



**Auditor of State
Betty Montgomery**

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Parkway Local School District
Mercer County
401 South Franklin Street
Rockford, Ohio 45882

To the Board of Education:

We have audited the accompanying financial statements of Parkway Local School District, Mercer County, (the District), as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District, as of June 30, 2004 and 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the District changed its method of accounting from generally accepted accounting principles to the basis the Auditor of State prescribes for governments not required to follow generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2005 on our consideration of the School 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.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2003. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 9, 2005

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>				<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Taxes	\$2,727,387	\$38,715	\$629,851	\$97,498		\$3,493,451
Tuition	200,621					200,621
Intergovernmental	5,037,664	303,074	79,470	9,246,820		14,667,028
Interest	32,651			325,201	4,217	362,069
Extracurricular Activities		249,806				249,806
Classroom Materials & Fees	62,259					62,259
Miscellaneous	6,212				15,782	21,994
Total Revenues	8,066,794	591,595	709,321	9,669,519	19,999	19,057,228
Expenditures:						
Current:						
Instruction:						
Regular	3,949,465	120,388		24,750	94	4,094,697
Special	1,236,750	89,776				1,326,526
Vocational	227,252					227,252
Support Services:						
Pupils	212,342	2,389				214,731
Instruction	406,361	42,203		1,200	3,683	453,447
Board of Education	22,871					22,871
Administration	687,374	109,758			1,385	798,517
Fiscal	255,780	1,774	14,935	2,345		274,834
Operation and Maintenance	669,849			450		670,299
Transportation	393,795			40,993		434,788
Central Services	6,893	10,000			446	17,339
Non-Instructional Services:						
Community Services					14,250	14,250
Extracurricular Activities	161,247	149,556				310,803
Capital Outlay	8,057	2,447		2,688,150		2,698,654
Debt Payments			664,027			664,027
Total Expenditures	8,238,036	528,291	678,962	2,757,888	19,858	12,223,035
Excess (Deficiency) of Revenues Over (Under) Expenditures	(171,242)	63,304	30,359	6,911,631	141	6,834,193
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	2,141	3,330				5,471
Advances In	63,829	27,178		37,934		128,941
Refund of Prior Year Receipts	(3,556)	(714)				(4,270)
Advances Out	(65,112)	(63,829)				(128,941)
Total Other Financing Sources (Uses)	(2,698)	(34,035)		37,934		1,201
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(173,940)	29,269	30,359	6,949,565	141	6,835,394
Fund Balances (Deficits) at Beginning of Year	1,889,487	180,704	290,529	11,930,395	31,326	14,322,441
Fund Balances (Deficits) at End of Year	<u>\$1,715,547</u>	<u>\$209,973</u>	<u>\$320,888</u>	<u>\$18,879,960</u>	<u>\$31,467</u>	<u>\$21,157,835</u>

The accompanying notes are an integral part of the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>		Totals (Memorandum Only)
	Enterprise Funds	Non-Expendable Funds	Agency Funds	
Operating Revenues:				
Tuition	\$24,088			\$24,088
Interest		142		142
Food Services	228,194			228,194
Extracurricular Activities			77,786	77,786
Miscellaneous		1,570		1,570
Total Operating Revenue	252,282	1,712	77,786	331,780
Operating Expenses:				
Salaries	153,601			153,601
Fringe Benefits	55,872			55,872
Purchased Services	17,157			17,157
Materials and Supplies	145,831			145,831
Other Objects	307	845	69,176	70,328
Total Operating Expenses	372,768	845	69,176	442,789
Operating Income (Loss)	(120,486)	867	8,610	(111,009)
Non-Operating Revenues (Expenses):				
Federal and State Subsidies	113,064			113,064
Interest	307			307
Other Sources			10,311	10,311
Other Uses			(9,716)	(9,716)
Refund of Prior Year Receipts	(15)			(15)
Total Non-Operating Revenues and (Expenses)	113,356		595	113,951
Net Income (Loss)	(7,130)	867	9,205	2,942
Fund Balance at Beginning of Year	41,162	11,751	32,995	85,908
Fund Balance at End of Year	\$34,032	\$12,618	\$42,200	\$88,850

The accompanying notes are an integral part of the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$8,024,990	\$8,132,764	\$107,774
Special Revenue Funds	659,701	622,103	(37,598)
Debt Service Funds	698,494	709,321	10,827
Capital Project Funds	9,222,392	9,707,453	485,061
Proprietary:			
Enterprise Funds	356,470	365,653	9,183
Fiduciary:			
Expendable Trust Funds	16,940	19,999	3,059
Non-Expendable Trust Funds	850	1,712	862
Total (Memorandum Only)	<u>\$18,979,837</u>	<u>\$19,559,005</u>	<u>\$579,168</u>

The notes to the financial statements are an integral part of this statement.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total
Governmental:			
General Fund	\$160,939	\$8,662,416	\$8,823,355
Special Revenue Funds	23,979	694,180	718,159
Debt Service Funds		693,956	693,956
Capital Project Funds	158,355	10,851,471	11,009,826
Proprietary:			
Enterprise Funds	1,948	386,855	388,803
Fiduciary:			
Expendable Trust Funds	25	23,102	23,127
Non-Expendable Trust Funds		846	846
Total (Memorandum Only)	<u>\$345,246</u>	<u>\$21,312,826</u>	<u>\$21,658,072</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$8,306,704	\$71,164	\$8,377,868	\$445,487
592,834	25,658	618,492	99,667
678,962		678,962	14,994
2,757,888	422,038	3,179,926	7,829,900
372,783	1,122	373,905	14,898
19,858		19,858	3,269
845		845	1
<u>\$12,729,874</u>	<u>\$519,982</u>	<u>\$13,249,856</u>	<u>\$8,408,216</u>

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**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Funds	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes	\$2,673,373	\$20,643	\$342,682	\$96,506		\$3,133,204
Tuition	193,914					193,914
Transportation Fees	1,170					1,170
Intergovernmental	4,805,243	259,818	38,180	475,683		5,578,924
Interest	54,677			138,798	5,274	198,749
Extracurricular Activities		227,931				227,931
Classroom Materials & Fees	60,297					60,297
Miscellaneous	9,141			8,000	15,698	32,839
Total Revenues	7,797,815	508,392	380,862	718,987	20,972	9,427,028
Expenditures:						
Current:						
Instruction:						
Regular	3,911,429	169,087			1,881	4,082,397
Special	1,096,581	109,249				1,205,830
Vocational	217,385					217,385
Support Services:						
Pupils	210,982	9,928				220,910
Instruction	408,705	45,859		8,594	2,007	465,165
Board of Education	36,705					36,705
Administration	664,210	101,590				765,800
Fiscal	248,589	3,140	7,717	2,222		261,668
Operation and Maintenance	679,068			2,550		681,618
Transportation	418,755	420		62,584		481,759
Central Services	33,383					33,383
Non-Instructional:						
Community Services					9,875	9,875
Extracurricular Activities	186,803	126,612				313,415
Capital Outlay	72,384	4,381		636,832		713,597
Debt Payments			11,851,108			11,851,108
Total Expenditures	8,184,979	570,266	11,858,825	712,782	13,763	21,340,615
Excess (Deficiency) of Revenues Over (Under) Expenditures	(387,164)	(61,874)	(11,477,963)	6,205	7,209	(11,913,587)
Other Financing Sources (Uses):						
Sale of Bonds			11,749,999			11,749,999
Premium and Accrued Interest on Bonds			17,329			17,329
Sale of Notes				11,750,000		11,750,000
Refund of Prior Year Expenditures	5,473	1,882				7,355
Transfers In	22,091					22,091
Advances In		63,829				63,829
Refund of Prior Year Receipts		(12,910)				(12,910)
Transfers Out	(22,091)					(22,091)
Advances Out	(63,829)					(63,829)
Total Other Financing Sources (Uses)	(58,356)	52,801	11,767,328	11,750,000		23,511,773
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(445,520)	(9,073)	289,365	11,756,205	7,209	11,598,186
Fund Balances (Deficits) at Beginning of Year, Restated	2,335,007	189,777	1,164	174,190	24,117	2,724,255
Fund Balances (Deficits) at End of Year	<u>\$1,889,487</u>	<u>\$180,704</u>	<u>\$290,529</u>	<u>\$11,930,395</u>	<u>\$31,326</u>	<u>\$14,322,441</u>

The accompanying notes are an integral part of the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>		<u>Fiduciary Funds</u>		Totals (Memorandum Only)
	<u>Enterprise Funds</u>	<u>Non-Expendable Funds</u>	<u>Agency Funds</u>		
Operating Revenues:					
Tuition	\$27,028				\$27,028
Interest		345			345
Food Services	205,986				205,986
Extracurricular Activities			67,356		67,356
Miscellaneous		555			555
Total Operating Revenue	233,014	900	67,356		301,270
Operating Expenses:					
Salaries	158,315				158,315
Fringe Benefits	57,593				57,593
Purchased Services	15,454				15,454
Materials and Supplies	146,064				146,064
Capital Outlay	3,478				3,478
Other Objects	876	911	70,941		72,728
Total Operating Expenses	381,780	911	70,941		453,632
Operating Income (Loss)	(148,766)	(11)	(3,585)		(152,362)
Non-Operating Revenues (Expenses):					
Federal and State Subsidies	107,149				107,149
Interest	876				876
Other Sources			11,576		11,576
Other Uses			(11,735)		(11,735)
Refund of Prior Year Expenditures	614				614
Total Non-Operating Revenues and (Expenses)	108,639		(159)		108,480
Net Income (Loss)	(40,127)	(11)	(3,744)		(43,882)
Fund Balance at Beginning of Year, Restated	81,289	11,762	36,739		129,790
Fund Balance at End of Year	\$41,162	\$11,751	\$32,995		\$85,908

The accompanying notes are an integral part of the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$7,636,024	\$7,825,379	\$189,355
Special Revenue Funds	712,396	574,103	(138,293)
Debt Service Funds	12,100,642	12,148,190	47,548
Capital Project Funds	12,493,091	12,468,987	(24,104)
Proprietary:			
Enterprise Funds	334,111	341,653	7,542
Fiduciary:			
Expendable Trust Funds	16,595	20,972	4,377
Non-Expendable Trust Funds	402	900	498
Total (Memorandum Only)	<u>\$33,293,261</u>	<u>\$33,380,184</u>	<u>\$86,923</u>

The notes to the financial statements are an integral part of this statement.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total
Governmental:			
General Fund	\$125,144	\$8,384,229	\$8,509,373
Special Revenue Funds	42,464	671,570	714,034
Debt Service Funds		11,861,164	11,861,164
Capital Project Funds		1,069,492	1,069,492
Proprietary:			
Enterprise Funds	415	413,951	414,366
Fiduciary:			
Expendable Trust Funds		17,074	17,074
Non-Expendable Trust Funds		911	911
Total (Memorandum Only)	<u>\$168,023</u>	<u>\$22,418,391</u>	<u>\$22,586,414</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$8,270,899	\$160,939	\$8,431,838	\$77,535
583,176	23,979	607,155	106,879
11,858,825		11,858,825	2,339
712,782	158,355	871,137	198,355
381,780	1,948	383,728	30,638
13,763	25	13,788	3,286
911		911	
<u>\$21,822,136</u>	<u>\$345,246</u>	<u>\$22,167,382</u>	<u>\$419,032</u>

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**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Parkway Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and/or federal guidelines.

The School District was established in 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred eighty-two square miles. It is located in Auglaize, Mercer, and Van Wert Counties, and includes all of the Villages of Mendon, Rockford, and Willshire, and Blackcreek, Dublin, Hopewell, Liberty, Union, and Willshire Townships. The School District is staffed by forty-nine classified employees, seventy nine certified teaching personnel, and seven administrative employees who provide services to 1,123 students and other community members. The School District currently operates three instructional buildings and three bus garages.

A. Reporting Entity:

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Parkway Local School District, this includes general operations, food service, preschool, and student related activities of the School District.

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

The School District participates in five jointly governed organizations and three insurance pools, and is associated with a related organization. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Vantage Career Center, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the OSBA Workers' Compensation Group Rating Plan, the Mercer Auglaize Employee Benefit Trust, and the Rockford Carnegie Public Library. These organizations are presented in Notes 12, 13, and 14 to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principals, the School District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

B. Basis of Presentation – Fund Accounting

The School District maintains its accounting records in accordance with the principals of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types:

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

General Fund – The general fund is the operating fund of the School District. It is used to account for all financial resources except those required by law or contract 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) that are legally restricted to expenditure for specified purposes.

Debt Service Funds – The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

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

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Types:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds – Enterprise funds are used to account for operations (a) 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 be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

3. Fiduciary Fund Types:

Fiduciary 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. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the 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:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003 and 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances:

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

D. Cash and Investments

To improve cash management, all cash received by the School District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District accounting records.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Unpaid Vacation And Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting as presented here by the School District.

F. Property, Plant And Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns On Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal years 2004 and 2003, the School District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Expendable Trust</u>	<u>Enterprise</u>	<u>Non Expendable Trust</u>	<u>Agency</u>
Fund Balance / Retained Earnings, June 30, 2002	\$1,969,536	\$166,552	\$175,351	\$19,662	\$202,934	\$12,139	\$ 0
Accrual adjustments Restated Fund	<u>365,471</u>	<u>23,225</u>	<u>(1,161)</u>	<u>4,455</u>	<u>(121,645)</u>	<u>(377)</u>	<u>36,739</u>
Balance, July 1, 2002	<u>\$2,335,007</u>	<u>\$189,777</u>	<u>\$174,190</u>	<u>\$24,117</u>	<u>\$ 81,289</u>	<u>\$11,762</u>	<u>\$36,739</u>

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations.

Protection of the School 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 moneys deposited with the institution.

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes debentures or any other obligation or security 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 to federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio); and
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 moneys available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2004 and 2003, the School District had \$3,983 and \$4,124 respectively in undeposited cash on hand which is included in the fund balance.

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

Deposits: At June 30, 2004 the carrying amount of the School District's deposits was \$9,156,551 and the bank balance was \$9,373,811. Of the bank balance, \$222,323 was covered by federal depository insurance and \$9,151,488 was uninsured and uncollateralized. At June 30, 2003 the carrying amount of the School District's deposits was \$2,407,954 and the bank balance was \$2,627,211. Of the bank balance, \$302,199 was covered by federal depository insurance and \$2,325,012 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2004, the School District's agency funds had a balance of \$2,794 consisting of cash maintained in a separate checking account for payments to AFLAC to pay claims of a Section 125 cafeteria plan. At June 30, 2003, the District's agency funds had a balance of \$2,199 consisting of cash maintained in a separate checking account for payments to AFLAC to pay claims of a Section 125 cafeteria plan. The cash is held in an account identified with the School District and as such was included in the bank balances and assessment of federal depository insurance and collateral pledges and was added to the carrying amount of the School District's deposits noted in the preceding paragraph.

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

As of June 30, 2004:			
	Category 2	Carrying Value	Fair Value
Federal Credit Bank Bonds	\$ 750,837	\$ 750,837	\$ 748,125
Federal Home Loan Bank Bonds	6,384,794	6,384,794	6,272,777
Federal Home loan Mortgage Corporation Bonds	713,873	713,873	674,174
Federal National Mortgage Association Bonds	680,000	680,000	673,628
Federal National Mortgage Association Debenture	2,073,380	2,073,380	2,037,834
Federal National Mortgage Association Notes	532,143	532,143	500,251
	<u>\$11,135,027</u>		
STAROhio		579,688	579,688
Fifth Third Money Market Mutual Funds		371,436	371,436
Totals		<u>\$12,086,151</u>	<u>\$11,857,913</u>

As of June 30, 2003:			
	Category 3	Carrying Value	Fair Value
Federal Credit Bank Bonds	\$ 750,756	\$ 750,756	\$ 760,080
Federal Home Loan Bank Bonds	4,480,837	4,480,837	4,501,640
Federal Home loan Mortgage Corporation Bonds	713,873	713,873	707,486
Federal Home loan Mortgage Corporation Bonds	1,029,734	1,029,734	1,042,505
Federal National Mortgage Association Bonds	2,097,212	2,097,212	2,105,051
Federal National Mortgage Association Debenture	1,523,554	1,523,554	1,531,248
Federal National Mortgage Association Notes	532,143	532,143	527,103
	<u>\$11,128,109</u>		
STAROhio		795,814	795,814
Fifth Third Money Market Mutual Funds		72,348	72,348
Totals		<u>\$11,996,271</u>	<u>\$12,043,275</u>

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility property, and tangible personal (used in business) property located in the school district. Real property tax revenue received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 are levied after April 1, 2003 on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value.

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

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received in calendar year 2004 (other than public utility property) represents the collection of calendar year 2004 taxes. Tangible personal property taxes for calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value. Payments for 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize, Mercer and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$71,457,970	83.33%	\$72,240,150	83.50%
Industrial/Commercial	5,029,490	5.86	4,921,680	5.69
Public Utility Personal	4,341,500	5.06	4,424,930	5.11
Tangible Personal Property	4,932,760	5.75	4,935,040	5.70
Total Assessed Value	<u>\$85,761,720</u>	<u>100.00%</u>	<u>\$86,521,800</u>	<u>100.00%</u>
Tax rate per \$1,000 of Assessed Valuation	\$42.78		\$43.56	

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

6. DEBT OBLIGATIONS

A. 1992 Asbestos Removal Loan

During fiscal year 1992, the School District obtained an interest free loan in the amount of \$53,664 for asbestos removal. The loan was issued for a ten year period, with final maturity during fiscal year 2003. The loan was retired from the Bond Retirement debt service fund.

B. Bond Anticipation Notes

On December 18, 2002 the Board of Education of the Parkway Local School District issued \$11,750,000 of bond anticipation notes for the following purposes: \$7,213,000 for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program, and \$4,537,000 for the purpose of constructing and improving school facilities through a locally funded initiative. This note was retired on June 11, 2003 from funds provided from the sale of general obligation bonds.

C. General Obligation Bonds

On March 13, 2003, the School District issued \$11,749,999 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bond issue included serial, term, and capital appreciation bonds in the amount of \$6,555,000, \$4,980,000 and \$214,999, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

As of June 30, 2003 no principal payments had yet been made on the Bonds. As of June 30, 2004 the following balances (including yearly accretion) existed:

	Balance 6/30/2004	Interest Rate
General Obligation Bonds 1.50 – 4.625%		
Serial Bonds	\$6,465,000	1.50 – 4.50%
Term Bonds	4,980,000	4.625%
Capital Appreciation Bonds	214,999	3.91-4.03%
Capital Apprec. Bond Accretion	33,744	
Total General Obligation Bonds	11,693,743	

The Current Interest Bonds (term and serial bonds) maturing on December 1, 2014 and thereafter are subject to optional redemption, in whole or in part on any date in any order of maturity as determined by the Board of Education and by lot within a maturity, at the option of the Board of Education on or after December 1, 2013 at par, which is 100% of the face value of the Current Interest Bonds.

The term bonds maturing on December 1, 2027 (\$2,900,000), are subject to mandatory sinking fund redemption. The mandatory redemption is to occur on December 1, in each of the years 2023 through 2026 (with the balance of \$630,000 to be paid at stated maturity on December 1, 2027) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2024	\$530,000
2025	555,000
2026	580,000
2027	605,000
2028	630,000

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
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(Continued)**

6. DEBT OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2030 (\$2,080,000), are subject to mandatory sinking fund redemption. The mandatory redemption is to occur on December 1, in each of the years 2028 through 2029 (with the balance of \$725,000 to be paid at stated maturity on December 1, 2030) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2029	\$660,000
2030	695,000
2031	725,000

Serial bonds will mature in various principal amounts with varying interest rates starting on December 1, 2003 and on each December 1 thereafter at 100% of the principal amount for the years 2003 thru 2011 and 2014 thru 2022.

The capital appreciation bonds will mature in fiscal years 2013 and 2014. The maturity amounts of the bonds are \$365,000 for fiscal year 2013 and \$365,000 for fiscal year 2014. Capital appreciation bonds are not subject to redemption prior to maturity.

The changes in the School District's debt obligations during fiscal year 2003 and 2004 were as follows:

Fiscal Year 2003	<u>Interest Rates</u>	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
General Obligation Bonds					
2003 Various Purpose					
Serial and Term Bonds	1.5 – 4.625%	\$	\$11,535,000	\$	\$11,535,000
Capital Appreciation Bonds	4%		214,999		214,999
Cap. Appr. Bond Accretion			5,655		5,655
1992 Asbestos Removal Loan	0%	1,164		1,164	
Total General Obligation Debt		<u>\$ 1,164</u>	<u>\$11,755,654</u>	<u>\$ 1,164</u>	<u>\$11,755,654</u>
Fiscal Year 2004	<u>Interest Rates</u>	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
General Obligation Bonds					
2003 Various Purpose					
Serial and Term Bonds	1.5 – 4.625%	\$11,535,000	\$	\$ 90,000	\$11,445,000
Capital Appreciation Bonds	4%	214,999			214,999
Cap. Appr. Bond Accretion		5,655	28,089		33,744
Total General Obligation Debt		<u>\$11,755,654</u>	<u>\$ 28,089</u>	<u>\$ 90,000</u>	<u>\$11,693,743</u>

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, were as follows:

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

2003 General Obligation Bonds				
Fiscal Year Ending June 30,	Serial and Term Bonds	Capital Appreciation Bonds	Interest	Total
2005	300,000		455,411	755,411
2006	305,000		449,361	754,361
2007	305,000		443,261	748,261
2008	320,000		436,811	756,811
2009	325,000		429,349	754,349
2010 – 2014	1,035,000	214,999	2,527,010	3,777,009
2015 – 2019	1,975,000		1,773,109	3,748,109
2020 – 2024	2,430,000		1,311,595	3,741,595
2025 – 2029	3,030,000		690,744	3,720,744
2030 – 2031	1,420,000		66,369	1,486,369
	\$11,445,000	\$ 214,999	\$8,583,020	\$20,243,019

7. INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2001, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

Coverage provided by Indiana Insurance is as follows:	
Building and Contents – replacement cost (\$1,000 deductible)	\$23,367,452
Commercial Coverage (Computers and other Equipment)	539,779
Coverage provided by Ohio School Plan is as follows:	
Vehicle Liability	1,000,000
General Liability	
Each Incident	1,000,000
Per Aggregate	3,000,000
Excess Liability	
Each Incident	2,000,000
Per Aggregate	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2004, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

8. RISK MANAGEMENT (Continued)

For fiscal year 2004, the School District participated in OSBA Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Gates McDonald provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

The School District participates in the Mercer Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical, prescription drug, and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The School District provides life insurance to employees through CoreSource.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$91,234, \$75,525 and \$47,447 respectively.

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$519,155, \$499,824 and \$338,783 respectively.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004 one of the Board of Education members had elected to choose Social Security. The Board's liability is 6.2 percent of wages paid.

**PARKWAY LOCAL SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

10. POST RETIREMENT 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 funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School District the amount to fund health care benefits equaled \$39,935. As of June 30, 2004, eligible benefit recipients totaled 111,853. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000. The balance in the fund was \$3.1 billion at June 30, 2004.

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

At June 30, 2004, the employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. For the School District the amount to fund health care equaled \$64,728. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,805. At June 30, 2004 STRS had net assets available for payment of healthcare benefits of \$300.8 million.

11. SET ASIDE REQUIREMENTS

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2004 and 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2004 and 2003.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

11. SET ASIDE REQUIREMENTS (Continued)

Fiscal Year 2004			
	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2003	(\$302,826)	(\$11,749,999)	\$0
Current Year Set Aside Requirement	155,482	155,482	0
Qualifying Expenditures	(197,813)	(141,528)	0
Balance Carried Forward to Fiscal Year 2005	(\$345,157)	(\$11,736,045)	\$0
Reserve Balance June 30, 2004	\$ 0	\$ 0	\$0
Fiscal Year 2003			
	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2002	(\$186,896)	\$ 0	\$22,091
Current Year Set Aside Requirement	150,743	150,743	0
Elimination of Budget Reserve			(22,091)
Qualifying Expenditures	(266,673)	(190,627)	0
Authorized Offsets (Bond Proceeds)	0	(11,749,999)	0
Balance Carried Forward to Fiscal Year 2004	(\$302,826)	(\$11,749,999)	\$ 0
Reserve Balance June 30, 2003	\$ 0	\$0	\$ 0

The School District had authorized offsets and qualifying expenditures during the fiscal year that reduced the textbook set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years. For capital improvements, only the extra amount, which was a result of capital expenditures from bond proceeds, can be used to reduce the set-aside requirements of future years.

12. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2004, the School District paid \$18,596 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. Vantage Career Center

The Vantage Career Center is a distinct political subdivision of the State of Ohio which provides vocational instruction to students. The Career Center is operated under the direction of a Board consisting of eleven members; nine local school districts, one exempted village school district, and one city school district. The degree of control exercised by the School District is limited to its representation on the Board. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Vantage Career Center Treasurer, 818 North Franklin, Van Wert, Ohio 45891-1304.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

13. INSURANCE POOLS

A. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. OSBA Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Board Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control, and actuarial services to the Plan.

C. Mercer Auglaize Employee Benefit Trust

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501©(9) of the Internal Revenue Code and provides medical, prescription drug, and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; Schmidt, Long, and Associates, Inc., 4159 Holland-Sylvania Road, Suite 103, Toledo, Ohio 43623.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

14. RELATED ORGANIZATION

Rockford Carnegie Public Library

The Rockford Carnegie Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The library is governed by a Board of Trustees appointed by the Parkway Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Rockford Carnegie Public Library, Robert Maurer, Clerk/Treasurer, 162 South Main Street, Rockford, Ohio 45882.

15. OUTSTANDING CONTRACTS

As of June 30, 2004 the District had \$26,887,048 in outstanding contracts related to the Ohio School Facilities and additional Locally Funded Initiative building projects as follows:

<u>Company</u>	<u>Amount</u>
Kelchner Environmental Inc.	\$ 2,017,951
Peterson Construction Co.	14,391,633
Vulcan Enterprises Inc.	361,270
Frost and Company Inc.	6,496,092
RAME Inc.	1,905,000
Schumm Plumbing and Heating Inc.	990,361
Service Supply Limited	70,840
Findlay Telecom	205,000
Bushong Restaurant Equipment	448,901

16. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004 and 2003.

B. Litigation

The School District is of the opinion that any current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the School District.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Continued)**

16. CONTINGENCIES (Continued)

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The school District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003**

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	N/A	10.550		\$14,485		\$14,485
School Breakfast Program	048579-05PU-2002	10.553	5,530		5,530	
	048579-05PU-2003		16,353		16,353	
Total School Breakfast Program			21,883		21,883	
National School Lunch Program	048579-LLP4-2002	10.555	20,223		20,223	
National School Lunch Program	048579-LLP4-2003	10.555	59,307		59,307	
Total National School Lunch			79,530		79,530	
Total U.S. Department of Agriculture - Nutrition Cluster			101,413	14,485	101,413	14,485
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	048579-C1S1-2003	84.010	85,203		99,432	
Title I, Part A, IASA	048579-C1S1-2002	84.010			7,687	
Total Title I			85,203		107,119	
Title VI, Innovative Education Program Strategies	048579-C2S1-2001	84.298	2,128		2,128	
Title VI, Innovative Education Program Strategies	048579-C2S1-2002	84.298	1,278		1,278	
Title VI, Innovative Education Program Strategies	048579-C2S1-2003	84.298	1,156		9,002	
Total Title VI			4,562		12,408	
Class Size Reduction	048579-CRS1-2002	84.340	(239)		7,822	
Drug Free Grant	048579-DRS1-2003	84.186	2,010		8,273	
	048579-DRS1-2002	84.186	566		1,499	
	048579-DRS1-2001	84.186	(688)			
Total Drug Free Grant			1,888		9,772	
Goals 2000-State and Local Education Improvement Grants	048579-G2S2-2001	84.276	(4,495)			
Eisenhower Professional Development State Grants	048579-MSS1-2001	84.281	(1,318)			
	048579-MSS1-2002	84.281	(3,091)		4,095	
Total Eisenhower Professional Development State Grants			(4,409)		4,095	
Technology Literacy	048579-TJS1-2003	84.318	506		2,813	
School Renovation Grants	048579-ATS2-2002	84.352A	7,024		6,854	
	048579-ATS3-2002	84.352A	9,996		2,687	
Total School Renovation Grants			17,020		9,541	
Improving Teacher Quality	048579-TRS1-2003	84.367	11,463		41,317	
Total U.S. Department of Education			111,499		194,887	
Total Federal Assistance			<u>\$212,912</u>	<u>\$14,485</u>	<u>\$296,300</u>	<u>\$14,485</u>

See accompanying notes to the schedule of federal awards expenditures.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE 1 -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 -- CHILD NUTRITION CLUSTER

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

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

NOTE 3 -- MATCHING REQUIREMENTS

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

NOTE 4 -- TRANSFERS

Due to the elimination of CFDA Nos. 84.281 and 84.340, certain funds were reassigned and reported under CFDA No. 84.367. On the District's cash basis financial statements; this was accomplished by reducing the receipt in the transferring fund and recording the receipt in the receiving fund.

<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Transferred</u>	<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Received</u>
84.281	048579-MSS1-2002	(\$ 3,091)	84.367	048579-TRS1-2003	\$ 3,091
84.340	048579-CRS1-2002	(239)	84.367	048579-TRS1-2003	239

NOTE 5 -- REFUND OF MONEY

During fiscal year 2003, the District was required to refund certain funds to the Ohio Department of Education. These refunds were recorded as negative receipts on this schedule.

<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Refunded</u>	<u>Reason for Refund</u>
84.186	048579-DRS1-2001	\$ 688	Unspent funds
84.276	048579-G2S2-2001	4,495	Unspent funds
84.281	048579-MSS1-2001	1,318	Unspent funds

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Auditor of State Betty Montgomery

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

Parkway Local School District
Mercer County
401 South Franklin Street
Rockford, Ohio 45882

To the Board of Education:

We have audited the financial statements of Parkway Local School District, Mercer County, (the District), as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated March 9, 2005, wherein we noted that the School District reported on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially effect 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 instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 9, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 9, 2005.

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Parkway Local School District
Mercer County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 9, 2005



Auditor of State Betty Montgomery

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

Parkway Local School District
Mercer County
401 South Franklin Street
Rockford, Ohio 45882

To the Board of Education:

Compliance

We have audited the compliance of Parkway Local School District (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, 2003. 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, 2003. However, we noted an instance of noncompliance concerning the management of federal funds, that does not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated March 9, 2005.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 9, 2005.

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



Betty Montgomery
Auditor of State

March 9, 2005

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010: Title I CFDA#'s 10.550, 10.553 & 10.555: Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2004- 001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, for fiscal year 2004, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. For fiscal year 2003, the School District prepared and filed GAAP financial statements, however, they presented for audit, cash basis financial statements. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The official statement for the Ohio School Facilities bond issue also requires the financial statements to be filed in accordance with Ohio Revised Code Section 117.38.

The School District should prepare their financial statements in accordance with GAAP.

FINDING NUMBER 2004- 002

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$3,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

Prior certification was not obtained for 24% of the transactions tested. Then and now certification was also not obtained for these transactions.

The School District should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10254-001	ORC Sec. 5705.41 (D) – Failure to properly certify expenditures	No	Not Corrected



**Auditor of State
Betty Montgomery**

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PARKWAY LOCAL SCHOOL DISTRICT

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2005**