



**Auditor of State
Betty Montgomery**

**CARLISLE LOCAL SCHOOL DISTRICT
WARREN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Carlisle Local School District
Warren County
724 Fairview Drive
Carlisle, Ohio 45005

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Carlisle Local School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Carlisle Local School District, Warren County, Ohio, as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

April 21, 2005

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The discussion and analysis of the Carlisle Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The liabilities of Carlisle Local School District exceeded its assets at June 30, 2004 by \$1,289,934. This deficit balance was comprised of a \$2,067,138 balance in capital assets net of related debt and net asset amounts restricted for specific purposes and a deficit balance of \$3,357,072 in unrestricted net assets.
- ▶ In total, net assets of governmental activities decreased by \$1,108,702, which represents a 611.76 percent decrease from 2003.
- ▶ General revenues accounted for \$12,193,793 or 90.73 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,245,793 or 9.27 percent of total revenues of \$13,439,586.
- ▶ The District had \$14,548,288 in expenses related to governmental activities; only \$1,245,793 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$12,193,793 and \$1,108,702 of net assets from prior years were used to provide for these programs.
- ▶ The District recognizes one major governmental fund: the General Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$11,907,312 in revenues and \$12,881,925 in expenditures in fiscal year 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Carlisle Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the General Fund.

CARLISLE LOCAL SCHOOL DISTRICT
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(Unaudited)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the accrual basis of accounting.

Fiduciary Funds

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2004 compared to fiscal year 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$5,486,717	\$5,234,524
Capital Assets, Net	3,073,253	3,127,949
<i>Total Assets</i>	<u>8,559,970</u>	<u>8,362,473</u>
<u>Liabilities:</u>		
Long-Term Liabilities	2,053,855	2,305,857
Other Liabilities	7,796,049	6,237,848
<i>Total Liabilities</i>	<u>9,849,904</u>	<u>8,543,705</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	2,047,024	2,689,788
Restricted	20,114	158,360
Unrestricted	(3,357,072)	(3,029,380)
<i>Total Net Assets</i>	<u><u>(\$1,289,934)</u></u>	<u><u>(\$181,232)</u></u>

Current and other assets increased \$252,193 from fiscal year 2003 due to an increase in the property taxes receivable and the addition of income taxes receivable in 2004. Capital assets decreased by \$54,696 as a result of the current year depreciation.

Current (other) liabilities increased \$1,558,201 due to a deferred revenue increase related to property taxes receivable and income taxes receivable and the addition of tax anticipation notes.

Long-term liabilities decreased \$252,002 as the result of scheduled debt payments made by the District.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

CARLISLE LOCAL SCHOOL DISTRICT
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(Unaudited)

The District's smallest portion of net assets is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

The remaining balance of \$20,114 is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2004 and provides a comparison to fiscal year 2003.

Table 2
Changes in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$603,185	\$582,930
Operating Grants and Contributions	642,608	626,264
<i>General Revenue:</i>		
Property Tax	4,061,618	4,960,844
Income Tax	226,269	0
Unrestricted Grants and Entitlements	7,814,769	7,507,623
Unrestricted Contributions	0	89,322
Investment Earnings	7,351	18,888
Miscellaneous	83,786	97,913
<i>Total Revenues</i>	13,439,586	13,883,784
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	6,576,009	6,299,775
Special	1,473,371	1,635,069
Vocational	326,641	332,317
Other	113,375	78,213

(Continued)

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 2
Changes in Net Assets
(Continued)

	2004	2003
<i>Support Services:</i>		
Pupil	819,607	1,028,904
Instructional Staff	863,251	863,971
Board of Education	17,114	25,775
Administration	1,041,096	1,154,947
Fiscal	389,690	355,934
Business	34,601	48,451
Operation and Maintenance of Plant	1,127,266	1,268,628
Pupil Transportation	667,171	679,551
Central	46,475	31,355
<i>Operation of Non-Instructional Services:</i>		
Food Service	510,060	525,334
Other	53,450	3,002
Extracurricular Activities	420,081	379,334
Interest and Fiscal Charges	69,030	58,231
<i>Total Expenses</i>	14,548,288	14,768,791
<i>Change in Net Assets</i>	(1,108,702)	(885,007)
Net Assets – Beginning of Year	(181,232)	703,775
Net Assets – End of Year	(\$1,289,934)	(\$181,232)

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration and Instructional Staff. These programs account for 76.17 percent of the total governmental activities. Regular Instruction, which accounts for 45.20 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 10.13 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 7.75 percent of the total, represents costs associated with operating and maintaining the District's facilities. Administration, which represents 7.16 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Instructional Staff, which represents 5.93 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 88.37 percent of total revenues.

As noted previously, the net assets for governmental activities decreased \$1,108,702 or 611.76 percent. This is an increase from last year when net assets decreased \$885,007 or 125.75 percent. Total revenues decreased \$444,198 or 3.20 percent over the last year and expenses decreased \$220,503 or 1.49 percent over last year.

The District had program revenue increases of \$36,599, as well as a decrease in general revenues of \$480,797. The increase in program revenues is mostly due to increased revenue in the food services program. There was one significant decrease in general revenues. Property taxes decreased \$899,226 or 18.13 percent due to the expiration of an emergency operating levy in 2003. Also, grants and entitlements not restricted to specific programs increased \$307,146 or 4.09 percent due to increases in the school foundation receipts and homestead/rollback receipts.

The total expenses for governmental activities decreased due to a decrease in special instruction. This decrease is the result of a continued effort of the District to monitor and hold down expenses. The remaining difference is due to normal increases in expenses.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 30.38 percent and intergovernmental revenue made up 62.84 percent of the total revenue for the governmental funds in fiscal year 2004.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

The District's 2.0 mill Permanent Improvement Levy is an important piece of the financial picture. It funds not only facility maintenance and upkeep issues but also provides the bulk of the District's technology needs and a large percentage of the State's set-aside requirements for both textbooks and instructional materials and capital improvements.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2004, the District received \$6,758,368 through the State's foundation program, which represents 49.89 percent of the total revenue for the governmental funds. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 58.35 percent of governmental program expenses. Support services expenses make up 34.41 percent of governmental expenses. The statement of activities shows the cost of program services and 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 for fiscal year 2004 compared with fiscal year 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
<i>Program Expenses:</i>				
Instruction	\$8,489,396	\$7,898,550	\$8,345,374	\$7,798,191
Support Services	5,006,271	4,988,255	5,457,516	5,417,513
Operation of Non-Instructional Services	563,510	25,315	528,336	(1,301)
Extracurricular Activities	420,081	321,345	379,334	286,963
Interest and Fiscal Charges	69,030	69,030	58,231	58,231
Total Expenses	\$14,548,288	\$13,302,495	\$14,768,791	\$13,559,597

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$13,546,350 and expenditures and other financing uses of \$14,730,071.

Total governmental funds fund balance decreased by \$1,183,721 or 119.57 percent. The decrease in fund balance for the year was most significant in the General Fund, which is the result of decreased property tax revenue and the addition of a tax anticipation note obligation.

The District should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2004, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$12,824,392 representing a decrease of \$161,360 from the original budget estimates of \$12,985,752. The final budget reflected a 1.24 percent decrease from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$12,959,691 representing an increase of \$7,162 from the original budget expenditures of \$12,952,529. The final budget reflected a 0.06 percent increase from the original budgeted amount.

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$10.4 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$7.3 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$325,000	\$325,000
<i>Depreciable Capital Assets:</i>		
Land Improvements	188,759	173,898
Buildings and Improvements	6,291,973	6,291,973
Furniture, Fixtures and Equipment	2,540,385	2,456,756
Vehicles	1,070,284	897,372
<i>Total Capital Assets</i>	<u>10,416,401</u>	<u>10,144,999</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	17,230	10,857
Buildings and Improvements	4,461,451	4,338,076
Furniture, Fixtures and Equipment	2,092,934	1,940,088
Vehicles	771,533	728,029
<i>Total Accumulated Depreciation</i>	<u>7,343,148</u>	<u>7,017,050</u>
Capital Assets, Net	<u><u>\$3,073,253</u></u>	<u><u>\$3,127,949</u></u>

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

Debt Administration

At June 30, 2004, the District had \$652,857 in general obligation debt outstanding with \$63,742 due within one year. Table 5 summarizes notes and loans outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2004	2003
Energy Conservation Installment Note	\$638,968	\$694,438
Energy Conservation Loan	13,889	19,444
Total	<u>\$652,857</u>	<u>\$713,882</u>

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Carlisle Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

As indicated in the preceding financial information, the District relies on the State's foundation program for nearly half of their funding. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

The State Legislature has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

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Effective January 1, 2001 non-municipal owned electric utilities and rural co-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2006; after this a phase out formula would begin.

The Carlisle Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes 72 percent of the District's real estate valuation.

Towards the end of calendar year 2002, key school personnel met with the Carlisle School District Financial Advisory Committee to discuss the impact of an existing Emergency Property Tax Levy that was due to expire on December 31, 2003. This levy was approved by the taxpayers in November 1998 for a period of five years (1999-2003) with the proceeds being used for the general operation of the District. The levy was originally approved at 6.81 mills but because of the rise in property values during the five years, the Warren County Auditor had reduced the levy to 5.90 mills. The levy generated approximately \$930,000 annually. In order to replace the revenue that would be lost when the levy expired, the committee looked at a number of different options. In November of 2002, the Committee recommended to the Board of Education that the District ask the voters to approve a 1.25 percent School District Income Tax. Ultimately, the Board of Education approved a resolution placing a 1 percent School Income Tax Levy on the May 2003 ballot. The Ohio Department of Taxation certified that the 1 percent School Income Tax Levy would generate approximately \$1.5 million annually. With this amount, the District would not only be able to continue to offer the same educational opportunities and programs that were currently being provided, but would also be able to add new programs and services when needed. On May 26, 2003 the voters of the Carlisle Local School District approved the 1 percent School Income Tax.

Effective January 1, 2004, all residents of the Carlisle Local School District began paying 1 percent on certain earned income. Due to the nature of collections related to this type of tax (typically there is an 18-month lag between the time the tax goes into effect and the time the full amount certified is actually collected), the District realized there would be a shortfall of cash during the 2003-2004 school year. On July 1, 2003, the District borrowed \$750,000 (the maximum allowable by law) from Fifth Third Bank. This was accomplished through the issuance of a Tax Anticipation Note. Principal payments will begin December 1, 2004 and will continue annually until December 1, 2007. The note will be paid back from the General Fund with monies collected from School Income Tax.

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(Unaudited)

The District has been working closely with the Ohio School Facilities Commission developing a Master Building Plan that would address the future building needs of the District. While no plan has been adopted, the Board of Education will continue with this process and eventually adopt a formal plan that meets both the short and long-term anticipated building requirements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Randy Stiver, Treasurer of Carlisle Local School Board of Education, 724 Fairview Drive, Carlisle, Ohio 45005.

CARLISLE LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$318,823
Cash and Cash Equivalents With Fiscal Agents	54,117
Property Taxes Receivable	4,917,434
Income Taxes Receivable	167,168
Inventory Held for Resale	3,124
Materials and Supplies Inventory	2,176
Accounts Receivable	23,875
Nondepreciable Capital Assets	325,000
Depreciable Capital Assets, Net	<u>2,748,253</u>
<i>Total Assets</i>	<u>8,559,970</u>
<u>Liabilities:</u>	
Accounts Payable	268,468
Accrued Wages and Benefits	1,523,419
Intergovernmental Payable	586,846
Accrued Interest Payable	5,147
Deferred Revenue	4,662,169
Notes Payable	750,000
<i>Long-Term Liabilities:</i>	
Due within One Year	333,949
Due in More Than One Year	<u>1,719,906</u>
<i>Total Liabilities</i>	<u>9,849,904</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	2,047,024
<i>Restricted for:</i>	
Capital Projects	5,883
Other Purposes	14,231
Unrestricted	<u>(3,357,072)</u>
<i>Total Net Assets</i>	<u><u>(\$1,289,934)</u></u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
<u>Expenses</u>				
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$6,576,009	\$81,984	\$121,595	(\$6,372,430)
Special	1,473,371	0	387,267	(1,086,104)
Vocational	326,641	0	0	(326,641)
Other	113,375	0	0	(113,375)
<i>Support Services:</i>				
Pupil	819,607	0	12,541	(807,066)
Instructional Staff	863,251	0	5,475	(857,776)
Board of Education	17,114	0	0	(17,114)
Administration	1,041,096	0	0	(1,041,096)
Fiscal	389,690	0	0	(389,690)
Business	34,601	0	0	(34,601)
Operation and Maintenance of Plant	1,127,266	0	0	(1,127,266)
Pupil Transportation	667,171	0	0	(667,171)
Central	46,475	0	0	(46,475)
<i>Operation of Non-Instructional Services:</i>				
Food Services	510,060	422,465	115,730	28,135
Other	53,450	0	0	(53,450)
Extracurricular Activities	420,081	98,736	0	(321,345)
Interest and Fiscal Charges	69,030	0	0	(69,030)
<i>Total Governmental Activities</i>	<u>\$14,548,288</u>	<u>\$603,185</u>	<u>\$642,608</u>	<u>(13,302,495)</u>
 <u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				3,804,079
Capital Projects				257,539
<i>Income Taxes Levied for:</i>				
General Purposes				226,269
Grants and Entitlements not Restricted to Specific Programs				7,814,769
Investment Earnings				7,351
Miscellaneous				83,786
<i>Total General Revenues</i>				<u>12,193,793</u>
Change in Net Assets				(1,108,702)
<i>Net Assets at Beginning of Year</i>				<u>(181,232)</u>
<i>Net Assets at End of Year</i>				<u>(\$1,289,934)</u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$150,326	\$168,321	\$318,647
Cash and Cash Equivalents With Fiscal Agents	0	54,117	54,117
Property Taxes Receivable	4,634,427	283,007	4,917,434
Income Taxes Receivable	167,168	0	167,168
Accounts Receivable	23,875	0	23,875
Interfund Receivable	205,027	440	205,467
Inventory Held for Resale	0	3,124	3,124
Materials and Supplies Inventory	0	2,176	2,176
<i>Total Assets</i>	<u>\$5,180,823</u>	<u>\$511,185</u>	<u>\$5,692,008</u>
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$143,772	\$124,521	\$268,293
Accrued Wages and Benefits	1,404,105	119,314	1,523,419
Intergovernmental Payable	428,302	14,619	442,921
Interfund Payable	0	5,467	5,467
Deferred Revenue	4,497,229	273,360	4,770,589
Notes Payable	750,000	0	750,000
Compensated Absences Payable	105,021	0	105,021
<i>Total Liabilities</i>	<u>7,328,429</u>	<u>537,281</u>	<u>7,865,710</u>
<u>Fund Balances:</u>			
Reserved for Encumbrances	93,660	21,257	114,917
Reserved for Property Taxes	137,198	9,647	146,845
Reserved for Capital Lease	0	54,117	54,117
<i>Unreserved, Undesignated, Reported in:</i>			
General Fund	(2,378,464)	0	(2,378,464)
Special Revenue Funds	0	(45,452)	(45,452)
Capital Projects Funds	0	(65,665)	(65,665)
<i>Total Fund Balances</i>	<u>(2,147,606)</u>	<u>(26,096)</u>	<u>(2,173,702)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,180,823</u>	<u>\$511,185</u>	<u>\$5,692,008</u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	(\$2,173,702)
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,073,253
Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of: Property taxes	108,420
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(143,924)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Energy conservation loan	(13,889)
Energy conservation installment note	(638,968)
Accrued interest on note	(5,147)
Compensated absences	(922,605)
Capital leases	<u>(373,372)</u>
Total liabilities that are not reported in the funds	(1,953,981)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>(200,000)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>(\$1,289,934)</u></u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$3,855,633	\$258,723	\$4,114,356
Income Taxes	226,269	0	226,269
Intergovernmental	7,686,890	824,521	8,511,411
Interest	5,536	1,807	7,343
Tuition and Fees	101,287	0	101,287
Extracurricular Activities	15,051	83,685	98,736
Charges for Services	0	422,465	422,465
Miscellaneous	16,646	47,837	64,483
<i>Total Revenues</i>	<u>11,907,312</u>	<u>1,639,038</u>	<u>13,546,350</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	6,117,592	299,312	6,416,904
Special	1,026,469	432,373	1,458,842
Vocational	323,083	0	323,083
Other	108,324	5,051	113,375
<i>Support Services:</i>			
Pupil	789,566	39,814	829,380
Instructional Staff	786,414	78,497	864,911
Board of Education	17,031	0	17,031
Administration	1,073,777	2,189	1,075,966
Fiscal	378,759	5,426	384,185
Business	34,601	0	34,601
Operation and Maintenance of Plant	1,136,123	58,762	1,194,885
Pupil Transportation	719,455	91,644	811,099
Central	46,475	0	46,475
Operation of Non-Instructional Services	5,116	544,742	549,858
Extracurricular Activities	297,221	108,823	406,044
<i>Debt Service:</i>			
Principal Retirement	5,555	120,259	125,814
Interest and Fiscal Charges	16,364	53,113	69,477
<i>Total Expenditures</i>	<u>12,881,925</u>	<u>1,840,005</u>	<u>14,721,930</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(974,613)</u>	<u>(200,967)</u>	<u>(1,175,580)</u>
<u>Other Financing Sources (Uses):</u>			
Transfers Out	(8,141)	0	(8,141)
<i>Total Other Financing Sources (Uses)</i>	<u>(8,141)</u>	<u>0</u>	<u>(8,141)</u>
<i>Net Change in Fund Balances</i>	(982,754)	(200,967)	(1,183,721)
<i>Fund Balances at Beginning of Year</i>	<u>(1,164,852)</u>	<u>174,871</u>	<u>(989,981)</u>
<i>Fund Balances at End of Year</i>	<u>(\$2,147,606)</u>	<u>(\$26,096)</u>	<u>(\$2,173,702)</u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$1,183,721)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (54,696)

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

Property taxes	(52,739)	
Intergovernmental	(54,034)	
Total revenues not reported in the funds		(106,773)

Repayment of loan and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 61,025

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 447

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in intergovernmental payables	(7,998)	
Decrease in compensated absences	24,941	
Decrease in capital leases	64,789	
Decrease in retirement incentive	80,000	
Total expenditures not reported in the funds		161,732

An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities. 13,284

Change in Net Assets of Governmental Activities (\$1,108,702)

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property Taxes	\$4,255,645	\$4,199,523	\$4,199,523	\$0
Income Taxes	62,432	61,609	61,609	0
Intergovernmental	7,789,616	7,686,890	7,686,890	0
Interest	5,610	5,536	5,536	0
Tuition and Fees	94,901	93,649	93,649	0
Extracurricular Activities	15,252	15,051	15,051	0
Miscellaneous	12,296	12,134	12,134	0
<i>Total Revenues</i>	<u>12,235,752</u>	<u>12,074,392</u>	<u>12,074,392</u>	<u>0</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	5,901,729	5,902,229	6,170,406	(268,177)
Special	1,231,314	1,231,314	1,154,836	76,478
Vocational	311,971	311,471	328,155	(16,684)
Other	84,360	84,360	102,969	(18,609)
<i>Support Services:</i>				
Pupils	883,265	884,265	847,697	36,568
Instructional Staff	778,653	785,815	792,928	(7,113)
Board of Education	11,915	11,915	16,860	(4,945)
Administration	1,056,430	1,056,430	1,049,155	7,275
Fiscal	383,269	383,269	379,833	3,436
Business	38,383	38,383	42,450	(4,067)
Operation and Maintenance of Plant	1,131,508	1,130,508	1,182,930	(52,422)
Pupil Transportation	706,936	706,936	731,292	(24,356)
Central	52,125	52,125	46,475	5,650
Operation of Non-Instructional Services	3,500	3,500	5,116	(1,616)
Extracurricular Activities	285,252	285,252	291,152	(5,900)
<i>Debt Service:</i>				
Principal Retirement	5,556	5,556	5,556	0
Interest	16,363	16,363	16,363	0
<i>Total Expenditures</i>	<u>12,882,529</u>	<u>12,889,691</u>	<u>13,164,173</u>	<u>(274,482)</u>
<i>Excess of Revenues (Under) Expenditures</i>	(646,777)	(815,299)	(1,089,781)	(274,482)
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Notes	750,000	750,000	750,000	0
Transfers Out	(20,000)	(20,000)	(8,141)	11,859
Advances Out	(50,000)	(50,000)	(4,492)	45,508
<i>Total Other Financing Sources (Uses)</i>	<u>680,000</u>	<u>680,000</u>	<u>737,367</u>	<u>57,367</u>
<i>Excess of Revenues and Other Financing Sources (Under) (Under) Expenditures and Other Financing Uses</i>	33,223	(135,299)	(352,414)	(217,115)
<i>Fund Balance at Beginning of Year</i>	8,040	8,040	8,040	0
<i>Prior Year Encumbrances Appropriated</i>	<u>94,413</u>	<u>94,413</u>	<u>94,413</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$135,676</u></u>	<u><u>(\$32,846)</u></u>	<u><u>(\$249,961)</u></u>	<u><u>(\$217,115)</u></u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$176</u>
<u>Liabilities:</u>	
Accounts Payable	\$176
Interfund Payable	<u>200,000</u>
<i>Total Liabilities</i>	<u>200,176</u>
<u>Net Assets:</u>	
Unrestricted	<u>(\$200,000)</u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004*

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Other Revenues	\$6,200
<i>Total Operating Revenues</i>	6,200
<u>Operating Expenses:</u>	
Claims	1,065
<i>Total Operating Expenses</i>	1,065
<i>Operating Income</i>	5,135
<u>Non-Operating Revenues:</u>	
Interest	8
<i>Total Non-Operating Revenues</i>	8
<i>Income before Transfers</i>	5,143
Transfers In	8,141
<i>Change in Net Assets</i>	13,284
<i>Net Assets at Beginning of Year</i>	(213,284)
<i>Net Assets at End of Year</i>	(\$200,000)

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Other Cash Receipts	\$6,200
Cash Payments for Claims	<u>(14,173)</u>
<i>Net Cash from Operating Activities</i>	<u>(7,973)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In	<u>8,141</u>
<i>Net Cash from Noncapital Financing Activities</i>	<u>8,141</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>8</u>
<i>Net Cash from Investing Activities</i>	<u>8</u>
<i>Net Increase in Cash and Cash Equivalents</i>	176
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$176</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	\$5,135
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	176
Claims Payable	<u>(13,284)</u>
Total Adjustments	<u>(13,108)</u>
<i>Net Cash from Operating Activities</i>	<u><u>(\$7,973)</u></u>

See accompanying notes to the basic financial statement.

CARLISLE LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$27,071</u>
<u>Liabilities:</u>	
Accounts Payable	\$7,659
Due to Students	<u>19,412</u>
<i>Total Liabilities</i>	<u>\$27,071</u>

See accompanying notes to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Carlisle Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. The District serves an area of approximately 11.7 square miles. It is located in Warren and Montgomery Counties, and includes all of the City of Carlisle and portions of Miami and Franklin Townships. It is staffed by 90 non-certificated employees, 120 certificated full-time teaching personnel and 10 administrative employees who provide services to 1,767 students and other community members. The District currently operates 7 instructional/support facilities.

Reporting Entity

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

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

The District is associated with two jointly owned organizations: the Southwestern Ohio Computer Association (SWOCA), the Miami Valley Career Technology Center, and the Southwestern Ohio Educational Purchasing Council. The District is also associated with one insurance purchasing pool: EPC Worker's Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The District's basic financial statement consists of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following is the District's only major governmental fund:

General Fund- This fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the District accounts for grants and other resources of the District whose use is restricted to a particular purpose.

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health benefits to employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.

CARLISLE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: property taxes available for advance, grants and interest.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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 2004 amounted to \$5,536, which includes \$3,032 assigned from other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. The District had no investments at June 30, 2004.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. As of June 30, 2004, the District reported no prepaid items.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. As of June 30, 2004, the District reported no restricted assets.

I. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	50 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 10 years
Vehicles	10 years
Books and Educational Media	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the District’s termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 15 years of service with the District.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees will be paid.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term loans, notes and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and capital lease.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

P. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2004, the District reported no extraordinary and special items.

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

S. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Accountability

The following funds had deficit fund balances/retained earnings as of June 30, 2004:

	<u>Deficit Fund Balance/ Retained Earnings</u>
General Fund	\$2,147,606
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	17,556
Disadvantaged Pupil Impact Aid	734
Professional Development	58
Title VI-B	31,765
Title I	38,699
Title VI	536
EHA Preschool Grant	73
Title VI-R	20,250
Miscellaneous Federal Grants	20
<i>Nonmajor Capital Project Funds:</i>	
Permanent Improvement	2,300
<i>Proprietary Fund:</i>	
Self Insurance	200,000

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

Compliance

Contrary to Ohio Revised Code Section 5705.41(B), the District had expenditures and outstanding encumbrances that exceeded prior year and current year appropriations in various funds.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-in, advances-out and principal payments on short-term notes are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$982,755)
<i>Adjustments:</i>	
Revenue Accruals	167,080
Expenditure Accruals	(682,533)
Encumbrances	400,286
Other Sources (Uses)	745,508
Budget Basis	<u><u>(\$352,414)</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value 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 (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited 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 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 the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$400,011, and the bank balance was \$488,177. Of the bank balance, \$154,117 was covered by federal depository insurance; and \$334,060 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the District's name and all State statutory requirements for the investments of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. 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 District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents the June 2004 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2004 was \$146,845 and is recognized as revenue. Of this total amount, \$137,198 was available to the General Fund and \$9,647 was available to the Permanent Improvement Capital Projects Fund.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$125,742,020	79.96%	\$140,003,860	82.99%
Public Utility Personal	27,264,860	17.34%	24,905,080	14.76%
Tangible Personal Property	4,242,429	2.70%	3,797,480	2.25%
Total Assessed Value	<u>\$157,249,309</u>	<u>100.00%</u>	<u>\$168,706,420</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$52.19		\$46.29	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, accounts (student fees), and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of accounts receivables follows:

<u>Governmental Activities:</u>	
<i>General Fund:</i>	
Student Fees	\$19,303
Tuition	4,572
Total General Fund	<u>23,875</u>
Total Accounts Receivables	<u>\$23,875</u>

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 8 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2004 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2003</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2004</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$325,000	\$0	\$0	\$325,000
<i>Depreciable Capital Assets:</i>				
Land Improvements	173,898	14,861	0	188,759
Buildings and Improvements	6,291,973	0	0	6,291,973
Furniture, Fixtures and Equipment	2,456,756	83,629	0	2,540,385
Vehicles	897,372	172,912	0	1,070,284
Total Depreciable Capital Assets	9,819,999	271,402	0	10,091,401
Total Capital Assets	10,144,999	271,402	0	10,416,401
<i>Accumulated Depreciation:</i>				
Land Improvements	(10,857)	(6,373)	0	(17,230)
Buildings and Improvements	(4,338,076)	(123,375)	0	(4,461,451)
Furniture, Fixtures and Equipment	(1,940,088)	(152,846)	0	(2,092,934)
Vehicles	(728,029)	(43,504)	0	(771,533)
Total Accumulated Depreciation	(7,017,050)	(326,098)	0	(7,343,148)
Total Net Capital Assets	<u>\$3,127,949</u>	<u>(\$54,696)</u>	<u>\$0</u>	<u>\$3,073,253</u>

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$198,832
Special	4,138
Vocational	1,949
<i>Support Services:</i>	
Pupil	4,518
Instructional Staff	9,996
Administration	5,732
Fiscal	470
Pupil Transportation	38,215
Operation of Non-Instructional Services	49,965
Extracurricular Activities	12,283
	<hr/>
Total Depreciation Expense	<u><u>\$326,098</u></u>

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with Indiana Insurance Company for professional and general liability insurance, Auto-Owner's Insurance Company for fleet insurance and Indiana Insurance Company for property insurance. Coverages provided are as follows:

Building/Contents and Boiler/Machinery	\$31,398,993
Building/Contents - replacement cost (90% co-insurance)	
Boiler/Machinery (\$2,500 deductible)	
Automobile Liability (\$500 deductible for collision and \$250 for comprehensive)	1,000,000
Uninsured Motorists	1,000,000
General Liability:	
Per Occurrence (\$1,000 deductible)	1,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2004, the District participated in the EPC Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. 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 shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

Dental coverage is provided and was switched from a self-funded, self-insured internal service plan to a fully funded plan through the Educational Purchasing Cooperative (EPC). A third party administrator, CoreSource Inc. located in Westerville, Ohio reviews all claims and pays those claims in accordance with benefit guidelines. This change was effective the same date as the change in medical coverage. The School District pays \$70 for family and \$28 per month respectively per employee, which represents the entire premium.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 9 - RISK MANAGEMENT - (Continued)

The claims liability of \$13,284 reported at June 30, 2003 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2003	\$219,750	\$1,300,057	\$1,506,523	\$13,284
2004	13,284	1,065	14,349	0

During fiscal year 2003, the District elected to stop providing employee medical/surgical benefits through a self-insurance internal service fund and switched to a fully funded plan. The cash balance in the self-insurance fund at June 30, 2004 was \$176. The fund has \$200,000 that was advanced from the General Fund on June 30, 2003. The advance was made in order to ensure the fund was actuarially sound. It was the intention of the District to return these monies to the General Fund during fiscal year 2004 as they became available. Unfortunately, because claims continued to exceed resources during the year, the advance was never repaid. The balance was used by the self-insurance fund to cover run-out claims. As of June 30, 2004, all of the funds had been completely exhausted.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$217,915, \$189,189, and \$105,543, respectively; 49.93 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$109,115 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and 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 of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$933,159, \$962,007, and \$623,804, respectively; 82.53 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$163,035 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, no members of the Board of Education have elected Social Security.

CARLISLE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$71,781 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000. For the District, the amount to fund health care benefits, including the surcharge, equaled \$150,162 during the 2004 fiscal year.

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 12 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 222 days for aides and all other classified employees and 222 for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 55.5 days for all employees.

Health, Prescription Drug, and Life Insurance

On April 1, 2003, the District began providing medical/surgical benefits through a fully funded PPO medical plan with Anthem. The District pays \$871 for family and \$475 for single coverage per month, which represents ninety and ninety-five percent of the premium respectively.

The District provides life insurance and accidental death and dismemberment insurance to most employees through United States Life Insurance Company.

NOTE 13 - TAX ANTICIPATION NOTE OBLIGATIONS

The changes in the District's tax anticipation note obligations during fiscal year 2004 were as follows:

	Issue Date	Interest Rate	Amount Outstanding at June 30, 2003	Additions	Deductions	Amount Outstanding at June 30, 2004
Tax Anticipation Note	2003	2.38%	\$0	\$750,000	\$0	\$750,000

The District issued a \$750,000 Tax Anticipation Note, dated July 1, 2003 which will mature on December 1, 2007. The proceeds of this note are to be used to support operations until income tax revenues begin being received. This note will be repaid from the General Fund using the income tax revenues.

Annual requirements to retire the tax anticipation notes outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	
2005	\$167,053
2006	206,936
2007	207,235
2008	206,428
Total Debt Payment	787,652
Less: Amount Representing Interest	37,652
Total Principal	<u>\$750,000</u>

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 14 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2004 were as follows:

	Issue Date	Interest Rate	Principal Outstanding at June 30, 2003	Additions	Deductions	Principal Outstanding at June 30, 2004	Amount Due In One Year
<i><u>Governmental Activities:</u></i>							
Energy Conservation Loan	1989	0.00%	\$19,444	\$0	\$5,555	\$13,889	\$5,555
School Energy Conservation Improvement Installment Payment Note	1998	4.90%	694,438	0	55,470	638,968	58,187
Total General Obligation Debt			713,882	0	61,025	652,857	63,742
Compensated Absences Payable			1,073,814	509,073	555,261	1,027,626	202,327
Retirement Incentive Payable			80,000	0	80,000	0	0
Capital Lease Payable			438,161	0	64,789	373,372	67,880
Total Governmental Activities Long-Term Obligations			<u>\$2,305,857</u>	<u>\$509,073</u>	<u>\$761,075</u>	<u>\$2,053,855</u>	<u>\$333,949</u>

On May 1, 1989, the District issued a \$97,218 Energy Conservation Loan for the purpose of remodeling that would significantly reduce energy consumption in buildings owned by the District. This loan was issued for a nineteen year period with final maturity on July 31, 2007. This loan is being retired from the General Fund.

The District issued a \$935,255 School Energy Conservation Improvement Installment Payment Note, dated May 1, 1998 which will mature on May 1, 2013. The proceeds of this note are to be used for energy conservation measures including installations, modifications, or remodeling to reduce energy consumption in buildings owned by the District in a proposed project which was approved by the Ohio School Facilities Commission. Unless paid from other sources, the note will be payable from an ad valorem tax to be levied upon all taxable property in the District within the limitations prescribed by law.

Compensated absences will be paid from the fund from which the employee is paid. The capital lease payable will be paid from the Permanent Improvement Capital Projects Fund.

The District's overall legal debt margin was \$14,544,610 with an unvoted debt margin of \$168,706 at June 30, 2004.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

The annual requirements to retire the energy conservation loan and note outstanding at June 30, 2004, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation Loan</u>	<u>Energy Conservation Note</u>	<u>Total</u>
2005	\$5,555	\$89,496	\$95,051
2006	5,556	89,497	95,053
2007	2,778	89,497	92,275
2008	0	89,497	89,497
2009	0	89,497	89,497
2010-2013	0	357,986	357,986
Total Debt Payments	13,889	805,470	819,359
Less: Amount Representing Interest	0	166,502	166,502
Total Principal	<u>\$13,889</u>	<u>\$638,968</u>	<u>\$652,857</u>

NOTE 15 - CAPITAL LEASE - LESSEE DISCLOSURE

During fiscal year 2004, the District did not enter into any new capital leases. The District does have a lease-purchase agreement for the replacement of the Middle School roof. The District is leasing the project site from Fifth Third Bank, Cincinnati, Ohio. Fifth Third Bank will retain title to the project during the lease term. The District is acting as an agent for the lessor, and has replaced the roof from the proceeds provided by the lessor. As part of the agreement, Fifth Third Bank deposited \$500,000 in an escrow account for the roof replacement project, and will serve as the escrow agent. Fifth Third Bank will use the escrow account to pay for the cost of the project, upon receiving payment requests by the District. The District will make annual lease payments to Fifth Third Bank at an interest rate of 4.6%. The lease is renewable annually and expires in 2009. The intention of the District is to renew the lease annually.

This agreement is recorded as a long-term liability. A capital asset in the amount of \$447,592 has been capitalized by the District. Principal payments of \$64,789 were made during fiscal year 2004. The principal amount owed on the lease at year end is \$373,372.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 15 - CAPITAL LEASE - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

Fiscal Year Ending June 30,	Capital Lease Payments
2005	\$83,876
2006	83,876
2007	83,876
2008	83,876
2009	83,876
Total Future Minimum Lease Payments	419,380
Less: Amount Representing Interest	(46,008)
Present Value of Future Minimum Lease Payments	<u>\$373,372</u>

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$205,027	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Public School Support	440	0
District Managed Activities	0	440
Children's Trust	0	535
Total Nonmajor Special Revenue Funds	440	975
<i>Nonmajor Capital Project Funds:</i>		
Permanent Improvement	0	4,492
Internal Service Fund	0	200,000
Total	<u>\$205,467</u>	<u>\$205,467</u>

The balance of \$200,000 due to the General Fund from the Internal Service Fund resulted from an advance made to ensure that the Internal Service Fund was actuarially sound. At this time, the balance is not scheduled to be collected in the subsequent year.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 16 - INTERFUND ACTIVITY - (Continued)

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

Fund	Transfers In	Transfers Out
General	\$0	\$8,141
Internal Service Fund	8,141	0
Totals	<u>\$8,141</u>	<u>\$8,141</u>

Transfers are generally used to either (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year ended 2004, the District made a transfer of \$8,141 from the General Fund to the Self-Insurance Internal Service Fund to subsidize the payment of run-out claims from where the District has terminated its self insurance plan.

NOTE 17 - STATUTORY SET-ASIDES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set aside money for budget stabilization. Senate Bill 345 eliminated the Budget Stabilization Reserve except for amounts related to unspent Bureau of Worker's Compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 17 - STATUTORY SET-ASIDES - (Continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2003	\$0	\$0
Current Year Set-Aside Requirement	266,125	266,125
Current Year Offsets	0	(327,020)
Qualifying Disbursements	(276,095)	(224,069)
Totals	<u>(\$9,970)</u>	<u>(\$284,964)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital acquisition set-aside amounts below zero. Current year offsets and qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements of future years. Actual cash balances in excess of set-aside requirements for capital improvements may be used to offset set-aside requirements of future years since monies are obtained from a permanent improvement levy.

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

Southwestern Ohio Computer Association

Southwestern Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed 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 districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the 28 participating school districts. During fiscal year 2004, the School District paid \$23,175 to SWOCA. Financial information can be obtained by contacting SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio, 45011-2241.

Miami Valley Career Technology Center

The Miami Valley Career Technology Center, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from the participating school districts' elected board, which possess its own budgeting and taxing authority. Accordingly, the Miami Valley Career Technology Center is not part of the District and its operations are not included as part of the reporting entity. During fiscal year 2004, the School District did not make any contributions to the Miami Valley Career Technology Center. Financial information can be obtained by contacting the Miami Valley Career Technology Center at 3800 Hoke Road, Clayton, Ohio 45315.

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 18 - JOINTLY GOVERNED ORGANIZATION - (Continued)

Southwestern Ohio Educational Purchasing Council

The District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC). The Montgomery County Educational Service Center acts as the fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2004, the School District paid \$8,168 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton 45424.

NOTE 19 - INSURANCE PURCHASING POOL

EPC Worker's Compensation Group Rating Plan

The District participates in the EPC Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool established in Section 4123.39 of the Ohio Revised Code. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20 - CONTINGENCIES

Grants

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

NOTE 21 - SCHOOL FUNDING

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

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

CARLISLE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 22 - SUBSEQUENT EVENTS

On March 21, 2005, the District's Board of Education voted to change the \$200,000 advance from the General Fund to the Self-Insurance Internal Service Fund into a transfer, effectively eliminating \$200,000 of the interfund receivable reflected on the balance sheet.

On February 22, 2005, the District liquidated the \$54,117 cash and cash equivalents with fiscal agents by redeeming this amount to fund school operations.

**CARLISLE LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550		22,552		23,554
National School Breakfast Program	05-PU-03/04	10.553	5,151		5,151	
National School Lunch Program	LLP4-03/04	10.555	<u>86,587</u>		<u>86,587</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>91,738</u>	<u>22,552</u>	<u>91,738</u>	<u>23,554</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-03-P	84.027	38,795		0	
	6B-SF-04		<u>197,893</u>		<u>236,688</u>	
Total Special Education Grants to the States			<u>236,688</u>		<u>236,688</u>	
Special Education - Preschool Grant	PG-S1-03-P	84.173	437		0	
	PG-S1-04		<u>1,805</u>		<u>1,381</u>	
			<u>2,242</u>		<u>1,381</u>	
Total Special Education Cluster			<u>238,930</u>		<u>238,069</u>	
Title I, Part A, CSEA	C1-S1-03	84.010	(2,619)		0	
	C1-S1-04		<u>191,993</u>		<u>190,525</u>	
			<u>189,374</u>		<u>190,525</u>	
Drug Free Schools Grant	DR-S1-03	84.186	1,294		0	
	DR-S1-04		<u>14,204</u>		<u>12,005</u>	
Total Drug Free Schools Grant			<u>15,498</u>		<u>12,005</u>	
Innovative Education Program Strategies	C2-S1-03	84.298	4,059		0	
	C2-S1-04		<u>9,422</u>		<u>13,551</u>	
Total Innovative Education Program Strategies			<u>13,481</u>		<u>13,551</u>	
Technology Literacy Challenge Fund Grant	TJ-S1-03	84.318	711		0	
	TJ-S1-04		<u>5,126</u>		<u>8,826</u>	
Total Technology Literacy Challenge Fund Grant			<u>5,837</u>		<u>8,826</u>	
Improving Teacher Quality State Grant (Title II)	TR-S1-03	84.367	22,604		0	
	TR-S1-04		<u>78,778</u>		<u>101,382</u>	
			<u>101,382</u>		<u>101,382</u>	
Total Department of Education			<u>564,502</u>	<u>0</u>	<u>564,358</u>	<u>0</u>
TOTAL FEDERAL ASSISTANCE			<u>\$656,240</u>	<u>\$22,552</u>	<u>\$656,096</u>	<u>\$23,554</u>

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

**CARLISLE LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- FOOD DISTRIBUTION, CFDA# 10.550

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2004, the District had food commodities in inventory.

NOTE C -- MATCHING REQUIREMENTS

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

NOTE D -- TRANSFER OF TITLE I PART A CSEA FUNDS, CFDA# 84.010

During the audit period the District had \$2,618 of Title I, Part A CSEA of fiscal year 2003 (C1-S1-03) monies transferred to fiscal year 2004 (C1-S1-04). The accompanying schedule of federal awards expenditures has been modified to reflect this transfer. Fiscal year 2003 expenditures of \$3,275 are included with fiscal year 2004 expenditures on the schedule of federal awards expenditures which were assumed to be spent first.

NOTE E -- DRUG FREE SCHOOL FY03 EXPENDITURES INCLUDED WITH FY04, CFDA# 84.186

Fiscal year 2003 expenditures of \$1,630 are included with fiscal year 2004 expenditures on the schedule of federal awards expenditures which were assumed to be spent first.

NOTE F--INNOVATIVE EDUCATION STRATEGIES FUNDS FY03 EXPENDITURES INCLUDED WITH FY04 EXPENDITURES, CFDA# 84.298

Fiscal year 2003 expenditures of \$4,129 are included with fiscal year 2004 expenditures on the schedule of federal awards expenditures which were assumed to be spent first.

NOTE G--TITLE II-D EDUCATIONAL TECHNOLOGY LITERACY FUNDS FY03 EXPENDITURES INCLUDED WITH FY04 EXPENDITURES, CFDA# 84.318

Fiscal year 2003 expenditures of \$3,800 are included with fiscal year 2004 expenditures on the schedule of federal awards expenditures which were assumed to be spent first.



Auditor of State Betty Montgomery

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

Carlisle Local School District
Warren County
724 Fairview Drive
Carlisle, Ohio 45005

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Carlisle Local School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

MATERIAL NONCOMPLIANCE

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated April 21, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

April 21, 2005



Auditor of State Betty Montgomery

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

Carlisle Local School District
Warren County
724 Fairview Drive
Carlisle, Ohio 45320

To the Board of Education:

Compliance

We have audited the compliance of Carlisle Local School District, Warren County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the District's management dated April 21, 2005, we reported a matter related to federal noncompliance that does not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

April 21, 2005

**CARLISLE LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I: CFDA#84.010 Special Education Cluster: CFDA #84.027 & #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2004-001

NONCOMPLIANCE

Ohio Rev. Code, Section 5705.41 (B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. The District's legal level of budgetary control is the fund level. During interim testing as well as year-end testing of the legal level of budgetary control, we noted that disbursements plus encumbrances exceed appropriations in the following funds as listed below.

AT YEAR END			
FUNDS	Total Appropriations (Prior Year Encumbrances + Approp. Res.)	Total Disb. (Actual Disb. + Outstanding Enc. At 6/30/04)	Appropriations vs. Disbursements & Outst. Encumbrances Variance
001 - General Fund:	\$12,959,689	\$13,176,803	(\$217,114)
018 - Public School Support	38,144	50,753	(12,609)
019 - Other Grant	3,143	4,957	(1,814)
300 - District Managed Activity	88,598	122,420	(33,822)
409 - Career Development	1,069	1,144	(75)
432 - EMIS	5,000	6,284	(1,284)
452 - School Net. Prof. Dev.	3,525	9,295	(5,770)
459 - Ohio Reads	9,960	34,958	(24,998)
460 - Summer Intervention	3,778	31,777	(27,999)
499 - Miscellaneous State Grants	6,397	53,369	(46,972)
516 - IDEA Part B Grants	235,197	236,698	(1,501)
573 - Title VI	9,495	13,551	(4,056)
584 - Drug Free Schools Grant	8,890	15,948	(7,058)
587 - EHA Preschool Grants/Hndcp.	1,886	2,324	(438)
588 - Telecomm. Act Grant (E-Rate)	5,706	6,055	(349)
590 - Improving Teacher Quality	99,401	101,382	(1,981)
599 - Miscellaneous Federal Grants	7,456	9,231	(1,775)
003 - Permanent Improvement	307,404	404,456	(97,052)
450 - SchoolNet Equip/Infrastructure	25,557	27,753	(2,196)
007 - Special Trusts	298	363	(65)
006 - Food Service	485,149	527,483	(42,334)

**FINDING NUMBER 2004-001
 (Continued)**

INTERIM

FUNDS	Total Appropriations (Prior Year Encumbrances + Approp. Res.) 11/30/2003	Total Disb. (Actual Disb. + Outstanding Enc. At 11/30/2003)	Appropriations vs Disbursements & Outstanding Encumbrances Variance
019 – Other Grants	\$3,143	\$3,930	(\$787)
452 – School Net Prof. Development	3,525	8,288	(4,763)
459 – Ohio Reads	9,960	13,768	(3,808)
499 – Miscellaneous State Grants	6,397	35,650	(29,253)
599 – Miscellaneous Federal Grants	7,456	8,161	(705)
450 – School Net Equipment	25,557	27,727	(2,170)
As of 2/29/2004			
019 – Other Grants	3,143	4,565	(1,422)
300 – District Managed Activities	88,598	93,082	(4,484)
452 – School Net Prof. Development	3,525	8,996	(5,471)
459 – Ohio Reads	9,960	23,908	(13,948)
460 – Summer Intervention	3,778	19,440	(15,662)
499 – Miscellaneous State Grants	6,397	42,197	(35,800)
599 – Miscellaneous Federal Grants	7,456	10,358	(2,902)
450 – School Net Equipment	25,557	27,727	(2,170)
007 – Special Trusts	298	413	(115)
As of May 31, 2004			
018 – Public Schools Support	38,144	49,387	(11,243)
019 – Other Grants	3,143	4,604	(1,461)
300 – District Managed Activities	88,598	111,609	(23,011)
452 – School Net Prof. Development	3,525	9,232	(5,707)
459 – Ohio Reads	9,960	33,812	(23,852)
460 – Summer Intervention	3,778	32,134	(28,356)
499 – Miscellaneous State Grants	6,397	43,736	(37,339)
599 – Miscellaneous Federal Grants	7,456	10,568	(3,112)
003 – Permanent Improvement	307,404	397,274	(89,870)
450 – School Net Equipment	25,557	27,753	(2,196)
006 – Food Service	485,149	504,816	(19,667)

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-002

REPORTABLE CONDITION

During our review of the District's disbursements we noted the following control weaknesses:

- Pre-numbered checks were used out of sequence;
- Twenty-five percent of disbursements tested consisted of hand typed checks. Our review of the district's gap detection report found an additional 114 checks that were hand-typed as opposed to being computer generated and automatically posted by the SWOCA/USAS computerized accounting system.

To enhance internal controls and accountability over the disbursement process, to make the reconciliation process easier and to reduce the possibility of the misappropriation of district funds the following are recommended:

- Pre-numbered checks should never be used out of sequence and
- The use of hand-typed checks should be closely monitored.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CARLISLE LOCAL SCHOOL DISTRICT
WARREN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 5705.41(D), failure to properly certify funds	No	Partially corrected – reissued as management letter citation



**Auditor of State
Betty Montgomery**

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

CARLISLE LOCAL SCHOOL DISTRICT

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2005**