NOTE 15 - OPERATING GRANTS

The District receives certain Federal and State operating grants which remain subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the District's administration believes such disallowances, if any, would be immaterial.

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The more significant financial data for the District's Enterprise Funds for the year ended June 30, 2002, is as follows:

	Food Service <u>Fund</u>	Hayner Cultural Center <u>Fund</u>	Uniform School Supply <u>Fund</u>	<u>Total</u>
Operating revenues	1,071,658	\$42,761	\$49,798	\$1,164,217
Operating expenses	1,489,742	351,901	50,746	1,892,389
Depreciation	<u>4,271</u>	<u>22,937</u>	<u>0</u>	<u>27,208</u>
Operating income	(422,355)	(332,077)	(948)	(755,380)
Non-operating revenues and expenses:				
Property taxes	0	688,204	0	688,204
Operating grants	383,355	12,700	0	396,055
Interest	1,192	1,495	0	2,687
Other net	<u>0</u>	<u>74,089</u>	<u>0</u>	<u>74,089</u>
Net income (loss)	<u>(\$37,808)</u>	<u>\$444,411</u>	<u>(\$948)</u>	<u>\$405,655</u>
Additions (net of disposals) to fixed assets	<u>\$1,793</u>	<u>(\$2,294)</u>	<u>\$0</u>	<u>(\$501)</u>
Net working capital	<u>(\$160,017)</u>	<u>\$742,319</u>	<u>\$10,380</u>	<u>\$592,682</u>
Total assets	<u>\$98,017</u>	<u>\$1,147,562</u>	<u>\$19,274</u>	<u>\$1,264,853</u>
Total fund equity	<u>(\$144,740)</u>	<u>\$1,110,731</u>	<u>\$10,380</u>	<u>\$976,371</u>

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 17- JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Educational Purchasing Cooperative (SOEPC) - SOEPC is a purchasing cooperative made up of nearly one hundred school districts in twelve counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges and assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment and supplies purchased by the SOEPC is held in trust for the member district. Payments to SOEPC are made from the General (Governmental) Fund. An annual membership fee of \$2,132.80 is assessed to the district.

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. The organization 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 statements can be obtained from MDECA located in Dayton, Ohio.

NOTE 18 – SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2001	(\$424,267)	(\$871,653)
Current year set-aside requirement	515,330	515,330
Current year offsets	0	0
Qualifying disbursements	<u>(679,163)</u>	<u>(533,104)</u>
Set-aside Cash Balance carried forward to future fiscal years	<u>(\$588,100)</u>	<u>(\$889,427)</u>

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts for textbooks only may be used to reduce the set-aside requirements of future years.

TROY CITY SCHOOL DISTRICT
Miami County

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002 (continued)

NOTE 19 – STATE SCHOOL FUNDING DECISION

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

- ❖ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ❖ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program		10.550		\$56,117		\$52,073
National School Breakfast Program	05-PU 2001	10.553	5,950		\$5,950	
	05-PU 2002		35,645		35,645	
Total National School Breakfast Program			41,595		41,595	
National School Lunch Program	LL-P4 2001	10.555	35,814		35,814	
	LL-P4 2002		220,008		220,008	
Total National School Lunch Program			255,822		255,822	-
Total U.S. Department of Agriculture - Nutrition Cluster			297,417	56,117	297,417	52,073
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Grants to Local Educational Agencies (ESEA Title 1)	C1-S1 2001	84.010	10,181		60,318	
	C1-S1 2001 C		2,770		2,770	
	C1-S1-2002		308,869		302,061	
	C1-SD-2002		43,312		43,312	
			365,132		408,461	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-2002-P	84.027	354,990		354,990	
Drug-Free Schools Grant	DR-S1 2001	84.186	-		1,042	
			20,318		20,318	
			20,318		21,360	
GOALS 2000	G2-S2 2001	84.276			55	
Eisenhower Professional Development Grant	MS-S1 2002	84.281	20,495		9,782	
Innovative Education Program Strategies	C2-S1 2002	84.298	8,027		5,139	
Class Size Reduction	CR-S1 2001	84.340			6,284	
	CR-S1 2002		98,504		96,808	
			98,504		103,092	
Total U.S. Department of Education			867,466		902,879	
U.S. DEPARTMENT OF LIBRARY SERVICES						
(Passed through Ohio State Library Services)						
State Library Program	VI-7-02	45.310	12,159			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
(Passed Through Ohio Dept. of Jobs and Family Services)						
Medical Assistance Program	not available	93.778	2,617		2,617	
Total Federal Assistance			\$1,179,659	\$56,117	\$1,202,913	\$52,073

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

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of Troy City School District, Miami County, (the "District") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 2002, which was qualified for a lack of evidential matter related to the Internal Service Fund expenses and liabilities. Except for the above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 8, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10355-001.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we consider item 2002-10355-001 to be a material weakness.

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



Jim Petro
Auditor of State

November 8, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

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

To the Board of Education:

Compliance

We have audited the compliance of Troy City School District, Miami County (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

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

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



Jim Petro
Auditor of State

November 8, 2002

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	- Nutrition Cluster (CFDA# 10.555 - National School Lunch Program, CFDA# 10.550 - Food Distribution Program, CFDA# 10.553 - National School Breakfast Program) - Special Education Grants to States (IDEA Part B) CDFD # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-10355-001

Material Weakness

The District has delegated employees' health insurance claims processing, which is a significant accounting function of the internal service fund, to United Medical Resources (UMR), a third-party administrator. Although the District's Business Manager reviews the claims register received from UMR documenting employees involved and the amount of claim approved for payment, the failure of UMR to obtain a report on the effectiveness of their claims processing internal control policies and procedures limits the District's ability to reasonably determine that health insurance claims have been completely and accurately processed in accordance with the health insurance contract.

We recommend the District implement procedures to reasonably assure completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement of Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. An unqualified "Report on Policies and Procedures Placed in operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the District with an appropriate level of assurance that health insurance claims are being processed in conformance with the contract.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**TROY CITY SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <u>Explain:</u>
2001-10355-001	No internal control audit was performed for the District's third-party administrator as required by SAS 70/88.	No	The District is attempting to correct the situation by having United Medical Resources (UMR), their third-party administrator, obtain the required report of procedures placed in operation and tests of operating effectiveness.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

TROY CITY SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 5, 2002**