



Mary Taylor, CPA
Auditor of State

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements – June 30, 2006:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis – June 30, 2006	11
Statement of Activities – Modified Cash Basis - June 30, 2006	12
Fund Financial Statements:	
Statement of Modified Cash Basis Assets and Fund Balances – Governmental Funds – June 30, 2006	13
Statement of Cash Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balances Governmental Funds – For the Fiscal Year Ended June 30, 2006	14
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances Budget and Actual – General Fund – For the Fiscal Year Ended June 30, 2006	15
Statement of Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2006	16
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2006	17
Basic Financial Statements – June 30, 2005:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis – June 30, 2005	18
Statement of Activities – Modified Cash Basis - June 30, 2005	19
Fund Financial Statements:	
Statement of Modified Cash Basis Assets and Fund Balances – Governmental Funds – June 30, 2005	20
Statement of Cash Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balances Governmental Funds – For the Fiscal Year Ended June 30, 2005	21
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances Budget and Actual – General Fund – For the Fiscal Year Ended June 30, 2005	22
Statement of Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2005	23
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2005	24

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Notes to the Basic Financial Statements – June 30, 2006 and 2005	25
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Schedule of Findings.....	51
Schedule of Prior Audit Findings.....	52



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Parkway Local School District
Mercer County
400 Buckeye Street
Rockford, Ohio 45882

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Parkway Local School District, Mercer County, (the School District), as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Parkway Local School District, as of June 30, 2006 and June 30, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 23, 2007

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED**

The discussion and analysis of the Parkway Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal years ended June 30, 2006 and June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Receipts accounted for \$9,531,341 in receipts or 71.4% of all receipts. Program specific receipts in the form of charges for services and sales, operating grants, capital grants and contributions accounted for \$3,814,916 or 28.6% of total receipts of \$13,346,257.
- Total program disbursements were \$22,680,093, all of which were in governmental activities.
- In total, net assets decreased \$9,333,836.
- Key financial highlights for 2005 are as follows:
 - General Receipts accounted for \$9,098,977 in receipts or 42.7% of all receipts. Program specific receipts in the form of charges for services and sales, operating grants, and contributions accounted for \$12,229,434 or 57.3% of total receipts of \$21,328,411.
 - Total program disbursements were \$26,120,925, all of which were in governmental activities.
 - In total, net assets decreased \$4,792,514.

Using this Annual Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Parkway Local School District, the General Fund is by far the most significant fund; however, during fiscal years 2006 and 2005 the Building and Classroom Facilities funds accounting for the new facilities building construction financial activity were significant also.

The notes to the financial statements are an integral part of the district-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

Basis of Accounting

The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursements.

Essentially, the only assets reported on this strictly cash receipts and disbursement basis presentation in a statement of net assets will be cash, cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities answer this question.

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

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, food services, extracurricular activities, and capital outlay disbursements.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on pages 13 and 20. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General, Building and the Classroom Facilities funds.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in the agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2006 and 2005, comparatively. In future years an analysis of the prior year will also be included. Fiscal year 2004 financial statements were not presented in accordance with the new financial reporting format.

**(Table 1)
Net Assets – Modified Cash Basis**

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Assets		
Cash & cash equivalents	\$ 6,473,939	\$ 7,668,586
Investments	570,026	8,709,215
Total Assets	<u>\$ 7,043,965</u>	<u>\$ 16,377,801</u>
Net Assets		
Restricted:		
Capital Projects	\$ 3,283,664	\$ 13,428,426
Debt Service	215,243	248,992
Other Purposes	278,140	261,025
Unrestricted	<u>3,266,918</u>	<u>2,439,358</u>
Total Net Assets	<u>\$ 7,043,965</u>	<u>\$ 16,377,801</u>

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal years 2006 and 2005. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	Governmental Activities	
	2006	2005
Program Receipts		
Charges for Services	\$ 753,389	\$ 694,970
Operating Grants	1,168,088	1,162,066
Capital Grants	1,893,439	10,372,398
General Receipts		
Property Taxes levied for:		
General Purpose	1,873,929	1,810,979
Debt Service	655,652	617,966
Capital Projects- Permanent Imp	99,310	97,106
Classroom Facilities & Maintenance	39,676	38,623
Payment in Lieu of Taxes	8,000	16,000
Income Taxes	1,021,361	941,045
Grants and Entitlements	5,336,510	5,057,827
Other	496,903	519,431
Total Receipts	13,346,257	21,328,411
Program Disbursements		
Instruction	5,957,648	5,698,591
Support Services	2,996,944	2,766,010
Operation of Non-Instructional Services	349,845	349,467
Extracurricular	310,451	323,109
Capital Outlay	12,310,844	16,228,337
Repayment of Debt	754,361	755,411
Total Disbursements	22,680,093	26,120,925
Decrease in Net Assets	(\$9,333,836)	(\$4,792,514)

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

Governmental Activities

Several receipts sources fund the School District's governmental activities with intergovernmental receipts being the largest contributor. Grants and entitlements generated \$5.3 million in 2006 and \$5.1 million in 2005. Property and income tax levies, also a large contributor generated \$3.7 million in 2006 and \$3.5 million in 2005. With the combination of taxes and intergovernmental funding, the School District monitors both of these receipts sources very closely for fluctuations.

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

**(Table 3)
Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Service</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Instruction	\$5,957,648	\$5,698,591	\$4,667,816	\$ 4,555,828
Support Services:				
Pupil and Instructional Staff	695,254	624,632	638,672	549,931
Board of Education, Administration, Fiscal and Central	1,109,028	1,068,676	1,092,391	1,015,580
Operation and Maintenance of Plant	774,763	626,337	774,628	565,645
Pupil Transportation	417,899	446,365	385,167	392,674
Operation of Non-Instructional Services	349,845	349,467	(9,903)	18,960
Extracurricular Activities	310,451	323,109	144,640	181,704
Capital Outlay	12,310,844	16,228,337	10,417,405	5,855,758
Repayment of Debt	754,361	755,411	754,361	755,411
Total	<u>\$22,680,093</u>	<u>\$26,120,925</u>	<u>\$18,865,177</u>	<u>\$13,891,491</u>

For fiscal year 2006, instruction and student support services comprise 29.3% of governmental program disbursements. Board of Education, administration, fiscal and central charges was 4.9%. Pupil transportation and the operation/maintenance of facilities accounts for 5.3% of governmental program disbursements. While 54.3% of current year disbursements were attributable to the construction of the new school facilities.

For fiscal year 2005, instruction and student support services comprise 24.2% of governmental program disbursements. Board of Education, administration, fiscal and central charges was 4.1%. Pupil transportation and the operation/maintenance of facilities accounts for 4.1% of governmental program disbursements. While 62.1% of current year disbursements were attributable to the construction of the new school facilities.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

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

During the course of both fiscal years 2006 and 2005, the School District did not significantly modify its General Fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

Set Asides and Debt Administration

Set Aside

A change in Ohio law required school districts to set aside 3% of certain receipts for capital improvements and an additional 3% for textbooks (Note 13). For fiscal year 2006, this amounted to \$167,102 for each set aside. The School District had qualifying disbursements or offsets for capital acquisition equaling \$167,102. For the textbooks, the School District disbursed \$135,338, with the remainder scheduled to be carried forward into the 2007 fiscal year. For fiscal year 2005, this amounted to \$162,152 for each set aside. The School District had qualifying disbursements or offsets for capital acquisition equaling \$161,204. For the textbooks, the School District disbursed \$132,380, with the remainder carried forward into the 2006 fiscal year.

Debt Administration

At June 30, 2006, the School District had \$11,156,103 in general obligation bonds outstanding. During fiscal year 2006, \$305,000 of general obligation bonds were retired. At June 30, 2005, the School District had \$11,425,407 in general obligation bonds outstanding. During fiscal year 2005, \$300,000 of general obligation bonds were retired. See Note 9 for additional details.

Current Issues

The Parkway Local School District is in the midst of an exciting time for the School District. In 2002, the School District was notified that it was accepted into the Exceptional Needs Program through the Ohio School Facilities Commission (OSFC.) The OSFC informed the School District that the State would fund 77% of a new PK- 12 school facility to replace the School District's three existing buildings. State funding for this project will total \$24,148,071. In November of 2002 district voters overwhelmingly approved two bond issues totaling \$11,750,000. The first issue was for \$7,213,000 to fund the district's 23% share of the OSFC approved facility. The second issue was for \$4,537,000 to fund several Locally Funded Initiatives (LFI) including an auditorium, terrazzo flooring, expanded gymnasium, expanded vocational agriculture and industrial arts space, and additional locker room, weight room and storage space. These two issues totaled 8.3 mills of total district valuation at the time they were placed on the ballot.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

The awarding of the state funding and the passage of the bond issues represented an important milestone in the history of the Parkway Local School District. The School District's configuration at the time of the passage of the bond issue of housing students in three separate, aging buildings in three separate communities was not the most conducive environment to promote consistency in the educational process and forming a sense of School District pride. School District residents were truly united behind the decision to bring all of the School District's students together into one new facility. Construction commenced in April 2004 with a district-wide groundbreaking ceremony. The building was completed on schedule in May 2006. A dedication ceremony was held on June 4, 2006 with Ohio Governor Bob Taft and several local dignitaries in attendance. There is already a great sense of pride within the School District regarding the construction and opening of this facility and speculation that the facility could attract more people and industry to the area. The overall decrease in net district assets for the year is due to the costs of this construction project.

As with most Ohio school districts, the Parkway Local School District is required to ask residents to vote on various tax issues for the funding of the School District. The School District currently has three tax issues that run for 5 years at a time. The School District's voters have been supportive of the district in recent elections. Since the passage of the 8.3 mill Bond issue in November of 2002, district voters have renewed all three local funding issues. District voters renewed a 1.5 mill Permanent Improvement levy for 5 years in March of 2004. This funding issue was first passed by voters in November 1999. In May of 2005 district voters renewed a 1% Income Tax levy for an additional 5 years. This issue was first passed by voters in February of 1995. District voters also renewed an 8.97 mill Operating levy for 5 years in the November 2005 election. This issue was first passed by voters in May of 1993.

Property taxes for the School District amount to 28% of total Governmental receipts and are made up of Real Estate and Tangible Personal Property Taxes. Real Estate taxes amount to approximately 85% of all property taxes collected. The School District has experienced modest growth of less than 2% in Real Estate Property Tax receipts in recent years. With the passage of H.B. 66 in June of 2005, the State of Ohio is eliminating the Tangible Personal Property Tax. Most Tangible Personal Property Taxes will be phased out over a period of 5 years. The State has maintained that school districts will be 'held harmless' for these losses for a period of 5 years through direct reimbursements from the State. These direct reimbursements will then be phased out by Tax Year 2018. Although personal property receipts are a small percentage of total revenue for the School District, the School District is concerned about the long term effect of the elimination of this tax. The School District's income tax amounts to approximately 10% of total Governmental receipts. The income tax has been a source of growing revenue for the School District.

The Parkway Local School District is primarily dependent on State funding. Funding from the State and other intergovernmental sources was 56% of total receipts for Governmental Funds. The School District has experienced adequate growth in state funding over the last several years due to actions by state legislators in response to a 1997 decision by the Ohio Supreme Court that the school funding system in Ohio is unconstitutional. It is the opinion of most school leaders in Ohio that the State has not fully addressed this issue. State funding continues to be of concern to the School District. It appears that the growth in funding that the School District has experienced in the last few years will not continue as the state funding projections for fiscal year 2007 indicate less than 1% in growth for the School District.

School District management will continue to monitor School District finances. The coming years should prove to be both exciting and challenging to the School District with the opening of the new facility and the demolition of the existing facilities. There is the threat of substantially increased utility and fuel costs, continued rising health insurance costs, and moderate to no revenue growth. There are also the possibilities of increased enrollment and new development to the School District which could increase both state and local funding. School District management is committed to monitoring these changing conditions and making pro-active decisions regarding district finances when needed.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED
(Continued)**

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tammy Muhlenkamp, Treasurer of Parkway Local School District, 400 Buckeye St., Rockford, OH 45882.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,040,048
Investments	570,026
Cash and Cash Equivalents with Escrow Agent	433,891
	<u>7,043,965</u>
Net Assets	
Restricted for:	
Capital Projects	3,283,664
Debt Service	215,243
Other Purposes	278,140
Unrestricted	3,266,918
Total Net Assets	<u>\$7,043,965</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Governmental Activities:				
Instruction				
Regular	\$4,115,774	\$339,274	\$56,870	(\$3,719,630)
Special	1,590,918		829,892	(761,026)
Vocational	220,458		63,796	(156,662)
Other	30,498			(30,498)
Support Services				
Pupil	247,946	3,661	4,546	(239,739)
Instructional Staff	447,308	10,541	37,834	(398,933)
Board of Education	27,256			(27,256)
Administration	763,644		11,637	(752,007)
Fiscal	299,057			(299,057)
Operation and Maintenance of Plant	774,763	135		(774,628)
Pupil Transportation	417,899		32,732	(385,167)
Central	19,071		5,000	(14,071)
Operation of Non-Instructional Services	349,845	233,967	125,781	9,903
Extracurricular Activities	310,451	165,811		(144,640)
Capital Outlay				
Facilities Acquisition and Construction	12,310,844			\$1,893,439
Repayment of Debt				
Repayment of Principal	305,000			(305,000)
Repayment of Interest	449,361			(449,361)
Total Governmental Activities	<u>\$22,680,093</u>	<u>\$753,389</u>	<u>\$1,168,088</u>	<u>\$1,893,439</u>
				<u>(18,865,177)</u>
General Receipts				
Property Taxes Levied for:				
				1,873,929
				655,652
				99,310
				39,676
				8,000
				1,021,361
				5,336,510
				48,135
				322,223
				126,545
				<u>9,531,341</u>
				(9,333,836)
				<u>16,377,801</u>
				<u>\$7,043,965</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,254,312	\$77,699	\$2,154,819	\$540,612	\$6,027,442
Investments			570,026		570,026
Restricted Assets:					
Cash and Cash Equivalents with Escrow Agent			433,891		433,891
Cash and Cash Equivalents in Segregated Accounts	12,606				12,606
Total Assets	<u>3,266,918</u>	<u>77,699</u>	<u>3,158,736</u>	<u>540,612</u>	<u>7,043,965</u>
Fund Balances					
Reserved for Encumbrances	52,823		1,805,870	51,033	1,909,726
Reserved for Bus Purchase	12,606				12,606
Reserved for Retainage			433,891		433,891
Unreserved:					
Undesignated, Reported in:					
General Fund	3,201,489				3,201,489
Special Revenue Funds				227,107	227,107
Debt Service Funds				215,243	215,243
Capital Projects Funds		77,699	918,975	47,229	1,043,903
Total Fund Balances	<u>\$3,266,918</u>	<u>\$77,699</u>	<u>\$3,158,736</u>	<u>\$540,612</u>	<u>\$7,043,965</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Taxes					
Property Taxes	\$1,873,929			\$794,638	\$2,668,567
Income Taxes	1,021,361				1,021,361
Intergovernmental	5,786,634		\$1,893,437	718,498	8,398,569
Interest	174,781	\$56,294	89,776	1,372	322,223
Tuition and Fees	321,316			32,160	353,476
Rent	135				135
Extracurricular Activities				165,812	165,812
Gifts and Donations	2,685			8,165	10,850
Customer Sales and Services	1,336			233,967	235,303
Payment in Lieu of Taxes				8,000	8,000
Miscellaneous	2,059			106,110	108,169
Total Receipts	<u>9,184,236</u>	<u>56,294</u>	<u>1,983,213</u>	<u>2,068,722</u>	<u>13,292,465</u>
Disbursements					
Current:					
Instruction					
Regular	4,022,191			93,583	4,115,774
Special	1,207,279			383,639	1,590,918
Vocational Education	220,458				220,458
Other	30,498				30,498
Support Services					
Pupil	240,729			7,217	247,946
Instructional Staff	387,303			60,005	447,308
Board of Education	27,256				27,256
Administration	647,196			116,448	763,644
Fiscal	281,092			17,965	299,057
Operation and Maintenance of Plant	719,357			55,406	774,763
Pupil Transportation	417,899				417,899
Central	14,071			5,000	19,071
Operation of Non-Instructional Services	10,322			339,523	349,845
Extracurricular Activities	165,344			145,107	310,451
Facilities Acquisition and Construction	19,207	4,475,697	7,527,660	288,280	12,310,844
Repayment of Debt					
Repayment of Principal				305,000	305,000
Repayment of Interest				449,361	449,361
Total Disbursements	<u>8,410,202</u>	<u>4,475,697</u>	<u>7,527,660</u>	<u>2,266,534</u>	<u>22,680,093</u>
Excess of Receipts Over/(Under) Disbursements	<u>774,034</u>	<u>(4,419,403)</u>	<u>(5,544,447)</u>	<u>(197,812)</u>	<u>(9,387,628)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	48,135				48,135
Refund of Prior Year Expenditures	7,391				7,391
Transfers-In				2,000	2,000
Transfers-Out	(2,000)				(2,000)
Refund of Prior Year Receipts				(1,734)	(1,734)
Total Other Financing Sources (Uses)	<u>53,526</u>			<u>266</u>	<u>53,792</u>
Net Change in Fund Balances	827,560	(4,419,403)	(5,544,447)	(197,546)	(9,333,836)
Fund Balances - Beginning of Year	<u>2,439,358</u>	<u>4,497,102</u>	<u>8,703,183</u>	<u>738,158</u>	<u>16,377,801</u>
Fund Balances - End of Year	<u>\$3,266,918</u>	<u>\$77,699</u>	<u>\$3,158,736</u>	<u>\$540,612</u>	<u>\$7,043,965</u>
Reserved for Encumbrances	<u>\$52,823</u>	<u>\$0</u>	<u>\$1,805,870</u>	<u>\$51,033</u>	<u>\$1,909,726</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Taxes				
Property Taxes	\$1,780,457	\$1,780,457	\$1,873,929	\$93,472
Income Taxes	950,454	950,454	1,021,361	70,907
Intergovernmental	5,842,000	5,842,000	5,786,634	(55,366)
Interest	70,000	70,000	174,781	104,781
Tuition and Fees	292,000	292,000	321,316	29,316
Rent	800	800	135	(665)
Gifts and Donations	2,300	2,300	2,685	385
Customer Sales and Services	700	700	1,336	636
Miscellaneous			2,059	2,059
Total Receipts	8,938,711	8,938,711	9,184,236	245,525
Disbursements				
Current:				
Instruction				
Regular	4,055,675	4,055,675	4,030,315	25,360
Special	1,252,847	1,259,847	1,209,974	49,873
Vocational Education	244,285	244,285	222,335	21,950
Other	51,500	51,500	30,498	21,002
Support Services				
Pupil	247,021	255,021	240,817	14,204
Instructional Staff	415,230	415,230	396,964	18,266
Board of Education	29,228	29,228	27,336	1,892
Administration	695,054	695,054	649,467	45,587
Fiscal	281,705	300,505	283,451	17,054
Operation and Maintenance of Plant	896,568	841,560	727,236	114,324
Pupil Transportation	487,708	512,496	417,998	94,498
Central	28,581	28,581	14,071	14,510
Operation of Non-Instructional Services		12,000	10,322	1,678
Extracurricular Activities	165,365	165,365	165,344	21
Capital Outlay				
Facilities Acquisition and Construction	5,338	75,338	36,898	38,440
Total Disbursements	8,856,105	8,941,685	8,463,026	478,659
Excess of Receipts Over (Under) Disbursements	82,606	(2,974)	721,210	724,184
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets			48,135	48,135
Refund of Prior Year Expenditures			7,391	7,391
Transfers-Out	(5,000)	(5,000)	(2,000)	3,000
Advances-Out	(30,685)	(30,685)		30,685
Refund of Prior Year Receipts	(1,000)	(1,000)		1,000
Total Other Financing Sources (Uses)	(36,685)	(36,685)	53,526	90,211
Net Change in Fund Balances	45,921	(39,659)	774,736	814,395
Fund Balances - Beginning of Year	2,394,721	2,394,721	2,394,721	
Prior Year Encumbrances Appropriated	44,638	44,638	44,638	
Fund Balances - End of Year	\$2,485,280	\$2,399,700	\$3,214,095	\$814,395

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	\$35,265	\$45,424
Cash and Cash Equivalents in Segregated Account		6,303
Total Assets	<u>35,265</u>	<u>51,727</u>
Net Assets		
Restricted for Other Purposes	732	
Held in Trust for Scholarships	34,533	
Held in Trust for Employees		6,303
Held in Trust for Students		45,424
Total Net Assets	<u>\$35,265</u>	<u>\$51,727</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Interest Income	\$2,020
Gifts and Contributions	14,353
Total Additions	<u>16,373</u>
Deductions	
Other Objects	9,758
Total Deductions	<u>9,758</u>
Change in Net Assets	6,615
Net Assets - Beginning of Year	<u>28,650</u>
Net Assets - End of Year	<u><u>\$35,265</u></u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,188,897
Investments	8,709,215
Cash and Cash Equivalents with Escrow Agent	479,689
	<u>16,377,801</u>
Net Assets	
Restricted for:	
Capital Projects	13,428,426
Debt Service	248,992
Other Purposes	261,025
Unrestricted	2,439,358
Total Net Assets	<u>\$16,377,801</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction					
Regular	\$3,982,946	\$155,651	\$98,417		(\$3,728,878)
Special	1,501,008	42,009	775,871		(683,128)
Vocational	214,637	9,977	60,838		(143,822)
Support Services					
Pupil	212,817	12,174	5,133		(195,510)
Instructional Staff	411,815	25,663	31,731		(354,421)
Board of Education	18,919	879			(18,040)
Administration	741,508	23,745	8,466		(709,297)
Fiscal	289,953	12,639	1,780		(275,534)
Operation and Maintenance of Plant	626,337	22,758	37,934		(565,645)
Pupil Transportation	446,365	14,826	38,865		(392,674)
Central	18,296	587	5,000		(12,709)
Operation of Non-Instructional Services	349,467	232,476	98,031		(18,960)
Extracurricular Activities	323,109	141,405			(181,704)
Capital Outlay					
Facilities Acquisition and Construction	16,228,337	181		10,372,398	(5,855,758)
Repayment of Debt					
Repayment of Principal	300,000				(300,000)
Repayment of Interest	455,411				(455,411)
Totals	<u>\$26,120,925</u>	<u>\$694,970</u>	<u>\$1,162,066</u>	<u>\$10,372,398</u>	<u>(\$13,891,491)</u>

General Receipts

Property Taxes Levied for:

General	1,810,979
Debt Service	617,966
Permanent Improvement	97,106
Classroom Facilities Maintenance	38,623
Payment in Lieu of Taxes	16,000
Income Tax	941,045
Grants and Entitlements not Restricted to Specific Programs	5,057,827
Proceeds from the Sale of Assets	3,870
Interest	395,642
Miscellaneous	119,919
Total General Receipts	<u>9,098,977</u>

Change in Net Assets (4,792,514)

Net Assets - Beginning of Year 21,170,315

Net Assets - End of Year \$16,377,801

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,439,358	\$2,887,369	\$1,124,012	\$738,158	\$7,188,897
Investments		1,609,733	7,099,482		8,709,215
Restricted Assets					
Cash and Cash Equivalents with Escrow Agent			479,689		479,689
Total Assets	<u>2,439,358</u>	<u>4,497,102</u>	<u>8,703,183</u>	<u>738,158</u>	<u>16,377,801</u>
Fund Balances					
Reserved for Encumbrances	44,638		457,366	42,114	544,118
Reserved for Retainage			479,689		479,689
Designated for Bus Purchase	22,091				22,091
Unreserved:					
Undesignated, Reported in:					
General Fund	2,372,629				2,372,629
Special Revenue Funds				218,911	218,911
Debt Service Funds				248,992	248,992
Capital Projects Funds		4,497,102	7,766,128	228,141	12,491,371
Total Fund Balances	<u>\$2,439,358</u>	<u>\$4,497,102</u>	<u>\$8,703,183</u>	<u>\$738,158</u>	<u>\$16,377,801</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Taxes					
Property Taxes	\$1,810,979			\$753,695	\$2,564,674
Income Taxes	941,045				941,045
Intergovernmental	5,480,520		\$10,372,398	751,658	16,604,576
Interest	68,541	\$54,139	272,317	645	395,642
Tuition and Fees	291,753			24,405	316,158
Extracurricular Activities				134,050	134,050
Food Service Sales & Services				232,476	232,476
Payment in Lieu of Taxes				16,000	16,000
Miscellaneous	7,217			101,943	109,160
Total Receipts	<u>8,600,055</u>	<u>54,139</u>	<u>10,644,715</u>	<u>2,014,872</u>	<u>21,313,781</u>
Disbursements					
Current:					
Instruction					
Regular	3,873,800			109,146	3,982,946
Special	1,144,180			356,828	1,501,008
Vocational Education	214,637				214,637
Support Services					
Pupil	204,145			8,672	212,817
Instructional Staff	373,612			38,203	411,815
Board of Education	18,919				18,919
Administration	646,722			94,786	741,508
Fiscal	271,927			18,026	289,953
Operation and Maintenance of Plant	619,837			6,500	626,337
Pupil Transportation	403,816			42,549	446,365
Central	12,621			5,675	18,296
Operation of Non-Instructional Services				349,467	349,467
Extracurricular Activities	158,229			164,880	323,109
Facilities Acquisition and Construction	3,900	22,349	16,191,061	11,027	16,228,337
Repayment of Debt					
Repayment of Principal				300,000	300,000
Repayment of Interest				455,411	455,411
Total Disbursements	<u>7,946,345</u>	<u>22,349</u>	<u>16,191,061</u>	<u>1,961,170</u>	<u>26,120,925</u>
Excess of Receipts Over/(Under) Disbursements	<u>653,710</u>	<u>31,790</u>	<u>(5,546,346)</u>	<u>53,702</u>	<u>(4,807,144)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	3,870				3,870
Other Financing Sources	11,117				11,117
Advances-In	55,112				55,112
Advances-Out				(55,112)	(55,112)
Other Financing Uses				(357)	(357)
Total Other Financing Sources (Uses)	<u>70,099</u>			<u>(55,469)</u>	<u>14,630</u>
Net Change in Fund Balances	723,809	31,790	(5,546,346)	(1,767)	(4,792,514)
Fund Balances - Beginning of Year	1,715,549	4,465,312	14,249,529	739,925	21,170,315
Fund Balances - End of Year	<u>\$2,439,358</u>	<u>\$4,497,102</u>	<u>\$8,703,183</u>	<u>\$738,158</u>	<u>\$16,377,801</u>
Reserved for Encumbrances	<u>\$44,638</u>	<u>\$0</u>	<u>\$457,366</u>	<u>\$42,114</u>	<u>\$544,118</u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Taxes				
Property Taxes	\$1,854,392	\$1,854,392	\$1,810,979	(\$43,413)
Income Taxes	873,738	873,738	941,045	67,307
Intergovernmental	5,079,148	5,079,148	5,480,520	401,372
Interest	30,000	30,000	68,541	38,541
Tuition and Fees	260,000	237,909	291,753	53,844
Miscellaneous	5,300	5,300	7,217	1,917
Total Receipts	8,102,578	8,080,487	8,600,055	519,568
Disbursements				
Current:				
Instruction				
Regular	3,822,196	3,887,696	3,887,494	202
Special	1,167,301	1,203,482	1,145,672	57,810
Vocational Education	229,171	230,431	215,425	15,006
Support Services				
Pupil	196,301	211,111	204,929	6,182
Instructional Staff	352,315	386,815	386,761	54
Board of Education	28,566	28,566	18,919	9,647
Administration	638,552	672,575	655,003	17,572
Fiscal	276,336	278,929	272,027	6,902
Operation and Maintenance of Plant	684,489	714,989	623,147	91,842
Pupil Transportation	418,558	419,558	404,166	15,392
Central	18,462	18,462	12,621	5,841
Extracurricular Activities	161,454	161,454	158,229	3,225
Capital Outlay				
Facilities Acquisition and Construction	10,588	10,588	6,591	3,997
Total Disbursements	8,004,289	8,224,656	7,990,984	233,672
Excess of Receipts Over (Under) Disbursements	98,289	(144,169)	609,071	753,240
Other Financing Sources (Uses)				
Sale of Capital Assets			3,870	(3,870)
Transfers-In		22,091	124,190	(102,099)
Advances-In			55,112	(55,112)
Transfers-Out		(124,190)	(124,190)	
Advances-Out	(22,739)	(22,739)		(22,739)
Other Financing Uses			11,117	(11,117)
Total Other Financing Sources (Uses)	(22,739)	(124,838)	70,099	(194,937)
Net Change in Fund Balances	75,550	(269,007)	679,170	(948,177)
Fund Balances - Beginning of Year	1,644,386	1,644,386	1,644,386	
Prior Year Encumbrances Appropriated	71,164	71,164	71,164	
Fund Balances - End of Year	\$1,791,100	\$1,446,543	\$2,394,720	\$948,177

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$28,650	\$42,036
Cash and Cash Equivalents in Segregated Account		5,957
Total Assets	28,650	47,993
 Net Assets		
Restricted for Other Purposes	732	
Held in Trust for Scholarships	27,918	
Held in Trust for Employees		5,957
Held in Trust for Students		42,036
Total Net Assets	\$28,650	\$47,993

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private Purpose Trust</u>
Additions	
Investment Income	\$2,817
Miscellaneous	6,455
Total Additions	<u>9,272</u>
Deductions	
Other Objects	14,795
Total Deductions	<u>14,795</u>
Change in Net Assets	(5,523)
Net Assets - Beginning of Year	<u>34,173</u>
Net Assets - End of Year	<u><u>\$28,650</u></u>

See accompanying notes to the financial statements.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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 statute 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-seven classified employees, eighty-two certified teaching personnel, and seven administrative employees who provide services to approximately 1,137 students and other community members. The School District operated three instructional buildings and three bus garages.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government 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. There are no component units.

The School District participates in six jointly governed organizations and three insurance pools, and is associated with a related organization. These organizations are the Mercer County Local Professional Development Committee, 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 14, 15 and 16 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

The School District chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. This 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.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Difference between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include required disclosures of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between disbursements and program receipts for each program or function of the School District's governmental activities of the School District. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

2. Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its receipts and expenditures/disbursements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The School District's major funds were the General, Building and Classroom Facilities.

General Fund - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Building Fund - This fund accounts for the specific receipt to be used for the new school building project.

Classroom Facilities Fund - This fund accounts for the specific receipt to be used for the Classroom Facilities Fund.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include private purpose trust and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the 2 digit function level within the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Tax 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 receipt of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipt are identified by the School District Treasurer.

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, 2 digit function for the General Fund and at the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter the 2 digit function appropriations within the General Fund, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

4. Encumbrances

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

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Cash and cash equivalents that are held separately for the funds retained from construction contracts are recorded as "Cash and Cash Equivalents with Escrow Agent".

Cash and cash equivalents that are held separately within the Flex One account for employees participating in the School District's Section 125 Plan and are presented as "Cash and Cash Equivalents in Segregated Accounts".

Money market mutual funds (including STAR Ohio) and US Treasury investments are recorded by the funds at cost. Investment earnings are allocated as authorized by State statute based upon School District policy.

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

The School District invested in nonnegotiable certificates of deposits, government securities, and money market mutual funds (including STAR Ohio).

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$174,781, which included \$32,953 assigned from other School District funds. While interest revenue credited to the General Fund during fiscal year 2005 was \$68,541 which included \$21,144 assigned from other School District funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include unexpended revenue restricted for bus purchases. Restricted assets in the Classroom Facilities Fund include restricted funds retained from construction contracts and held in separate retainage escrow savings accounts.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

G. Accumulated 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 modified cash basis of accounting as presented here by the School District.

H. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the modified cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants are recorded as receipt when the grant is received.

J. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

K. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At fiscal year end 2006 and 2005, the General Fund had unpaid interfund cash advance in the amount of \$10,000 for short-term loans made to the Yearbook Fund. Advances are expected to be repaid within one year. The unpaid interfund cash advance in the amount of \$10,000 from fiscal year 2004 that was made from the General Fund to the Yearbook Fund was voted by the Board to be turned into a permanent transfer per Resolution No _0705002 on May 8, 2007.

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets, and displayed in separate components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for food service operations, federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School District did not have any net assets restricted by enabling legislation at June 30, 2006 or June 30, 2005.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and bus purchases.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. At June 30, 2005, the designation for bus purchase represents monies set aside by the Board for the future payment of such purpose.

N. Receipts and Disbursements

1. Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipt even if restricted for a specific purpose.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for governmental funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, non-capital financing, or investing activities.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

3. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

4. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

For fiscal years 2006 and 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosure”. GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District’s financial statements.

5. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

For fiscal year 2005, the School District changed the basis of accounting, in addition to the fund type classification of a couple of funds. This change had the following effect on fund balances as previously reported:

	Fund Balance June 30, 2004	Adjustment	Restated Fund Balance July 1, 2004
Governmental Activities:			
General	\$1,715,549		\$1,715,549
Special Revenue	209,973	\$43,944	253,917
Debt Service	320,889		320,889
Capital Project	18,879,960		18,879,960
Enterprise	34,032	(34,032)	
Fiduciary Funds:			
Expendable Trust	31,467	(31,467)	
Non-Expendable Trust	12,618	(12,618)	
Private Purpose Trust:			
		34,173	34,173
	\$21,204,488	\$0	\$21,204,488
Restatement for Major Funds:			
General Fund			1,715,549
Building Fund			4,465,312
Classroom Facilities			14,249,529
Other Governmental Funds			739,925
Total Governmental Funds			21,170,315
Private Purpose Trust			34,173
			\$21,204,488

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

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

Protection of 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 monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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.
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of 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, 2006, the School District had \$710 in undeposited cash on hand which is included in the fund balance. As of June 30, 2005, the School District had \$810 in undeposited cash on hand which is included in the fund balance.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

As of June 30, 2006, the carrying amount of the School District's deposits was \$4,588,836 and the bank balance was \$5,822,678. Of the bank balance, \$217,359 was covered by federal depository insurance and \$4,495,255 was collateralized but uninsured while \$1,110,064 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2005, the carrying amount of the School District's deposits was \$4,323,599 and the bank balance was \$4,491,800. Of the bank balance, \$222,919 was covered by federal depository insurance and \$3,450,526 was collateralized but uninsured while \$818,355 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State 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.

B. Investments

Investments are reported at fair value. As of June 30, 2006, the School District's investments were as follows:

	<u>Value as of June 30, 06</u>	<u>% of Investment Total</u>	<u>Maturities</u>
US Treasury / Agency Securities:			
Federal Home Loan Bank Bonds	\$ 570,026	22.43%	< 6 months
STAROhio	379,984	14.95%	Available on demand
Fifth Third Money Market Mutual Funds	1,591,401	62.62%	Available on demand
Total	<u>\$2,541,411</u>	<u>100.00%</u>	

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Investments are reported at fair value. As of June 30, 2005, the School District's investments were as follows:

	<u>Value as of June 30, 05</u>	<u>% of Investment Total</u>	<u>Maturities</u>
US Treasury / Agency Securities			
Federal Home Loan Bank Bonds	\$ 1,627,632	13.42%	< 6 months
Federal Home Loan Bank Bonds	2,063,409	17.01%	> 6 months < 1 year
Federal Home Loan Bank Bonds	572,814	4.72%	> 1 year < 2 years
Federal Home Loan Mortgage Corp	371,686	3.07%	< 6 months
Federal Home Loan Mortgage Corp	713,873	5.89%	> 6 months < 1 year
Federal National Mortgage Assoc	1,582,957	13.05%	< 6 months
Federal National Mortgage Assoc	1,024,444	8.45%	> 6 months < 1 year
Federal Farm Credit Bond	752,401	6.20%	< 6 months
STAROhio	364,850	3.00%	Available on demand
Fifth Third Money Market Mutual Funds	3,055,969	25.19%	Available on demand
Total	<u>\$ 12,130,035</u>	<u>100.00%</u>	

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

D. Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The Federal Home Loan Bank bonds, Federal Home Loan Mortgage Corporation notes, Federal National Mortgage Association bonds, Federal Farm Credit bonds and the mutual fund carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must be invested in obligations of the U. S. Treasury and bonds, notes, debentures, or any other obligation or security issued by any federal governmental agency or instrumentality

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

E. Concentration Risk

The School District places no limit on the amount the School District may invest in any one issuer. More than 85 percent of the School District's investments are in US Treasury / Agency securities and in Money Market mutual funds.

7. 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 distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2006 represent the collection of calendar year 2005 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2006 were levied after April 1, 2005 on the assessed value listed as of the prior January 1, the lien date. 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 by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in Calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Mercer, Auglaize and Van Wert Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which taxes were collected are:

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

7. PROPERTY TAXES (Continued)

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$73,554,180	84.39%	\$80,027,680	85.53%
Industrial/Commercial	4,979,960	5.71	5,893,670	6.30
Public Utility	4,418,590	5.07	4,203,470	4.49
Tangible Personal Property	4,210,862	4.83	3,447,399	3.68
Total Assessed Value	<u>\$87,163,592</u>	<u>100.00%</u>	<u>\$93,572,219</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.37		\$40.37	

8. 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. On May 3, 2005, this tax was renewed effective January 1, 2006. 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 receipts are credited to the General Fund.

9. DEBT OBLIGATIONS

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, 2006 the following balances (including yearly accretion) existed:

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:

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

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

9. 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>Fiscal 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 2006 are as follows:

	<u>Interest Rates</u>	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due within 1 year</u>
General Obligation Bonds						
2003 Various Purpose						
Serial and Term Bonds	1.5 –					
	4.625%	\$11,145,000	\$ 0	\$305,000	\$10,840,000	\$305,000
Capital Appreciation Bonds	4.0%	214,999	0	0	214,999	
Cap. Appr. Bond Accretion		65,408	35,696	0	101,104	
Total General Obligation Debt		<u>\$11,425,407</u>	<u>\$35,696</u>	<u>\$305,000</u>	<u>\$11,156,103</u>	<u>\$305,000</u>

The changes in the School District's debt obligations during fiscal year 2005 are as follows:

	<u>Interest Rates</u>	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due within 1 year</u>
General Obligation Bonds						
2003 Various Purpose						
Serial and Term Bonds	1.5 –					
	4.625%	\$11,445,000	\$ 0	\$300,000	\$11,145,000	\$305,000
Capital Appreciation Bonds	4.0%	214,999	0	0	214,999	
Cap. Appr. Bond Accretion		33,744	31,664	0	65,408	
Total General Obligation Debt		<u>\$11,693,743</u>	<u>\$31,664</u>	<u>\$300,000</u>	<u>\$11,425,407</u>	<u>\$305,000</u>

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

9. DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006:

Fiscal Year Ending June 30	Serial and Term Bonds	Capital Appreciation Bonds	Interest/ Accretion	Total
2007	\$ 305,000	\$ 0	\$ 443,261	\$ 748,261
2008	320,000	0	436,811	756,811
2009	325,000	0	429,349	754,349
2010	335,000	0	420,261	755,261
2011	345,000	0	409,630	754,630
2012 – 2016	1,100,000	214,999	2,453,263	3,768,262
2017 – 2021	2,140,000	0	1,605,087	3,745,087
2022 – 2026	2,655,000	0	1,083,185	3,738,185
2027 – 2031	3,315,000	0	397,400	3,712,400
	<u>\$10,840,000</u>	<u>\$214,999</u>	<u>\$7,678,247</u>	<u>\$18,733,246</u>

10. RISK MANAGEMENT

A. Property and Liability

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 2006, the School District contracted for the following insurance coverage.

Coverage provided by Indiana Insurance is as follows:

Buildings and Contents - replacement cost (\$1,000 deductible)	\$ 23,367,452
Commercial Coverage (Computers and other Equipment)	195,000

Coverage provided by Ohio School Plan is as follows:

Vehicle Liability	3,000,000
General Liability	
Each Incident	1,000,000
Per Aggregate	3,000,000
Excess Liability	
Each Incident	2,000,000
Per Aggregate	2,000,000

B. Ohio School Plan

The school belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The plan provides property, general liability, educator's legal liability, automobile and violence coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

10. RISK MANAGEMENT (Continued)

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

	<u>2005</u>	<u>2004</u>
Assets	\$ 952,191	\$ 850,065
Liabilities	213,419	509,558
Members' Equity	<u>\$ 738,772</u>	<u>\$ 340,507</u>

The complete audited financial statements for The Ohio School Plan can be found at the Plan's website, www.ohioschoolplan.org.

Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

C. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (note 15). The intent of the GRP 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 GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

D. Health Care Benefits

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, dental and vision 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.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

11. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2005 and 2004, 10.57 percent and 9.09 percent was used to fund pension obligations, respectively. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$109,391, \$102,678, and \$91,234 respectively.

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 administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits based on eligible service credit to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3371 or by calling 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

For the fiscal years ended June 30, 2006 and June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and Parkway Local School District are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$526,414, \$511,324, and \$519,155 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, 2005, one of the Board of Education members had elected to choose Social Security, while there was none as of June 30, 2006. The Board's liability was 6.2 percent of wages paid.

12. POST EMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the 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. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS had 119,184 eligible benefit recipients. For the School District, the amount to fund health care benefits equaled \$40,493 for fiscal year 2006.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

12. POST EMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

At June 30, 2006, the employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, was \$50,275 for fiscal year 2006.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

13. STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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, these monies were transferred from the Budget Reserve Fund into the General Fund during fiscal year 2005.

The following cash basis information identifies the changes for textbooks and capital improvements reserves:

	Fiscal Year 2006	
	Textbooks	Capital Improvements
Balance June 30, 2005	\$(315,385)	\$(11,735,097)
Current Year Set Aside Requirement	167,102	167,102
Current Fiscal Year Offsets	0	(138,986)
Qualifying Expenditures	(135,338)	(28,116)
Balance Carried Forward FY 2007	\$(283,621)	\$(11,735,097)

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

13. STATUTORY RESERVES (Continued)

	Fiscal Year 2005	
	Textbooks	Capital Improvements
Balance June 30, 2004	\$(345,157)	\$(11,736,045)
Current Year Set Aside Requirement	162,152	162,152
Current Fiscal Year Offsets	0	(135,729)
Qualifying Expenditures	(132,380)	(25,475)
Balance Carried Forward FY 2006	\$(315,385)	\$(11,735,097)

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.

14. JOINTLY GOVERNED ORGANIZATIONS

Mercer County Local Professional Development Committee - The School District is a participant in the Mercer County Local Professional Development Committee (Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an eleven member board made up of six teachers, two principals, one superintendent, and two members employed by the Mercer County Educational Service Center. Board members serve two year terms. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

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. Mary's 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 2006, the School District paid \$24,365 to NOACSC for various services. Financial information can be obtained from the Northwest Ohio Area Computer Services Cooperative, 645 South Main Street, Lima, Ohio 45804.

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

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 the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

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.

15. GROUP PURCHASING 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 vice-president of Hylant Administrative Services, and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Hylant Administrative Services serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Hylant Administrative Services, 811 Madison Ave, 11th floor, Toledo, Ohio 43624.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

15. GROUP PURCHASING POOLS (Continued)

B. Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

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(c)(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 James Mauntler; JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio 43614.

16. 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.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

17. OUTSTANDING CONTRACTS

As of June 30, 2006 the School District had outstanding contracts related to the Ohio School Facilities and additional Locally Funded Initiative building projects as follows:

<u>Company</u>	<u>Amount</u>
Microman	\$ 12,081
Service Supply, Ltd., Inc.	3,500
Farnham Equipment Co.	6,950
R.A.M.E., Inc	35,347
Vulcan Enterprises, Inc.	11,705
Schumm Plumbing and Heating, Inc.	29,814
Bushong Restaurant Equipment Co.	9,239
Elements IV Interiors	208,975
Frost & Co., Inc.	281,243
Henckels & McCoy, Inc.	8,859
Kelchner Environmental, Inc.	121,221
Peterson Construction Co.	262,524
Tom Sexton & Associates	2,114
Valley Electrical Cons. Inc.	20,709
Miller Contracting Group, Inc.	705,403
Total Environmental	35,394

18. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2006.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

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

Parkway Local School District
Mercer County
400 Buckeye Street
Rockford, Ohio 45882

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Parkway Local School District, Mercer County, (the School District), as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 23, 2007, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 23, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the School District's management dated May 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Parkway Local School District
Mercer County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

May 23, 2007

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2006-001

NONCOMPLIANCE CITATION

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 Adm. Code Section 117-2-03 (B) requires the School District prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, 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. 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 School District should prepare their annual financial statements in accordance with GAAP.

Officials Response:

The School District has taken the position that due to limited financial resources, the School District will not go to the expense of preparing and auditing financial statements in accordance with generally accepted accounting principles (GAAP statements). The cost savings of not preparing GAAP financial reports will be used to help fund educational programs. The School District also feels that there are sufficient other records and reports, such as the other comprehensive basis of accounting (OCBOA) reports prepared for fiscal 2006 and 2005 and the Five Year Forecast, to guide the Board and Administration in evaluating the School District's financial status.

**PARKWAY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B) – The School District filed cash basis financial statements.	No	Not Corrected - See Finding 2006-001
2004-002	Ohio Rev. Code Section 5705.41(D) – lack of prior certification regarding the availability of funds	No	Partially Corrected – Issued as a Management Letter item.



Mary Taylor, CPA
Auditor of State

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
JULY 5, 2007