

***CITY OF CARLISLE
WARREN COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Members of City Council
City of Carlisle
760 W. Central Avenue
Carlisle, Ohio 45005

We have reviewed the *Report of Independent Accountants* of the City of Carlisle, Warren County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Carlisle is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 27, 2008

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CITY OF CARLISLE
WARREN COUNTY
AUDIT REPORT
For the Year Ended December 31, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Carlisle
Warren County
760 W. Central Avenue
Carlisle, Ohio 45005

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlisle, Warren County, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Carlisle's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlisle, Warren County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and each major special revenue 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 December 12, 2007 on our consideration of the City of Carlisle'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Charles E. Harris & Associates, Inc.

December 12, 2007

CITY OF CARLISLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

The management's discussion and analysis of the City of Carlisle's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance. This discussion is an unaudited document.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$654,692. Net assets of governmental activities increased \$752,140 or 41.98% over 2005 and net assets of business-type activities decreased \$97,448 or 1.28% over 2005.
- General revenues accounted for \$1,483,919 or 60.29% of total governmental activities revenue. The City reported a \$52,827 gain on sale of land which was reported as a special item. Program specific revenues accounted for \$977,381 or 39.71% of total governmental activities revenue.
- The City had \$1,761,987 in expenses related to governmental activities; \$977,381 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$784,606 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$1,483,919.
- The general fund had revenues of \$1,124,904 in 2006. This represents an increase of \$57,566 from 2005. The expenditures and other financing uses of the general fund, which totaled \$1,141,140 in 2006, increased \$170,566 from 2005. The net decrease in fund balance for the general fund was \$16,236 or 1.98%.
- The Fire fund had revenues of \$161,329 in 2006. The expenditures of the fire fund totaled \$159,188 in 2006. The net decrease in fund deficit for the Fire fund was \$2,141 or 1.93%.
- The Police Services fund had revenues of \$325,934 in 2006. The expenditures of the Police Services fund totaled \$253,512 in 2006. The net increase in fund balance for the Police Services fund was \$72,422 or 30.37%.
- The Carlisle Business Park fund had other financing sources of \$30,000 in 2006. The expenditures of the Carlisle Business Park fund totaled \$73,377 in 2006. The net decrease in fund deficit for the Carlisle Business Park fund was \$24,933 or 1.84%.
- The SR 123 Phase IV fund had revenues and other financing sources of \$187,229 in 2006. The expenditures of the SR 123 Phase IV fund totaled \$433,360 in 2006. The net decrease in fund balance for the SR 123 Phase IV fund was \$246,131.
- The SR 123 Phase V fund had revenues of \$225,450 in 2006. The expenditures of the SR 123 Phase V fund totaled \$659,947 in 2006. The net decrease in fund balance for the SR 123 Phase V fund was \$434,497.
- Net assets for the business-type activities, which are made up of the Sewer, Water and Refuse enterprise funds, decreased in 2006 by \$97,448. This decrease in net assets was due primarily to expenses exceeding revenues.
- In the general fund, the actual revenues came in \$164,516 higher than they were in the final budget and actual expenditures and other financing uses were \$132,089 less than the amount in the final budget. Budgeted expenditures and other financing uses were increased \$283,314 from the original to the final budget. Budgeted revenues were decreased \$13,318 from the original to the final budget.

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water and refuse operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 19-21 of this report

Reporting the City's Most Significant Funds

Fund Financial Statements

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 City, 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 City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

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 near-term 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 financing requirements.

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, the 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.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, fire fund, police services fund, the Carlisle Business Park fund, the SR 123 Phase IV fund and the SR 123 Phase V fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-30 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and refuse management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 31-34 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. An agency fund is the City's only fiduciary fund type. The Statement of Fiduciary Net Assets can be found on page 35.

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. These notes to the basic financial statements can be found on pages 36-61 of this report.

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2006 and 2005:

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2006 Total	2005 Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>		
<u>Assets</u>						
Current and other assets	\$ 2,310,679	\$ 1,431,869	\$ 1,987,726	\$ 1,232,703	\$ 3,742,548	\$ 3,220,429
Capital assets, net	<u>3,695,860</u>	<u>6,132,978</u>	<u>2,606,592</u>	<u>6,457,477</u>	<u>9,828,838</u>	<u>9,064,069</u>
Total assets	6,006,539	7,564,847	4,594,318	7,690,180	13,571,386	12,284,498
<u>Liabilities</u>						
Long-term liabilities outstanding	783,666	1,707	831,660	12,072	785,373	843,732
Other liabilities	<u>2,679,241</u>	<u>20,849</u>	<u>1,971,166</u>	<u>38,369</u>	<u>2,700,090</u>	<u>2,009,535</u>
Total liabilities	<u>3,462,907</u>	<u>22,556</u>	<u>2,802,826</u>	<u>50,441</u>	<u>3,485,463</u>	<u>2,853,267</u>
Net Assets						
Invested in capital assets, net of related debt	2,345,806	6,132,978	1,926,092	6,457,477	8,478,784	8,383,569
Restricted	752,054	-	559,734	-	752,054	559,734
Unrestricted (deficit)	<u>(554,228)</u>	<u>1,409,313</u>	<u>(694,334)</u>	<u>1,182,262</u>	<u>855,085</u>	<u>487,928</u>
Total net assets	<u>\$ 2,543,632</u>	<u>\$ 7,542,291</u>	<u>\$ 1,791,492</u>	<u>\$ 7,639,739</u>	<u>\$ 10,085,923</u>	<u>\$ 9,431,231</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$10,085,923. At year-end, net assets were \$2,543,632 and \$7,542,291 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 72.42% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$2,345,806 and \$6,132,978 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$752,054, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining deficit of unrestricted net assets is \$554,228.

CITY OF CARLISLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	2006	2005
	Activities	Activities	Activities	Activities	Total	Total
	2006	2006	2005	2005		
Revenues						
Program revenues:						
Charges for services	\$ 300,864	\$ 1,469,212	\$ 318,955	\$ 1,412,298	\$ 1,770,076	\$ 1,731,253
Operating grants and contributions	310,716	-	339,051	-	310,716	339,051
Capital grants and contributions	365,801	-	19,024	-	365,801	19,024
Total program revenues	977,381	1,469,212	677,030	1,412,298	2,446,593	2,089,328
General revenues:						
Property taxes	190,208	-	187,479	-	190,208	187,479
Income taxes	952,901	-	737,558	-	952,901	737,558
Unrestricted grants and entitlements	123,359	-	169,118	-	123,359	169,118
Investment earnings	129,903	-	70,899	-	129,903	70,899
Miscellaneous	87,548	17,957	56,169	71,247	105,505	127,416
Total general revenues	1,483,919	17,957	1,221,223	71,247	1,501,876	1,292,470
Total revenues	2,461,300	1,487,169	1,898,253	1,483,545	3,948,469	3,381,798
Expenses:						
General government	475,983	-	500,359	-	475,983	500,359
Security of persons and property	710,821	-	618,818	-	710,821	618,818
Transportation	283,230	-	243,657	-	283,230	243,657
Community environment	188,758	-	182,565	-	188,758	182,565
Leisure time activity	16,001	-	20,902	-	16,001	20,902
Interest and fiscal charges	87,194	-	77,232	-	87,194	77,232
Sewer	-	1,175,835	-	1,107,312	1,175,835	1,107,312
Refuse	-	270,468	-	261,851	270,468	261,851
Water	-	138,314	-	132,785	138,314	132,785
Total expenses	1,761,987	1,584,617	1,643,533	1,501,948	3,346,604	3,145,481
Special Items:						
Gain on sale of land	52,827	-	-	-	52,827	-
Change in net assets	752,140	(97,448)	254,720	(18,403)	654,692	236,317
Net assets at beginning of year	1,791,492	7,639,739	1,536,772	7,658,142	9,431,231	9,194,914
Net assets at end of year	\$ 2,543,632	\$ 7,542,291	\$ 1,791,492	\$ 7,639,739	\$ 10,085,923	\$ 9,431,231

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

Governmental activities net assets increased \$752,140 in 2006. This increase is a result of decreasing expenses and increasing revenues versus amounts reported in the prior year.

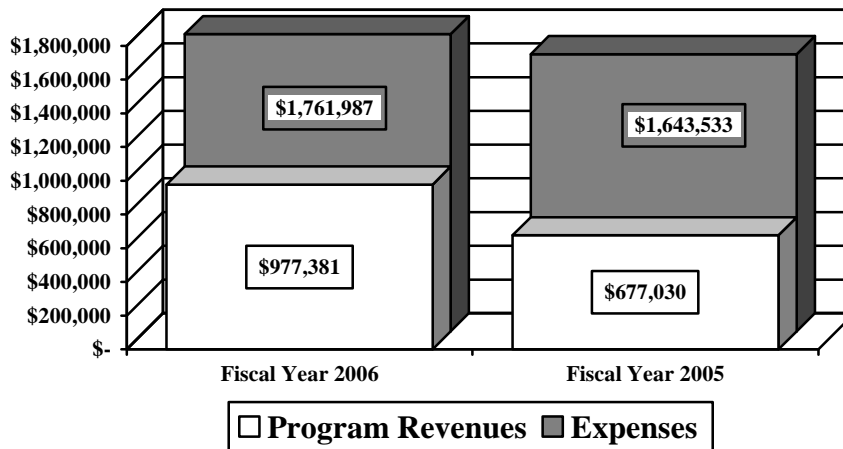
Security of persons and property which primarily supports the operation of police and fire services accounted for \$710,821 or 40.34% of the total expenses of the City. Security of persons and property expenses were partially funded by \$14,129 in direct charges to users of the services. General government expenses totaled \$475,983. General government expenses were partially funded by \$126,497 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$310,716 in operating grants and contributions and \$365,801 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$365,801 subsidized community environment programs.

General revenues totaled \$1,483,919, and amounted to 60.29% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$1,143,109. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$123,359.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities as program revenues are not sufficient to cover total governmental expenses for 2006.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF CARLISLE, OHIO

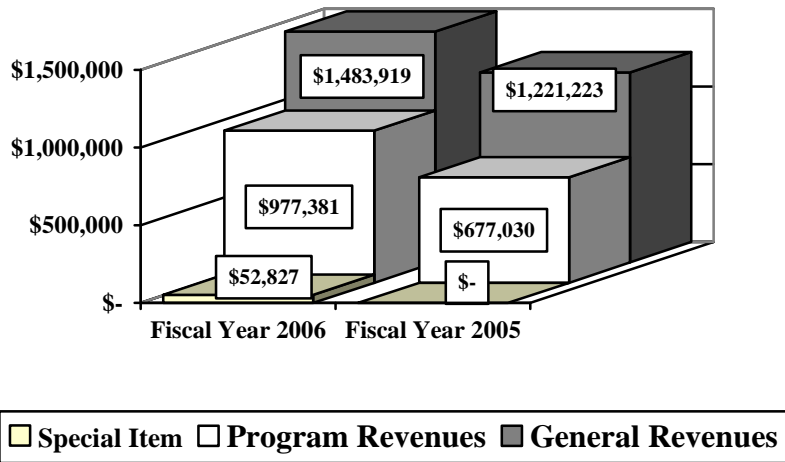
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 475,983	\$ 342,953	\$ 500,359	\$ 363,330
Security of persons and property	710,821	680,803	618,818	582,257
Transportation	283,230	(5,064)	243,657	(126,227)
Community environment	188,758	(287,062)	182,565	99,927
Leisure time activity	16,001	16,001	20,902	20,902
Interest and fiscal charges	87,194	36,975	77,232	26,314
Total	<u>\$ 1,761,987</u>	<u>\$ 784,606</u>	<u>\$ 1,643,533</u>	<u>\$ 966,503</u>

The dependence upon general revenues for governmental activities is apparent, with 44.53% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2006 and 2005.

Governmental Activities – General and Program Revenues

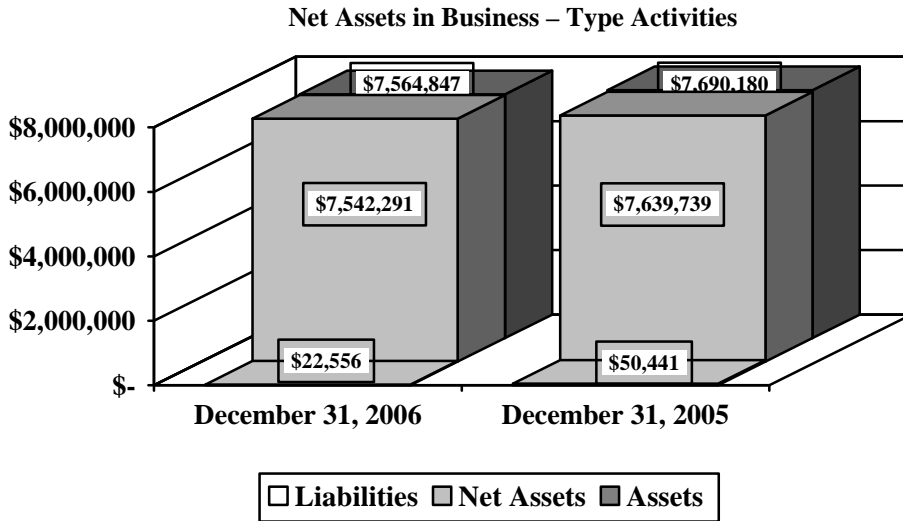


CITY OF CARLISLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Business-type Activities

Business-type activities include the sewer, water and refuse enterprise funds. These programs had program revenues of \$1,469,212, general revenues of \$17,957 and expenses of \$1,584,617 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on pages 22-23) reported a combined fund deficit of \$623,416 which is \$475,041 higher than last year's deficit of \$148,375.

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 and 2005 for all major and non-major governmental funds.

	Fund Balances (Deficit) <u>12/31/06</u>	Fund Balances (Deficit) <u>12/31/05</u>	Increase (Decrease) <u></u>
Major funds:			
General	\$ 803,840	\$ 820,076	\$ (16,236)
Fire	(108,878)	(111,019)	2,141
Police Services	310,911	238,489	72,422
Carlisle Business Park	(1,327,762)	(1,352,695)	24,933
SR 123 Phase IV	(218,316)	27,815	(246,131)
SR 123 Phase V	(425,142)	9,355	(434,497)
Other nonmajor governmental funds	<u>341,931</u>	<u>219,604</u>	<u>122,327</u>
Total	<u>\$ (623,416)</u>	<u>\$ (148,375)</u>	<u>\$ (475,041)</u>

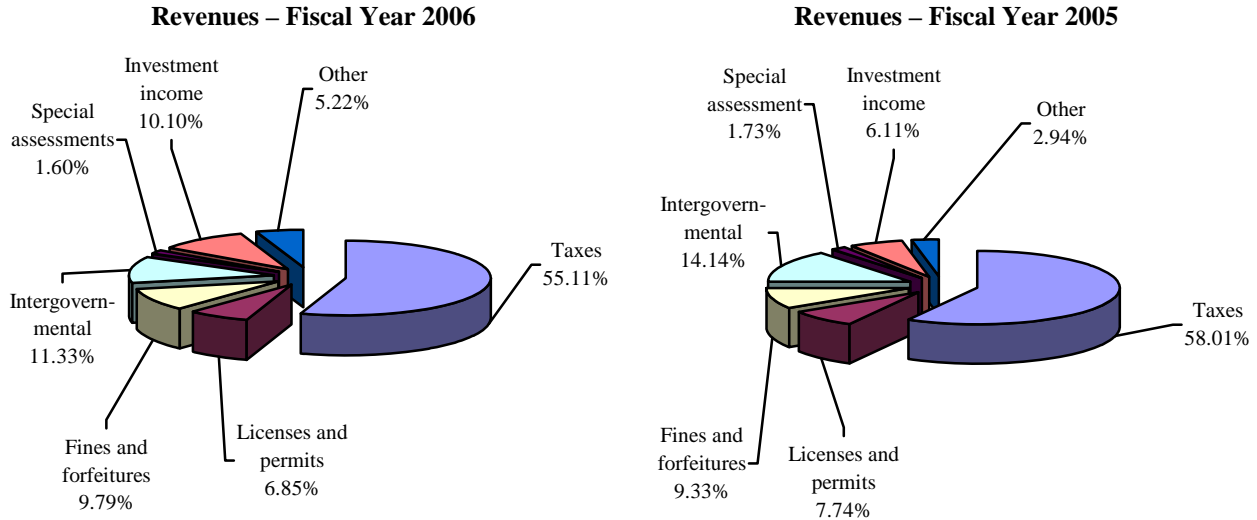
General Fund

The City's general fund balance decreased \$16,236. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> Amount	<u>2005</u> Amount	<u>Percentage</u> Change
<u>Revenues</u>			
Taxes	\$ 620,039	\$ 619,253	0.13 %
Licenses and permits	77,031	82,638	(6.79) %
Fines and forfeitures	110,085	99,591	10.54 %
Intergovernmental	127,426	150,831	(15.52) %
Special assessments	18,028	18,425	(2.15) %
Investment income	113,589	65,176	74.28 %
Other	<u>58,706</u>	<u>31,424</u>	86.82 %
Total	<u>\$ 1,124,904</u>	<u>\$ 1,067,338</u>	5.39 %

Tax revenue represents 55.12% of all general fund revenue. Tax revenue increased 0.13% over prior year. The increase in investment income is due to the amount of funds in the City's investment portfolio and increased interest rates throughout the year. The increase in fines and forfeitures can be attributed to higher court revenues received by the City. The decrease in intergovernmental revenues can be attributed to the City not receiving inheritance tax revenues during 2006. All other revenues remained comparable to 2005.

CITY OF CARLISLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006



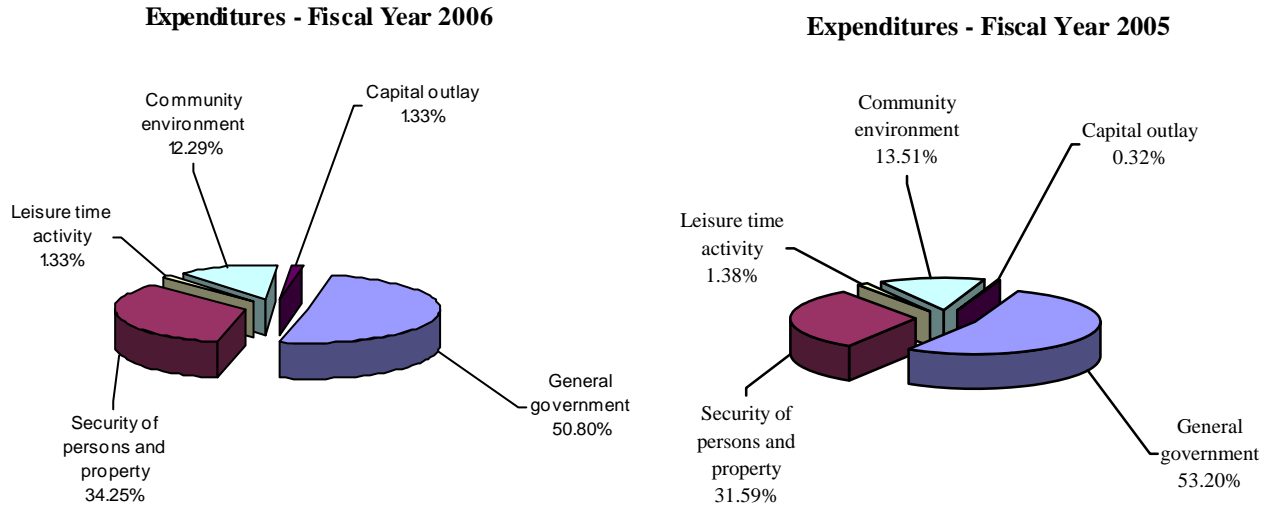
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 484,908	\$ 490,057	(1.05)
Security of persons and property	326,985	290,976	12.38
Community environment	117,302	124,394	(5.70)
Leisure time activity	12,722	12,697	0.20
Capital outlay	<u>12,723</u>	<u>2,950</u>	331.29
Total	<u>\$ 954,640</u>	<u>\$ 921,074</u>	3.64

The City increased total expenditures by 3.64%. Security of persons and property increased 12.38%. This can be attributed to spending increases by the police department during 2006. Capital outlay increased due to greater money spent on capital items and equipment during 2006.

CITY OF CARLISLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, fire fund and police services fund. In the general fund, the actual revenues came in \$164,516 higher than they were in the final budget and actual expenditures and other financing uses were \$132,089 less than the amount in the final budget. Budgeted expenditures were increased \$283,314 from the original to the final budget. Final budget revenues were decreased \$13,318 from original budgeted revenues.

Fire Fund

The Fire fund had revenues of \$161,329 in 2006. The expenditures of the fire fund totaled \$159,188 in 2006. The net increase in fund deficit for the Fire fund was \$2,141 or 1.93%.

Police Services Fund

The Police Services fund had revenues of \$325,934 in 2006. The expenditures of the Police Services fund totaled \$253,512 in 2006. The net increase in fund balance for the Police Services fund was \$72,422 or 30.37%.

Carlisle Business Park Fund

The Carlisle Business Park fund had other financing sources of \$30,000 in 2006. The expenditures of the Carlisle Business Park fund totaled \$73,377 in 2006. The net increase in fund deficit for the Carlisle Business Park fund was \$24,933 or 1.84%.

CITY OF CARLISLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

SR 123 Phase IV Fund

The SR 123 Phase IV fund had revenues and other financing sources of \$187,229 in 2006. The expenditures of the SR 123 Phase IV fund totaled \$433,360 in 2006. The net decrease in fund balance for the SR 123 Phase IV fund was \$246,131.

SR 123 Phase V Fund

The SR 123 Phase V fund had revenues of \$225,450 in 2006. The expenditures of the SR 123 Phase V fund totaled \$659,947 in 2006. The net decrease in fund balance for the SR 123 Phase V fund was \$434,497.

Proprietary Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The City has three major enterprise funds, the sewer fund, water fund and refuse fund.

Sewer Fund

The Sewer fund had operating revenues of \$1,103,768 in 2006. The operating expenses of the Sewer fund, totaled \$1,175,835 in 2006. The net decrease in net assets for the Sewer fund was \$72,067 or 1.18%.

Water Fund

The Water fund had operating revenues of \$97,943 in 2006. The operating expenses of the Water fund, totaled \$138,314 in 2006. The net decrease in net assets for the Water fund was \$40,371 or 2.77%.

Refuse Fund

The Refuse fund had operating revenues of \$285,458 in 2006. The operating expenses of the Refuse fund totaled \$270,468 in 2006. The net increase in net assets for the Refuse fund was \$14,990 or 19.42%.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the City had \$9,828,838 (net of accumulated depreciation) invested in land, buildings and improvements, furniture and equipment, vehicles, infrastructure, and construction in progress (CIP). Of this total, \$3,695,860 was reported in governmental activities and \$6,132,978 was reported in business-type activities. See Note 9 for further description of capital assets.

CITY OF CARLISLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

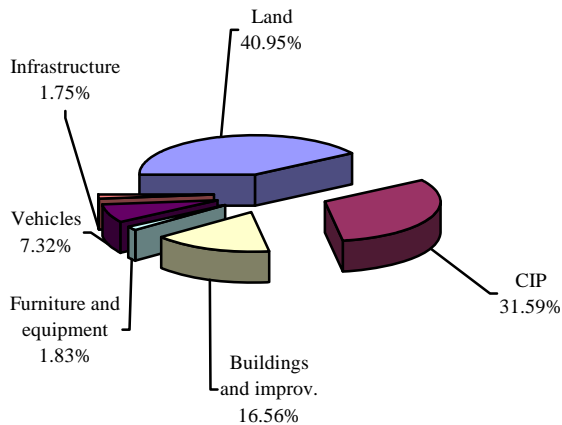
The following table shows fiscal year 2006 balances compared to 2005:

Capital Assets at December 31
(Net of Depreciation)

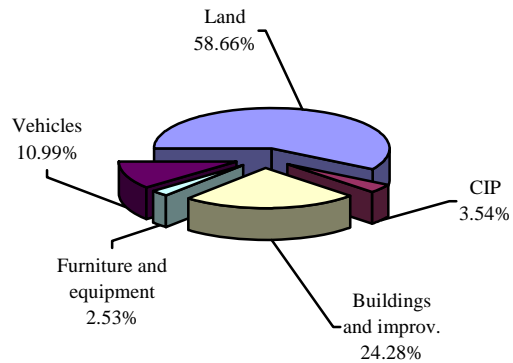
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,513,518	\$ 1,529,001	\$ -	\$ -	\$ 1,513,518	\$ 1,529,001
Construction in progress	1,167,613	92,239	-	-	1,167,613	92,239
Buildings and improvements	611,960	633,008	-	-	611,960	633,008
Furniture and equipment	67,698	65,925	23,990	27,993	91,688	93,918
Vehicles	270,413	286,419	28,904	26,862	299,317	313,281
Infrastructure	64,658	-	6,080,084	6,402,622	6,144,742	6,402,622
Totals	<u>\$ 3,695,860</u>	<u>\$ 2,606,592</u>	<u>\$ 6,132,978</u>	<u>\$ 6,457,477</u>	<u>\$ 9,828,838</u>	<u>\$ 9,064,069</u>

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005

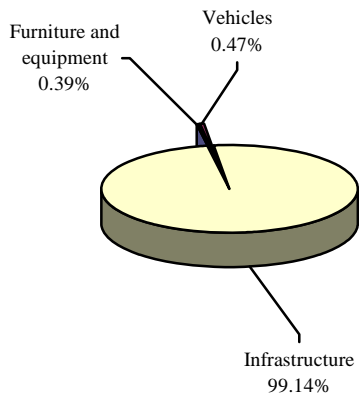


The City's land is the largest capital asset category. The net book value of the City's land represents approximately 40.95% of the City's total governmental capital assets.

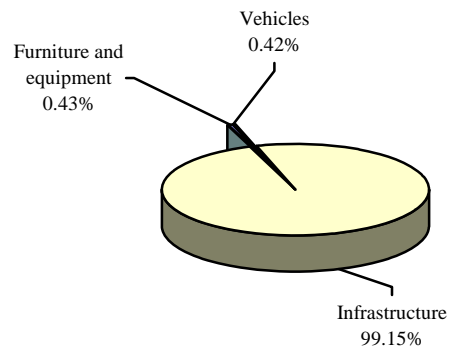
CITY OF CARLISLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



The City's largest business-type capital asset category is infrastructure, which include water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 99.14% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 355,000	\$ 370,000
Special assessment bonds	423,753	448,837
Compensated absences	<u>4,913</u>	<u>12,823</u>
 Total long-term obligations	 <u>\$ 783,666</u>	 <u>\$ 831,660</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
Compensated absences	<u>1,707</u>	<u>12,072</u>
	<u>\$ 1,707</u>	<u>\$ 12,072</u>

Further detail on the City's long-term obligations can be found in Note 11 to the financial statements.

CITY OF CARLISLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Economic Conditions and Outlook

Located in the northernmost corner of Warren County and spreading into southern Montgomery, the City is a growing community with over 5,100 residents. It is conveniently located within driving distance of two major cities – Cincinnati (approx. 30 mi. south) and Dayton (approx. 15 mi. north). The City is served by both state and U.S. highways. State route 123 travels through the heart of the City with state routes 4 and 73 being located just outside its borders and Interstate Route 75 is just three miles from the downtown area. The City's early growth stemmed from the still active railroad community. This combination of geographical location and transportation convenience makes the City an attractive site for both families and business alike. The City's current population as of the 2000 census is 5,121.

Although the City is often thought of as a quiet bedroom community, the City has taken active steps to secure its financial future by the development of two business parks within the city limits. The Carlisle Industrial Park has been an established industrial base providing an excellent location for numerous manufacturing and service industries. This park offers direct access to SR-123 as well as connection to the CSX railroad system. The Carlisle Business Park is a newer development that offers over 88 acres of gently rolling land which is an excellent site for manufacturing, warehousing, service business or office needs. Infrastructure for Phase I of the business park has been completed. A detailed plan for future expansion assures that all of the park will be well served by streets and utilities.

Recently, the City has been working with the Ohio Public Works Commission on improving the major state route that travels through the heart of Carlisle – SR 123. Engineering began in 2005 on Phases IV and V of this ten phase project. Although each phase contains specific objectives associated with the nuances of its geographical location along the route, the overall goal of the project is to provide safer and more effective traffic flow both through and within the City.

Project additions include a center turn lane, curbs, sidewalks and expansion of the City public water system. Although supported through Issue II monies, these projects have been a significant financial undertaking by the city to improve the infrastructure and quality of transportation in the City.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue—local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2006 budget, the City utilizes a basic philosophy to submit a balanced budget to Council for the operations of the City. City personnel were diligent in managing their diverse departments and were able to keep expenses less than received revenue. Local income tax collections for 2006 were at an all-time high with an increase of almost 19% over 2005 collections.

The City has been able to thrive during an economic period where many cities were facing possible lay-offs and hiring freezes. During 2006, certificates of deposit were increased by \$200,000.

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections. This decrease in income tax has been factored into the 2006 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2007. Budgeted revenues and other financing sources in the general fund for fiscal year 2007 budget are \$1,071,725. With the continuation of conservative budgeting practices, the City should be able to maintain its current financial position.

CITY OF CARLISLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Julie Duffy, Finance Director, 760 West Central Avenue, Carlisle, Ohio 45005.

CITY OF CARLISLE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,590,242	\$ 1,285,363	\$ 2,875,605
Receivables (net of allowances for uncollectibles):			
Income taxes	235,160	-	235,160
Property and other taxes	204,820	-	204,820
Accounts	63,043	134,327	197,370
Accrued interest	28,292	-	28,292
Special assessments	68	6,723	6,791
Due from other governments	170,594	-	170,594
Prepayments	12,093	3,872	15,965
Materials and supplies inventory.	6,367	1,584	7,951
Capital assets:			
Land and construction in progress.	2,681,131	-	2,681,131
Depreciable capital assets, net	1,014,729	6,132,978	7,147,707
Total capital assets.	3,695,860	6,132,978	9,828,838
 Total assets.	 6,006,539	 7,564,847	 13,571,386
Liabilities:			
Accounts payable.	5,373	-	5,373
Contracts payable.	6,750	-	6,750
Retainage payable	35,686	-	35,686
Accrued wages and benefits	26,614	7,163	33,777
Due to other governments	69,200	13,686	82,886
Unearned revenue.	176,948	-	176,948
Accrued interest payable.	44,920	-	44,920
Notes payable	2,313,750	-	2,313,750
Long-term liabilities:			
Due within one year	45,787	1,707	47,494
Due in more than one year	737,879	-	737,879
 Total liabilities	 3,462,907	 22,556	 3,485,463
Net assets:			
Invested in capital assets, net of related debt	2,345,806	6,132,978	8,478,784
Restricted for:			
Capital projects.	36,436	-	36,436
Debt service	6,801	-	6,801
Transportation projects	340,119	-	340,119
Public safety.	350,287	-	350,287
Other purposes	18,411	-	18,411
Unrestricted (deficit)	(554,228)	1,409,313	855,085
 Total net assets	 \$ 2,543,632	 \$ 7,542,291	 \$ 10,085,923

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 475,983	\$ 126,497	\$ 6,533	\$ -
Security of persons and property.	710,821	14,129	15,889	-
Transportation	283,230	-	288,294	-
Community environment.	188,758	110,019	-	365,801
Leisure time activity.	16,001	-	-	-
Interest and fiscal charges.	87,194	50,219	-	-
	1,761,987	300,864	310,716	365,801
Business-type Activities:				
Sewer	1,175,835	1,086,016	-	-
Water	138,314	97,738	-	-
Refuse.	270,468	285,458	-	-
	1,584,617	1,469,212	-	-
Total business-type activities	1,584,617	1,469,212	-	-
Total primary government.	\$ 3,346,604	\$ 1,770,076	\$ 310,716	\$ 365,801

General Revenues:

Property taxes levied for:

 General purposes.

 Fire.

Income taxes levied for:

 General purposes.

 Police services.

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues.

Special item:

Gain on sale of land.

Change in net assets.

Net assets at beginning of year

Net assets at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (342,953)	\$ -	\$ (342,953)
(680,803)	-	(680,803)
5,064	-	5,064
287,062	-	287,062
(16,001)	-	(16,001)
(36,975)	-	(36,975)
<u>(784,606)</u>	<u>-</u>	<u>(784,606)</u>
-	(89,819)	(89,819)
-	(40,576)	(40,576)
-	14,990	14,990
<u>-</u>	<u>(115,405)</u>	<u>(115,405)</u>
<u>(784,606)</u>	<u>(115,405)</u>	<u>(900,011)</u>
73,443	-	73,443
116,765	-	116,765
593,291	-	593,291
359,610	-	359,610
123,359	-	123,359
129,903	-	129,903
87,548	17,957	105,505
<u>1,483,919</u>	<u>17,957</u>	<u>1,501,876</u>
<u>52,827</u>	<u>-</u>	<u>52,827</u>
752,140	(97,448)	654,692
<u>1,791,492</u>	<u>7,639,739</u>	<u>9,431,231</u>
<u>\$ 2,543,632</u>	<u>\$ 7,542,291</u>	<u>\$ 10,085,923</u>

CITY OF CARLISLE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Police Services</u>	<u>Carlisle Business Park</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 658,166	\$ 108,544	\$ 283,362	\$ 65,384
Receivables (net of allowance for uncollectibles):				
Income taxes	156,773	-	78,387	-
Property and other taxes	76,851	127,969	-	-
Accounts	61,570	-	-	-
Special assessments	68	-	-	-
Accrued interest.	28,292	-	-	-
Due from other governments	59,486	4,738	-	-
Prepayments	7,057	3,109	1,456	-
Materials and supplies inventory	5,347	383	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,053,610</u>	<u>\$ 244,743</u>	<u>\$ 363,205</u>	<u>\$ 65,384</u>
Liabilities:				
Accounts payable	\$ 4,848	\$ 62	\$ -	\$ 350
Contracts payable	-	-	-	-
Retainage payable.	-	-	-	-
Accrued wages and benefits	17,204	3,414	5,010	-
Accrued interest payable.	-	6,875	-	14,046
Due to other governments	28,918	25,563	11,584	-
Notes payable.	-	185,000	-	1,378,750
Deferred revenue.	198,800	132,707	35,700	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>249,770</u>	<u>353,621</u>	<u>52,294</u>	<u>1,393,146</u>
Fund Balances:				
Reserved for encumbrances	3,500	-	-	-
Reserved for prepayments	7,057	3,109	1,456	-
Reserved for materials and supplies inventory	5,347	383	-	-
Reserved for debt service.	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund	787,936	-	-	-
Special revenue funds.	-	(112,370)	309,455	-
Capital projects funds.	-	-	-	(1,327,762)
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances (deficits)	<u>803,840</u>	<u>(108,878)</u>	<u>310,911</u>	<u>(1,327,762)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,053,610</u>	<u>\$ 244,743</u>	<u>\$ 363,205</u>	<u>\$ 65,384</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SR 123 Phase IV	SR 123 Phase V	Other Governmental Funds	Total Governmental Funds
\$ 52,627	\$ 99,597	\$ 322,562	\$ 1,590,242
-	-	-	235,160
-	-	-	204,820
-	-	1,473	63,043
-	-	-	68
-	-	-	28,292
-	-	106,370	170,594
-	-	471	12,093
-	-	637	6,367
<u>\$ 52,627</u>	<u>\$ 99,597</u>	<u>\$ 431,513</u>	<u>\$ 2,310,679</u>
\$ -	\$ -	\$ 113	\$ 5,373
-	6,750	-	6,750
9,613	26,073	-	35,686
-	-	986	26,614
6,330	11,916	557	39,724
-	-	3,135	69,200
255,000	480,000	15,000	2,313,750
-	-	69,791	436,998
<u>270,943</u>	<u>524,739</u>	<u>89,582</u>	<u>2,934,095</u>
117	70,573	13,954	88,144
-	-	471	12,093
-	-	637	6,367
-	-	11,997	11,997
-	-	-	787,936
-	-	278,436	475,521
(218,433)	(495,715)	36,436	(2,005,474)
<u>(218,316)</u>	<u>(425,142)</u>	<u>341,931</u>	<u>(623,416)</u>
<u>\$ 52,627</u>	<u>\$ 99,597</u>	<u>\$ 431,513</u>	<u>\$ 2,310,679</u>

CITY OF CARLISLE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund deficit		\$ (623,416)
<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.		3,695,860
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 27,872	
Income taxes	107,099	
Investment income	16,028	
Special assessments	68	
Intergovernmental revenues	<u>108,983</u>	
Total		260,050
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Accrued interest payable	(5,196)	
Special assessment bonds	(423,753)	
General obligation bonds	(355,000)	
Compensated absences	<u>(4,913)</u>	
		<u>(788,862)</u>
Net assets of governmental activities		<u><u>\$ 2,543,632</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF CARLISLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Police Services</u>
Revenues:			
Income taxes	\$ 549,957	\$ -	\$ 323,910
Property and other taxes	70,082	112,902	-
Charges for services	-	14,129	-
Licenses and permits	77,031	-	-
Fines and forfeitures	110,085	-	-
Intergovernmental	127,426	17,798	-
Special assessments	18,028	-	-
Investment income	113,589	-	-
Other	58,706	16,500	2,024
Total revenues	<u>1,124,904</u>	<u>161,329</u>	<u>325,934</u>
Expenditures:			
Current:			
General government	484,908	-	-
Security of persons and property	326,985	133,109	184,893
Transportation	-	-	-
Community environment	117,302	-	-
Leisure time activity	12,722	-	-
Capital outlay	12,723	19,083	68,619
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	6,996	-
Total expenditures	<u>954,640</u>	<u>159,188</u>	<u>253,512</u>
Excess (deficiency) of revenues over (under) expenditures	<u>170,264</u>	<u>2,141</u>	<u>72,422</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	<u>(186,500)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(186,500)</u>	<u>-</u>	<u>-</u>
Special item:			
Sale of land	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(16,236)	2,141	72,422
Fund balances (deficit) at beginning of year . . .	<u>820,076</u>	<u>(111,019)</u>	<u>238,489</u>
Fund balances (deficit) at end of year	<u><u>\$ 803,840</u></u>	<u><u>\$ (108,878)</u></u>	<u><u>\$ 310,911</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Carlisle Business Park	SR 123 Phase IV	SR 123 Phase V	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 873,867
-	-	-	-	182,984
-	-	-	32,988	47,117
-	-	-	-	77,031
-	-	-	6,533	116,618
-	140,351	225,450	282,679	793,704
-	-	-	-	18,028
-	-	-	8,856	122,445
-	128	-	60,409	137,767
<u>-</u>	<u>140,479</u>	<u>225,450</u>	<u>391,465</u>	<u>2,369,561</u>
-	-	-	1,541	486,449
-	-	-	-	644,987
-	-	-	275,815	275,815
51,544	-	-	8,477	177,323
-	-	-	-	12,722
-	427,030	648,031	11,806	1,187,292
-	-	-	40,084	40,084
21,833	6,330	11,916	41,165	88,240
<u>73,377</u>	<u>433,360</u>	<u>659,947</u>	<u>378,888</u>	<u>2,912,912</u>
<u>(73,377)</u>	<u>(292,881)</u>	<u>(434,497)</u>	<u>12,577</u>	<u>(543,351)</u>
30,000	46,750	-	109,750	186,500
-	-	-	-	(186,500)
<u>30,000</u>	<u>46,750</u>	<u>-</u>	<u>109,750</u>	<u>-</u>
<u>68,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,310</u>
24,933	(246,131)	(434,497)	122,327	(475,041)
(1,352,695)	27,815	9,355	219,604	(148,375)
<u>\$ (1,327,762)</u>	<u>\$ (218,316)</u>	<u>\$ (425,142)</u>	<u>\$ 341,931</u>	<u>\$ (623,416)</u>

CITY OF CARLISLE, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds \$ (475,041)

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

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

Capital asset additions	\$ 1,203,049	
Current year depreciation	<u>(98,298)</u>	
Total		1,104,751

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (15,483)

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

Property taxes	7,224	
Income taxes	79,034	
Investment income	7,458	
Special assessments	(1,616)	
Intergovernmental revenues	<u>(361)</u>	
Total		91,739

Repayment of bond and long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 40,084

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,046

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 5,044

Change in net assets of governmental activities \$ 752,140

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 481,599	\$ 475,000	\$ 562,445	\$ 87,445
Property and other taxes	75,028	74,000	70,082	(3,918)
Licenses and permits	82,328	81,200	77,209	(3,991)
Fines and forfeitures	97,841	96,500	105,817	9,317
Intergovernmental	129,803	128,024	130,107	2,083
Special assessment	22,139	21,836	18,028	(3,808)
Investment income	50,695	50,000	105,923	55,923
Other	32,445	32,000	53,465	21,465
Total revenues	<u>971,878</u>	<u>958,560</u>	<u>1,123,076</u>	<u>164,516</u>
Expenditures:				
Current:				
General government	536,955	575,188	491,306	83,882
Security of persons and property	340,929	348,496	318,872	29,624
Community environment	91,325	120,425	113,958	6,467
Leisure time activity	16,350	16,375	13,425	2,950
Capital outlay	-	21,889	12,723	9,166
Total expenditures	<u>985,559</u>	<u>1,082,373</u>	<u>950,284</u>	<u>132,089</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,681)</u>	<u>(123,813)</u>	<u>172,792</u>	<u>296,605</u>
Other financing uses:				
Transfers out	-	(186,500)	(186,500)	-
Total other financing uses	<u>-</u>	<u>(186,500)</u>	<u>(186,500)</u>	<u>-</u>
Net change in fund balance	(13,681)	(310,313)	(13,708)	296,605
Fund balance at beginning of year	643,996	643,996	643,996	-
Prior year encumbrances appropriated	24,378	24,378	24,378	-
Fund balance at end of year	<u>\$ 654,693</u>	<u>\$ 358,061</u>	<u>\$ 654,666</u>	<u>\$ 296,605</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FIRE FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property and other taxes	\$ 120,866	\$ 117,000	\$ 112,902	\$ (4,098)
Charges for services	26,859	26,000	14,129	(11,871)
Intergovernmental	22,417	21,700	17,798	(3,902)
Other	9,814	9,500	16,500	7,000
Total revenues	<u>179,956</u>	<u>174,200</u>	<u>161,329</u>	<u>(12,871)</u>
Expenditures:				
Current:				
Security of persons and property	124,765	124,765	113,114	11,651
Capital outlay	-	24,705	19,083	5,622
Debt service:				
Principal retirement	187,000	187,000	187,000	-
Interest and fiscal charges	5,143	5,143	5,123	20
Total expenditures	<u>316,908</u>	<u>341,613</u>	<u>324,320</u>	<u>17,293</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(136,952)</u>	<u>(167,413)</u>	<u>(162,991)</u>	<u>4,422</u>
Other financing sources:				
Notes issued	152,000	152,000	185,000	33,000
Total other financing sources	<u>152,000</u>	<u>152,000</u>	<u>185,000</u>	<u>33,000</u>
Net change in fund balance	15,048	(15,413)	22,009	37,422
Fund balance at beginning of year	86,430	86,430	86,430	-
Prior year encumbrances appropriated	<u>105</u>	<u>105</u>	<u>105</u>	<u>-</u>
Fund balance at end of year	<u>\$ 101,583</u>	<u>\$ 71,122</u>	<u>\$ 108,544</u>	<u>\$ 37,422</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE SERVICES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes.	\$ 237,500	\$ 237,500	\$ 281,223	\$ 43,723
Other	-	-	2,024	2,024
Total revenues.	<u>237,500</u>	<u>237,500</u>	<u>283,247</u>	<u>45,747</u>
Expenditures:				
Current:				
Security of persons and property	225,069	225,069	183,850	41,219
Capital outlay.	26,570	69,234	68,619	615
Total expenditures.	<u>251,639</u>	<u>294,303</u>	<u>252,469</u>	<u>41,834</u>
Net change in fund balance	(14,139)	(56,803)	30,778	87,581
Fund balance at beginning of year.	<u>252,584</u>	<u>252,584</u>	<u>252,584</u>	<u>-</u>
Fund balance at end of year	<u>\$ 238,445</u>	<u>\$ 195,781</u>	<u>\$ 283,362</u>	<u>\$ 87,581</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities -Enterprise Funds			
	Sewer	Water	Refuse	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,140,874	\$ 84,229	\$ 60,260	\$ 1,285,363
Receivables (net of allowance for uncollectibles):				
Accounts	96,905	4,643	32,779	134,327
Special assessments	4,490	67	2,166	6,723
Prepayments.	2,770	468	634	3,872
Materials and supplies inventory	1,584	-	-	1,584
Total current assets	1,246,623	89,407	95,839	1,431,869
Noncurrent assets:				
Capital assets:				
Depreciable capital assets, net	4,805,664	1,327,314	-	6,132,978
Total capital assets	4,805,664	1,327,314	-	6,132,978
Total noncurrent assets.	4,805,664	1,327,314	-	6,132,978
Total assets	6,052,287	1,416,721	95,839	7,564,847
Liabilities:				
Current liabilities:				
Accrued wages and benefits	5,614	379	1,170	7,163
Compensated absences	1,707	-	-	1,707
Due to other governments	10,699	510	2,477	13,686
Total current liabilities	18,020	889	3,647	22,556
Total liabilities	18,020	889	3,647	22,556
Net assets:				
Invested in capital assets.	4,805,664	1,327,314	-	6,132,978
Unrestricted	1,228,603	88,518	92,192	1,409,313
Total net assets	\$ 6,034,267	\$ 1,415,832	\$ 92,192	\$ 7,542,291

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Refuse	Total
Operating revenues:				
Charges for services	\$ 1,035,996	\$ 64,558	\$ 285,458	\$ 1,386,012
Tap-in fees.	50,020	33,180	-	83,200
Other.	17,752	205	-	17,957
Total operating revenues	1,103,768	97,943	285,458	1,487,169
Operating expenses:				
Personal services	191,879	10,437	54,195	256,511
Contract services	677,723	64,545	215,797	958,065
Materials and supplies	17,512	9,960	411	27,883
Transportation.	6,418	-	-	6,418
Depreciation	282,127	53,372	-	335,499
Other	176	-	65	241
Total operating expenses.	1,175,835	138,314	270,468	1,584,617
Changes in net assets	(72,067)	(40,371)	14,990	(97,448)
Net assets at beginning of year	6,106,334	1,456,203	77,202	7,639,739
Net assets at end of year.	\$ 6,034,267	\$ 1,415,832	\$ 92,192	\$ 7,542,291

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Refuse	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,065,005	\$ 100,067	\$ 276,927	\$ 1,441,999
Cash received from other operations.	16,514	205	-	16,719
Cash payments for personal services	(193,566)	(10,936)	(55,009)	(259,511)
Cash payments for contract services	(688,105)	(70,583)	(215,797)	(974,485)
Cash payments for materials and supplies	(17,512)	(9,960)	(411)	(27,883)
Cash payments for transportation	(6,418)	-	-	(6,418)
Cash payments for other expenses.	(176)	-	(65)	(241)
Net cash provided by operating activities.	<u>175,742</u>	<u>8,793</u>	<u>5,645</u>	<u>190,180</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(11,000)	-	-	(11,000)
Net cash used in capital and related financing activities	<u>(11,000)</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>
Net increase in cash and cash equivalents.	164,742	8,793	5,645	179,180
Cash and cash equivalents at beginning of year. . . .	976,132	75,436	54,615	1,106,183
Cash and cash equivalents at end of year	<u>\$ 1,140,874</u>	<u>\$ 84,229</u>	<u>\$ 60,260</u>	<u>\$ 1,285,363</u>

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CITY OF CARLISLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Refuse	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (72,067)	\$ (40,371)	\$ 14,990	\$ (97,448)
Adjustments:				
Depreciation	282,127	53,372	-	335,499
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(1,584)	-	-	(1,584)
(Increase) decrease in accounts receivable	(28,570)	2,337	(13,102)	(39,335)
(Increase) decrease in special assessments	6,321	(8)	4,571	10,884
(Increase) decrease in prepayments	10,980	(468)	(463)	10,049
Decrease in accounts payable	(20,863)	(510)	-	(21,373)
Increase (decrease) in accrued wages and benefits	1,279	142	(10)	1,411
Increase (decrease) in due to other governments	6,173	(4,859)	1,128	2,442
Decrease in compensated absences payable	(8,054)	(842)	(1,469)	(10,365)
Net cash provided by operating activities	\$ 175,742	\$ 8,793	\$ 5,645	\$ 190,180

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Cash in segregated accounts	\$ 12,077
Total assets.	<u>\$ 12,077</u>
Liabilities:	
Undistributed monies.	\$ 12,077
Total liabilities	<u>\$ 12,077</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY

The City of Carlisle, Warren County, Ohio (the "City"), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City is directed by a publicly-elected Mayor and six-member Council. The City provides water and sewer utilities, park operations, police services, and a planning and zoning department. The City contracts with the Franklin Township Fire Department to provide fire services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The City's significant accounting policies are described below.

A. Reporting Entity

The City's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The City provides various services including fire protection and prevention, water and sewer services, street maintenance and repairs, planning and zoning, building inspection, parks and recreation, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organizations' governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organizations resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the City has no component units. The basic financial statements of the reporting entity include only those of the City (the primary government).

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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 and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise fund include personnel and other expenses related to sewer, water and refuse operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

C. Fund Accounting

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

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Fire Fund - The fire fund receives money from real estate and personal property taxes and contracts with local township fire departments to provide for the protection of area citizens.

Police Services Fund - This fund receives money from income taxes to provide and improve police services in the City.

Carlisle Business Park Fund - This fund receives money from the sale of notes earmarked for business park improvements.

SR 123 Phase IV Fund - This fund receives money from OPWC and the sale of notes earmarked for the construction of Phase IV of State Route 123.

SR 123 Phase V Fund - This fund receives money from OPWC and the sale of notes earmarked for the construction of Phase V of State Route 123.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have any internal services funds. The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the operations of providing water treatment and distribution to the residents and commercial users located within the City.

Refuse Fund - This fund accounts for the operations of providing refuse removal to its residential and commercial users located within the City.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City does not have any trust funds. The City's only agency fund accounts for monies collected and distributed for court fines and forfeitures. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

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

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

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

Revenues - Exchange and Non-exchange 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 8). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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 year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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 December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and 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 costs, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the first and final amended official certificate of estimated resources issued during 2006.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited in the City treasury.

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

CITY OF CARLISLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amount to \$113,589 which includes \$83,914 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

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 while inventories of proprietary funds are stated at the lower of cost or market. For all funds, 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 purchased. Inventories of the proprietary funds are expensed when used.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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 City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of storm sewers, streets, and water and sewer lines. The City did not retroactively report governmental activities infrastructure, in accordance with Phase III implementation of GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Buildings and improvements	50 years	50 years
Furniture and equipment	10 years	10 years
Vehicles	5 - 15 years	5 - 15 years
Infrastructure	25 - 50 years	40 years

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent 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 who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

CITY OF CARLISLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." On fund financial statements, long-term interfund loans are classified as "due to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. At December 31, 2006, the City did not have any interfund balances.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

N. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

O. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, materials and supplies inventory and debt service in the governmental fund financial statements.

P. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Q. 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 borrowing 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

R. 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 City Council and that are either unusual in nature or infrequent in occurrence. The City sold land during 2006 which is reported as a special item on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Deficit Fund Balances

Fund balances at December 31, 2006, included the following individual fund deficits:

<u>Major</u>	<u>Deficit</u>
Fire	\$ 108,878
Carlisle Business Park	1,327,762
SR 123 Phase IV	218,316
SR 123 Phase V	425,142

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur. The deficit fund balance in these funds are attributable to the reporting of note proceeds as fund liabilities rather than as an "other financing sources".

CITY OF CARLISLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City 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 City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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 State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
3. Obligations of the City.

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 City, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City'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 monies deposited with the institution.

A. Cash in Segregated Accounts

At December 31, 2006, \$12,077 was deposited in a segregated account for the City's Mayor's Court. This amount is excluded from the internal cash pool and is reported on the statement of fiduciary net assets as "cash in segregated accounts".

B. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$2,875,605. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$2,586,984 of the City's bank balance of \$2,899,061 was exposed to custodial risk as discussed below, while \$312,077 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,875,605
Cash in segregated accounts	<u>12,077</u>
Total	<u>\$ 2,887,682</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,590,242
Business type activities	1,285,363
Agency funds	<u>12,077</u>
Total	<u>\$ 2,887,682</u>

NOTE 5 - INTERFUND TRANSACTION

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>
	<u>General</u>
Calisle Business Park	\$ 30,000
SR 123 Phase IV	46,750
Nonmajor Special Revenue	105,000
Nonmajor Capital Projects	<u>4,750</u>
Total	<u>\$ 186,500</u>

Transfers are used to (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, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing cities in the County, including the City of Carlisle. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2006 was \$55.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 82,549,210
Public utility tangible personal property	4,344,910
Tangible personal property	<u>1,633,845</u>
Total assessed valuation	<u>\$ 88,527,965</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first sixty days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 235,160
Real and other taxes	204,820
Accounts	63,043
Accrued interest	28,292
Special assessments	68
Due from other governments	170,594

Business-type Activities:

Accounts	134,327
Special assessments	6,723

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies a 1.5 percent income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1.5 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

The City's income tax ordinance requires a portion of the income tax receipts to be used to finance public safety forces. As a result, this portion of the receipts is allocated to the police services special revenue fund each year. The remaining income tax receipts are to be used to pay the cost of administering the tax and general fund operations, as determined by Council. Income tax revenue for 2006 was \$873,867 as reported in the fund financial statements.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities

Capital asset activity for the governmental activities for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,529,001	\$ -	\$ (15,483)	\$ 1,513,518
Construction in progress	<u>92,239</u>	<u>1,075,374</u>	<u>-</u>	<u>1,167,613</u>
Total capital assets, not being depreciated	<u>1,621,240</u>	<u>1,075,374</u>	<u>(15,483)</u>	<u>2,681,131</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	1,052,404	-	-	1,052,404
Furniture and equipment	123,978	12,695	-	136,673
Vehicles	779,326	48,664	-	827,990
Infrastructure	<u>-</u>	<u>66,316</u>	<u>-</u>	<u>66,316</u>
Total capital assets, being depreciated	<u>1,955,708</u>	<u>127,675</u>	<u>-</u>	<u>2,083,383</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(419,396)	(21,048)	-	(440,444)
Furniture and equipment	(58,053)	(10,922)	-	(68,975)
Vehicles	(492,907)	(64,670)	-	(557,577)
Infrastructure	<u>-</u>	<u>(1,658)</u>	<u>-</u>	<u>(1,658)</u>
Total accumulated depreciation	<u>(970,356)</u>	<u>(98,298)</u>	<u>-</u>	<u>(1,068,654)</u>
Total capital assets, being depreciated, net	<u>985,352</u>	<u>29,377</u>	<u>-</u>	<u>1,014,729</u>
Governmental activities capital assets, net	<u>\$ 2,606,592</u>	<u>\$ 1,104,751</u>	<u>\$ (15,483)</u>	<u>\$ 3,695,860</u>

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General government	\$ 13,221
Security of persons and property	66,167
Community environment	3,279
Transportation	12,274
Leisure time activity	<u>3,357</u>
Total depreciation expense - governmental activities	<u>\$ 98,298</u>

B. Business-type Activities

Capital asset activity for the business-type activities for the year ended December 31, 2006, was as follows:

	<u>Balance</u> <u>12/31/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2006</u>
<u>Business-type Activities</u>				
<i>Capital assets, being depreciated</i>				
Furniture and equipment	\$ 91,535	\$ -	\$ -	\$ 91,535
Vehicles	165,048	11,000	-	176,048
Infrastructure	<u>12,901,514</u>	<u>-</u>	<u>-</u>	<u>12,901,514</u>
Total capital assets, being depreciated	<u>13,158,097</u>	<u>11,000</u>	<u>-</u>	<u>13,169,097</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(63,542)	(4,003)	-	(67,545)
Vehicles	(138,186)	(8,958)	-	(147,144)
Infrastructure	<u>(6,498,892)</u>	<u>(322,538)</u>	<u>-</u>	<u>(6,821,430)</u>
Total accumulated depreciation	<u>(6,700,620)</u>	<u>(335,499)</u>	<u>-</u>	<u>(7,036,119)</u>
Business-type activities capital assets, net	<u>\$ 6,457,477</u>	<u>\$ (324,499)</u>	<u>\$ -</u>	<u>\$ 6,132,978</u>

Depreciation was charged to departments of the City as follows:

Business-type Activities:

Sewer	\$ 282,127
Water	<u>53,372</u>
Total depreciation expense - business-type activities	<u>\$ 335,499</u>

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - OTHER EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned, unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of one-half of the 960 hours maximum of accumulated, unused sick leave. As of December 31, 2006, the liability for unpaid compensated absences was \$6,620 for the entire City, which is reported as a fund liability and/or on the government-wide financial statements as applicable.

NOTE 11 - LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in the City's long-term obligations:

	Balance	Additions	Reductions	Balance	Amounts
	<u>12/31/05</u>	<u></u>	<u></u>	<u>12/31/06</u>	<u>Due in</u>
<u>Governmental Activities:</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>One Year</u>
<u>General obligation bonds:</u>					
Road Improvements - 4.26%	\$ 370,000	\$ -	\$ (15,000)	\$ 355,000	\$ 15,000
<u>Special assessment bonds:</u>					
Jamaica Road Improvements - 6%	27,837	-	(1,084)	26,753	1,149
Union Road Extension - 6.25%	146,000	-	(9,000)	137,000	10,000
Road Improvements - 4.15%	<u>275,000</u>	<u>-</u>	<u>(15,000)</u>	<u>260,000</u>	<u>15,000</u>
Total special assessment bonds	<u>448,837</u>	<u>-</u>	<u>(25,084)</u>	<u>423,753</u>	<u>26,149</u>
<u>Other long-term obligations:</u>					
Compensated absences	<u>12,823</u>	<u>-</u>	<u>(7,910)</u>	<u>4,913</u>	<u>4,638</u>
Total other long-term obligations	<u>12,823</u>	<u>-</u>	<u>(7,910)</u>	<u>4,913</u>	<u>4,638</u>
Total governmental activities					
long-term obligations	<u>\$ 831,660</u>	<u>\$ -</u>	<u>\$ (47,994)</u>	<u>\$ 783,666</u>	<u>\$ 45,787</u>

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Other long-term obligations:</u>					
Compensated absences	\$ 12,072	\$ -	\$ (10,365)	\$ 1,707	\$ 1,707
Total business-type activities					
long-term obligations	<u>\$ 12,072</u>	<u>\$ -</u>	<u>\$ (10,365)</u>	<u>\$ 1,707</u>	<u>\$ 1,707</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid which for the City is primarily the general fund, road, fire and police services special revenue funds and the sewer fund.

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,952,433. Principal and interest requirements to retire the City's bonds outstanding at December 31, 2006 were:

<u>Year</u>	<u>Jamaica Road Improvements</u>			<u>Union Road Extension</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,149	\$ 1,605	\$ 2,754	\$ 10,000	\$ 8,563	\$ 18,563
2008	1,218	1,536	2,754	11,000	7,938	18,938
2009	1,292	1,463	2,755	11,000	7,250	18,250
2010	1,369	1,386	2,755	12,000	6,563	18,563
2011	1,451	1,303	2,754	13,000	5,813	18,813
2012 - 2016	8,671	5,102	13,773	80,000	15,626	95,626
2017 - 2021	<u>11,603</u>	<u>2,170</u>	<u>13,773</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,753</u>	<u>\$ 14,565</u>	<u>\$ 41,318</u>	<u>\$ 137,000</u>	<u>\$ 51,753</u>	<u>\$ 188,753</u>

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year</u>	<u>Road Improvements</u>			<u>Road Improvements - General Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 13,278	\$ 28,278	\$ 15,000	\$ 15,330	\$ 30,330
2008	15,000	12,558	27,558	15,000	14,880	29,880
2009	20,000	11,830	31,830	15,000	14,430	29,430
2010	20,000	10,850	30,850	15,000	13,950	28,950
2011	20,000	9,860	29,860	15,000	13,425	28,425
2012 - 2016	115,000	33,326	148,326	100,000	56,380	156,380
2017 - 2021	55,000	4,535	59,535	120,000	32,986	152,986
2022 - 2023	-	-	-	60,000	4,560	64,560
Total	<u>\$ 260,000</u>	<u>\$ 96,237</u>	<u>\$ 356,237</u>	<u>\$ 355,000</u>	<u>\$ 165,941</u>	<u>\$ 520,941</u>

NOTE 12 - SHORT-TERM NOTES PAYABLE

A summary of the short-term note transactions for the year ended December 31, 2006, follows:

	<u>Interest Rate</u>	<u>Outstanding 12/31/2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/2006</u>
<u>Governmental Activities:</u>					
Real Estate Acquisition	3.70%	\$ 437,500	\$ -	\$ (437,500)	\$ -
Real Estate Acquisition	3.70%	-	415,000	-	415,000
Equipment Acquisition	2.75%	243,000	-	(243,000)	-
Equipment Acquisition	2.75%	-	200,000	-	200,000
Road Improvement	4.10%	-	735,000	-	735,000
Business Park Improvements	3.71%	980,000	-	(980,000)	-
Business Park Improvements	4.05%	-	963,750	-	963,750
Total		<u>\$ 1,660,500</u>	<u>\$ 2,313,750</u>	<u>\$ (1,660,500)</u>	<u>\$ 2,313,750</u>

The notes are backed by the full faith and credit of the City of Carlisle, and mature within one year. The Real Estate Acquisition Note was issued March 30, 2006 and matures March 29, 2007. The Equipment Acquisition Note was issued January 9, 2006 and matures January 8, 2007. The Road Improvement Bond Anticipation Note was issued May 25, 2006 and matures on May 24, 2007. The Business Park Improvement Note was issued on December 15, 2006 and matures on December 14, 2007.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2006, the City contracted with several companies for various types of insurance as follows. The risk of loss transfers to the insurance carrier upon payment of the premium. The following is a summary of the City's insurance coverage:

<u>Company</u>	<u>Type</u>	<u>Deductible</u>	<u>Coverage</u>
Public Entities Pool of Ohio	Personal Property	\$500	\$111,700
	Real Property	500	2,519,400
	Miscellaneous Property	500	615,281
Public Entities Pool of Ohio	Auto Comprehensive & Collision	500	1,127,253
Public Entities Pool of Ohio	Auto Liability	-	5,000,000
Public Entities Pool of Ohio	General Liability	-	5,000,000
Erie Insurance Group	Public Officials Liability		
	- Mayor	-	7,500
	- City Administrator	-	7,500
	- Finance Director	-	7,500
	- Clerk of Courts	-	47,500
	- Sewer Clerk	-	47,500
	- Building Permit Clerk	-	17,500
	- Tax Administrator	-	50,000
	- Public Employee	-	2,500
	Public Entities Pool of Ohio	Law Enforcement Operations	5,000
Public Entities Pool of Ohio	Wrongful Acts	5,000	5,000,000

The City belongs to the Public Entities Pool of Ohio (the "PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

PEP retains casualty risks up to \$250,000 per occurrence, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000, from General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - RISK MANAGEMENT - (Continued)

Property Insurance

On January 1, 2005, APEEP began administering a risk-sharing program. Under the new program, Saint Paul Travelers will reinsure specific losses in excess of \$250,000 up to \$600,000,000 per occurrence. APEEP will reinsure members for specific losses in excess of \$100,000 up to \$250,000 per occurrence, subject to annual aggregate loss payment. Saint Paul Travelers provides aggregate stop-loss coverage based upon the combined Members' Total Insurable Value (TIV). If the stop-loss is reached by payment of losses between \$100,000 and \$250,000, Saint Paul Travelers will then reinsure specific losses in excess of \$100,000 up to their \$600,000,000 per occurrence limit.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statement (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

	2006	2005
<u>Casualty Insurance</u>		
Assets	\$ 30,997,868	\$ 29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained Earnings	\$ 15,122,127	\$ 13,725,507
 <u>Property Insurance</u>		
Assets	\$ 5,125,326	\$ 4,443,332
Liabilities	(863,163)	(1,068,245)
Retained Earnings	\$ 4,262,163	\$ 3,375,087

There have been no material change in this coverage for the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

Health insurance is provided to eligible employees through a commercial carrier.

CITY OF CARLISLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$43,441, \$48,794, and \$53,514, respectively; 88.66% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$4,926, is recorded as a liability.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions for pension obligations to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$27,887, \$30,123, and \$27,906, respectively; 75.40% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$6,859, is recorded as a liability.

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$21,248. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

CITY OF CARLISLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$18,360 for police. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the City 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 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 Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund, fire fund and police services fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

CITY OF CARLISLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund and all major special revenue funds.

Net Change in Fund Balance

	General	Fire	Police Services
Budget basis	\$ (13,708)	\$ 22,009	\$ 30,778
Net adjustment for revenue accruals	1,828	-	42,687
Net adjustment for expenditure accruals	(7,856)	165,132	(1,043)
Net adjustment for other financing sources/uses	-	(185,000)	-
Adjustment for encumbrances	3,500	-	-
GAAP basis	\$ (16,236)	\$ 2,141	\$ 72,422

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.

NOTE 18 – SIGNIFICANT SUBSEQUENT EVENTS

On January 8, 2007, the City issued a \$148,000 bond anticipation note to retire a portion of the \$200,000 bond anticipation note used for equipment acquisition that was issued on January 9, 2006 (see Note 12). This note bears an interest rate of 4.00% and matures on January 7, 2008.

On March 29, 2007, the City issued a \$385,000 bond anticipation note to retire a portion of the \$415,000 bond anticipation note used for real estate acquisition that was issued on March 30, 2006 (see Note 12). This note bears an interest rate of 4.05% and matures on March 27, 2008.

On May 23, 2007, the City issued a \$735,000 bond anticipation note to retire the \$735,000 bond anticipation note used for road improvements that was issued on May 25, 2006 (see Note 12). This note bears an interest rate of 4.05% and matures on May 22, 2008.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Carlisle
Warren County
760 W. Central Avenue
Carlisle, Ohio 45005

To the Members of City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlisle, Warren County, Ohio (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.

December 12, 2007

**CITY OF CARLISLE
WARREN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2006**

The prior report, for the year ending December 31, 2005, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

CITY OF CARLISLE

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
APRIL 8, 2008**