

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO**

**DECEMBER 31, 2004**

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT*





Mary Taylor, CPA  
Auditor of State

City Council  
City of Silverton  
6860 Plainfield Road  
Cincinnati, Ohio 45236

We have reviewed the *Independent Auditors' Report* of the City of Silverton, Hamilton County, prepared by VonLehman & Company, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 Silverton is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 10, 2007

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**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
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## INDEPENDENT AUDITORS' REPORT

City Manager and  
Members of City Council  
City of Silverton  
Hamilton County, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, general fund budget versus actual, and the aggregate remaining fund information of the City of Silverton, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Silverton, Ohio management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, general fund budget versus actual, and the aggregate remaining fund information of the City of Silverton, Ohio, as of December 31, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the financial statements the City adopted the provisions of GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", in 2004. In addition, the City changed the capital asset capitalization threshold and useful lives as discussed in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2007, on our consideration of the City of Silverton, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, 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.

The management's discussion and analysis information on pages 1 through 7 is not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
March 16, 2007

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)**

Management's Discussion and Analysis (MD&A) of the City of Silverton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole, and readers are encouraged to review the financial statements and notes to the financial statements to enhance their understanding of the City's overall financial performance.

**Financial Highlights**

- The City's total net assets decreased \$632,960.
- General revenues accounted for \$2,247,693 or 72 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$858,700 or 28 percent of total governmental revenues of \$3,106,393.
- The City had \$3,739,353 in expenses; only \$858,700 of these expenses were offset by program specific charges for services and sales, and grants and contributions.

**Using This Annual Financial Report**

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Silverton's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. The fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term, as well as the amount of funds available for future spending. The fund financial statements focus on the City's most significant funds, with all other nonmajor funds presented in total in one column.

**Reporting the City as a Whole**

One of the most important questions asked about the City is "How did we do financially during 2004?" The Statement of Net Assets and the Statements of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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. However, the City's goal is to provide services to its citizens, not to generate profits as commercial entities do.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

**Reporting the City's Most Significant Funds**

Fund Financial Statements

The analysis of the City's major funds begins on page 10. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City Finance Director, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The major funds for the City of Silverton are the General and Stoll Lane Funds.

*Governmental Funds* – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

**The City as a Whole**

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

**Table 1  
Net Assets**

	Governmental Activities	
	2004	2003
Assets:		
Current and Other Assets	\$3,206,102	\$4,083,369
Nondepreciable Capital Assets	1,332,002	435,595
Depreciable Capital Assets, Net	443,176	273,581
<b>Total Assets</b>	<b>4,981,280</b>	<b>4,792,545</b>
Liabilities:		
Current and Other Liabilities	988,967	750,327
Long-Term Liabilities:		
Due Within One Year	176,693	47,038
Due in More Than One Year	1,422,284	968,884
<b>Total Liabilities</b>	<b>2,587,944</b>	<b>1,766,249</b>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	870,190	367,176
Restricted	369,053	1,920,714
Unrestricted	1,154,093	738,406
<b>Total Net Assets</b>	<b>\$2,393,336</b>	<b>\$3,026,296</b>

Net assets decreased \$632,960. This was mainly due to an increase of \$345,395 in contracts payable related to construction in progress and an increase of \$129,655 in long-term liabilities due within one year related to the issuance of long term bond anticipation notes, offset by an increase in capital assets of \$1,066,002, a decrease in cash and cash equivalents of \$1,089,583 and an increase in loans payable due to the receipt of loan proceeds related to a loan issued by the Ohio Public Works Commission. The large increase in capital assets was due to the City recording additions to infrastructure for the first time in 2004. The large decrease in cash and cash equivalents was due to the City incurring expenses for repairs to water and sewer lines during road construction. These water and sewer lines are not owned by the City of Silverton. They are owned by the City of Cincinnati, and therefore, the repairs were not capitalized by the City of Silverton.

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

**Table 2  
Change in Net Assets**

	Governmental Activities
	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$377,208
Operating Grants and Contributions	222,742
Capital Grants and Contributions	258,750
	858,700
Total Program Revenues	858,700
General Revenues:	
Property and Other Local Taxes	681,248
Income Taxes	1,298,217
Grants and Entitlements not Restricted for Specific Purposes	234,078
Unrestricted Investment Earnings	18,964
Miscellaneous	15,186
	2,247,693
Total General Revenues	2,247,693
Total Revenues	3,106,393
Program Expenses:	
General Government	467,189
Security of Persons and Property	1,141,253
Public Health and Welfare	4,371
Public Works	1,515,820
Leisure Time Activities	57,597
Community Environment	372,313
Transportation	165,987
Interest and Fiscal Charges	14,823
	3,739,353
Total Expenses	3,739,353
Increase (Decrease) in Net Assets	(632,960)
Net Assets, January 1, 2004	3,026,296
Net Assets, December 31, 2004	\$2,393,336

**Governmental Activities**

The 1.25% income tax is the largest source of revenue for the General Fund and the City of Silverton. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council.

Governmental program expenses for 2004 were as follows:

**Table 3  
Governmental Activities**

	<u>Total Cost Of Services 2004</u>	<u>Net Cost of Services 2004</u>
General Government	\$467,189	(\$354,785)
Security of Persons and Property	1,141,253	(1,138,925)
Public Health and Welfare	4,371	(4,371)
Public Works	1,515,820	(1,515,820)
Leisure Time Activities	57,597	(52,318)
Community Environment	372,313	(127,657)
Transportation	165,987	328,046
Interest and Fiscal Charges	<u>14,823</u>	<u>(14,823)</u>
 Total Expenses	 <u><u>\$3,739,353</u></u>	 <u><u>(\$2,880,653)</u></u>

When looking at the sources of income to support governmental activities, it should be noted that charges for services are only 12 percent of total revenues. Revenues provided by sources other than City residents in the form of operating and capital grants and contributions comprise another 16 percent. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

**The City's Funds**

Information about the City's major governmental funds begins on page 10. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,918,735 and expenditures of \$4,895,002. The General Fund's balance increased by \$129,143, primarily due to increases in income tax receipts and fines, licenses and permits, which were offset by minimal changes in expenditures. The Stoll Lane Fund's balance decreased by \$1,513,222, due to capital outlay expenditures for road improvements and water and sewer line repairs that were performed during the construction of the road improvements.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements, and encumbrances. The City's budget is adopted at the object level (personal services and other expenditures) basis by City Council in the form of an appropriation resolution.

Original General Fund budgeted revenues were \$2,274,649. The final budgeted amount was \$2,369,649. The small increase was primarily increases in intergovernmental revenues. The difference between actual budget basis revenues and final budgeted revenues was \$49,930.

The decrease in appropriations from the original to the final budget was only \$7,811. The difference between actual budget basis expenditures and final budgeted expenditures was \$114,935, which was due mainly to decreases in expenditures for general government and security of persons and property.

**Capital Assets and Debt Administration**

**Capital Assets**

**Table 4  
Capital Assets**

	Governmental Activities	
	2004	2003
Land	\$405,926	\$405,926
Construction in Progress	926,076	29,669
Land Improvements	11,564	13,925
Buildings and Improvements	73,516	76,440
Furniture, Fixtures and Equipment	94,031	96,855
Vehicles	82,943	86,361
Infrastructure	181,122	0
Totals	\$1,775,178	\$709,176

Capital assets increased by \$1,066,002. This was due to the addition of newly completed infrastructure and construction in progress related to additional infrastructure construction that was completed in 2005.

See note 10 of the notes to the basic financial statements for more detailed information.

**Debt**

At December 31, 2004, the City of Silverton had \$1,213,512 in debt outstanding.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)  
(Continued)**

**Table 5  
Outstanding Debt at Year-End**

	Governmental Activities	
	2004	2003
2003 Various Purpose Refunding Bonds	\$337,500	\$379,100
2001 Ohio Public Works Commission Loan	206,642	217,519
2002 Ohio Public Works Commission Loan	427,390	4,500
2004 Ohio Public Works Commission Loan	163,903	0
2004 Fire Equipment Bond Anticipation Notes	20,000	0
2004 Belkenton Sewer Road Bond Anticipation Notes	58,077	0
	<u>                    </u>	<u>                    </u>
Total	<u>\$1,213,512</u>	<u>\$601,119</u>

The City's overall 10.5 percent legal debt margin was \$7,057,225 as of December 31, 2004. The more restrictive unvoted legal debt margin was \$3,457,432 as of the same date. See Note 17 of the notes to the basic financial statements for more detailed information.

**Current Financial Challenges and Initiatives**

The City has experienced a loss of several significant employers over the last few years. The effect has been a stagnant earnings tax base. To address this, the City has been working with Silverton Development, Inc (a non-profit organization) to develop both a strategic plan and an implementation plan to develop the City's business districts. Grants and loans to fund this development are being considered. Additionally, the City has been successful in aggressively collecting past due income taxes and prosecuting delinquent income tax cases. Lastly, the income tax rate was increased by approval of the voters from 1.00 % to 1.25% effective January 1, 2003.

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Thomas R. Peterson, Finance Director or Mark T. Wendling, City Manager, City of Silverton, 6860 Plainfield Road, Cincinnati, Ohio 45236.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

		Governmental Activities
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$	1,841,663
Cash and Cash Equivalents in Segregated Accounts		11,478
Accounts Receivable		69,987
Intergovernmental Receivable		186,496
Materials and Supplies Inventory		1,177
Income Taxes Receivable		452,549
Property and Other Local Taxes Receivable		616,214
Prepaid Items		26,538
Nondepreciable Capital Assets		1,332,002
Depreciable Capital Assets, Net		443,176
Total Assets		4,981,280
<b>Liabilities</b>		
Accounts Payable		28,046
Accrued Wages and Benefits		3,881
Intergovernmental Payable		64,066
Contracts Payable		347,686
Accrued Interest Payable		10,226
Deferred Revenue		535,062
Long-Term Liabilities:		
Due Within One Year		266,157
Due in More Than One Year		1,332,820
Total Liabilities		2,587,944
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		870,190
Restricted for Other Purposes		369,053
Unrestricted		1,154,093
<b>Total Net Assets</b>	<b>\$</b>	<b>2,393,336</b>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities</b>					Governmental Activities
General Government	\$ 467,189	\$ 112,404	\$ -	\$ -	\$ (354,785)
Security of Persons and Property	1,141,253	928	1,400	-	(1,138,925)
Public Health and Welfare	4,371	-	-	-	(4,371)
Public Works	1,515,820	-	-	-	(1,515,820)
Leisure Time Activities	57,597	3,280	1,999	-	(52,318)
Community Environment	372,313	243,957	699	-	(127,657)
Transportation	165,987	16,639	218,644	258,750	328,046
Interest and Fiscal Charges	14,823	-	-	-	(14,823)
<b>Total Governmental Activities:</b>	<b>\$ 3,739,353</b>	<b>\$ 377,208</b>	<b>\$ 222,742</b>	<b>\$ 258,750</b>	<b>(2,880,653)</b>

General Revenues

Taxes

Property and Other Local Taxes Levied For General Purposes	681,248
Income Taxes	1,298,217
Grants and Entitlements not Restricted to Specific Programs	234,078
Unrestricted Investment Earnings	18,964
Miscellaneous	15,186

Total General Revenues 2,247,693

Change in Net Assets (632,960)

Net Assets Beginning of Year - (See Note 3) 3,026,296

Net Assets End of Year \$ 2,393,336

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2004**

	General	Stoll Lane	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,150,509	\$ 146,587	\$ 544,567	\$ 1,841,663
Cash and Cash Equivalents in Segregated Accounts	10,028	-	1,450	11,478
Materials and Supplies Inventory	1,177	-	-	1,177
Intergovernmental Receivable	98,386	-	88,110	186,496
Prepaid Items	26,538	-	-	26,538
Income Taxes Receivable	452,549	-	-	452,549
Property and Other Local Taxes Receivable	613,307	-	2,907	616,214
Accounts Receivable	69,987	-	-	69,987
Interfund Receivable	7,700	-	-	7,700
	<u>\$ 2,430,181</u>	<u>\$ 146,587</u>	<u>\$ 637,034</u>	<u>\$ 3,213,802</u>
Total Assets				
<b>Liabilities</b>				
Accounts Payable	\$ 24,012	\$ -	\$ 4,034	\$ 28,046
Accrued Wages and Benefits	3,881	-	-	3,881
Contracts Payable	5,162	255,768	86,756	347,686
Intergovernmental Payable	61,823	-	2,243	64,066
Interfund Payable	-	-	7,700	7,700
Deferred Revenue	1,085,755	-	66,534	1,152,289
	<u>1,180,633</u>	<u>255,768</u>	<u>167,267</u>	<u>1,603,668</u>
Total Liabilities				
<b>Fund Balances (Deficit)</b>				
Reserved				
Reserved for Encumbrances	-	-	163,338	163,338
Unreserved, Undesignated (Deficit)				
General Fund	1,249,548	-	-	1,249,548
Special Revenue Funds	-	-	248,829	248,829
Debt Service Fund	-	-	2,421	2,421
Capital Projects Funds	-	(109,181)	55,179	(54,002)
	<u>1,249,548</u>	<u>(109,181)</u>	<u>469,767</u>	<u>1,610,134</u>
Total Fund Balances (Deficit)				
<b>Total Liabilities and Fund Balances (Deficit)</b>	<u>\$ 2,430,181</u>	<u>\$ 146,587</u>	<u>\$ 637,034</u>	<u>\$ 3,213,802</u>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

Total Governmental Fund Balances \$ 1,610,134

Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds. These assets consist of:

Land	\$ 405,926	
Construction in Progress	926,076	
Infrastructure	190,655	
Other Capital Assets	886,829	
Accumulated Depreciation	<u>(634,308)</u>	
Total Capital Assets		1,775,178

Some of the City's revenues will be collected after year-end,  
but are not available soon enough to pay for the current period's expenditures  
and therefore are deferred in the funds:

Property Taxes and Other Local Taxes	78,245	
Accounts Receivable	48,753	
Due From Other Governments		
Shared Taxes and Local Government Revenue Assistance	156,607	
Income Taxes	<u>333,622</u>	
		617,227

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the funds. Those liabilities consist of:

Accrued Interest on Long-Term Liabilities	(10,226)	
Capital Leases	(18,026)	
Bonds	(337,500)	
Loans	(797,935)	
Notes	(78,077)	
Compensated Absences	<u>(367,439)</u>	
Total Long-Term Liabilities		<u>(1,609,203)</u>

**Net Assets of Governmental Activities \$ 2,393,336**

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Stoll Lane	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 678,684	-	-	\$ 678,684
Income Taxes	1,176,365	-	-	1,176,365
Charges for Services	214,526	-	-	214,526
Fines, Forfeitures, Licenses and Permits	112,308	-	17,084	129,392
Intergovernmental	207,804	-	471,577	679,381
Interest	18,964	-	2,738	21,702
Donations	3,299	-	200	3,499
Other	15,186	-	-	15,186
<b>Total Revenues</b>	<b>2,427,136</b>	<b>-</b>	<b>491,599</b>	<b>2,918,735</b>
<b>Expenditures</b>				
<b>Current</b>				
General Government	470,667	-	-	470,667
Security of Persons and Property	1,160,184	-	5,585	1,165,769
Public Health and Welfare	4,371	-	-	4,371
Public Works	-	1,435,217	80,603	1,515,820
Leisure Time Activities	53,860	-	-	53,860
Community Environment	346,850	-	1,802	348,652
Transportation	-	-	301,954	301,954
Capital Outlay	7,410	500,895	450,200	958,505
<b>Debt Service</b>				
Principal Retirement	4,782	-	55,377	60,159
Interest and Fiscal Charges	19	-	15,226	15,245
<b>Total Expenditures</b>	<b>2,048,143</b>	<b>1,936,112</b>	<b>910,747</b>	<b>4,895,002</b>
Excess of Revenues Over (Under) Expenditures	378,993	(1,936,112)	(419,148)	(1,976,267)
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	257,260	257,260
Inception of Capital Lease	7,410	-	-	7,410
Proceeds of Loan	-	422,890	163,903	586,793
Notes Issued	-	-	78,077	78,077
Transfers Out	(257,260)	-	-	(257,260)
<b>Total Other Financing Sources (Uses)</b>	<b>(249,850)</b>	<b>422,890</b>	<b>499,240</b>	<b>672,280</b>
<b>Net Change in Fund Balances</b>	<b>129,143</b>	<b>(1,513,222)</b>	<b>80,092</b>	<b>(1,303,987)</b>
Fund Balances at Beginning of Year - Restated (See Note 3)	1,120,405	1,404,041	389,675	2,914,121
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$ 1,249,548</b>	<b>\$ (109,181)</b>	<b>\$ 469,767</b>	<b>\$ 1,610,134</b>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, 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, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (1,303,987)

Amounts reported for governmental activities in the  
Statement of Activities are different because

Capital outlays are reported as expenditures in governmental funds  
However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. In the current  
period, these amounts are:

Capital Asset Additions	\$ 1,125,530	
Current Year Depreciation	<u>(59,528)</u>	1,066,002

Because some revenues will not be collected for several months after the City's year-end,  
they are not considered "available" revenues and are deferred in the governmental funds:

Property and Other Local Taxes	2,564	
Charges for Services	33,290	
Shared Taxes and Local Government Revenue Assistance	29,952	
Income Taxes	<u>121,852</u>	187,658

Repayment of long-term debt is an expenditure in the governmental funds  
but the repayment reduces long-term liabilities in the statement of  
net assets.

Bond Principal Retirement	41,600	
Loan Principal Retirement	10,877	
Capital Lease Payments	<u>9,365</u>	61,842
Total Long-Term Debt Repayment		

Some capital assets were financed through capital leases. In governmental funds,  
capital lease arrangement is considered a source of financing but in the statement of  
net assets, the lease obligation is reported as a liability.

(7,410)

Note and loan proceeds are reported as other financing sources in governmental funds  
and thus contribute to the change in fund balances. In the government-wide statements  
however issuing debt increases long-term liabilities in the statement of net assets and  
does not affect the statement of activities.

Note Proceeds	(78,077)	
Loan Proceeds	<u>(586,793)</u>	(664,870)
Total Note and Loan Proceeds		

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

Decrease in Compensated Absences	27,383	
Decrease in Accrued Interest	<u>422</u>	27,805
Total Additional Expenditure		

**Change in Net Assets of Governmental Activities \$ (632,960)**

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenue</b>				
Property and Other Local Taxes	\$ 646,713	\$ 646,713	\$ 678,684	\$ 31,971
Income Taxes	1,225,000	1,225,000	1,175,807	(49,193)
Charges for Services	176,550	176,550	193,488	16,938
Fines, Forfeitures, Licenses and Permits	81,350	81,350	109,896	28,546
Intergovernmental	126,484	221,484	227,156	5,672
Interest	12,000	12,000	18,964	6,964
Donations	3,800	3,800	3,299	(501)
Other	2,752	2,752	12,285	9,533
<b>Total Revenues</b>	<u>2,274,649</u>	<u>2,369,649</u>	<u>2,419,579</u>	<u>49,930</u>
<b>Expenditures</b>				
Current				
General Government	570,429	573,676	495,570	78,106
Security of Persons and Property	1,220,975	1,187,022	1,162,546	24,476
Public Health and Welfare	4,375	4,375	4,371	4
Leisure Time Activities	57,100	62,250	54,347	7,903
Community Environment	347,600	365,345	360,899	4,446
<b>Total Expenditures</b>	<u>2,200,479</u>	<u>2,192,668</u>	<u>2,077,733</u>	<u>114,935</u>
<b>Excess of Revenues Over Expenditures</b>	<u>74,170</u>	<u>176,981</u>	<u>341,846</u>	<u>164,865</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	-	-	3,782	3,782
Transfers Out	(229,205)	(258,455)	(254,160)	4,295
Advances Out	-	(7,700)	(7,700)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(229,205)</u>	<u>(266,155)</u>	<u>(258,078)</u>	<u>8,077</u>
<b>Net Change in Fund Balance</b>	(155,035)	(89,174)	83,768	172,942
Fund Balance at Beginning of Year	1,030,714	1,030,714	1,030,714	-
Prior Year Encumbrances Appropriated	19,283	19,283	19,283	-
<b>Fund Balance at End of Year</b>	<u>\$ 894,962</u>	<u>\$ 960,823</u>	<u>\$ 1,133,765</u>	<u>\$ 172,942</u>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**AGENCY FUND  
DECEMBER 31, 2004**

**Assets**

Cash and Cash Equivalents in Segregated Accounts	\$ <u>5,475</u>
--	-----------------

**Liabilities**

Intergovernmental Payable	\$ 3,171
Undistributed Monies	<u>2,304</u>

<b>Total Liabilities</b>	<b>\$ <u>5,475</u></b>
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See accompanying notes.

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION**

The City of Silverton (the "City") is a chartered municipal corporation operating under the laws of the State of Ohio. In 1884, the area was incorporated as the Hamlet of Silverton and continued that status until December 31, 1904, when by election it became the Village of Silverton. On January 4, 1961, Silverton officially became a city. The municipal government is known as a Council/Manager form of government. Legislative power is vested in a six member council, all of whom serve a two year term. The Council appoints a City Manager. The City Manager is the chief executive officer and the head of the administrative agencies of the City. He/she appoints all department heads and employees, except the Mayor, Clerk-Treasurer, and Solicitor. The Mayor and Clerk-Treasurer are elected at large each for a two year term. The Solicitor is appointed by Council.

**Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City, which is directly responsible to the Mayor, consists of all funds and departments which are not legally separate from the City. They provide various services including police protection, parks and recreation, planning, zoning, street maintenance and repair, parking, waste disposal, and public health and welfare. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

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 organization's 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 organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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 organization's budget, the issuance of its debt or the levying of its taxes. The City does not have any component units included in its reporting entity.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Silverton have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict the GASB pronouncements. The more significant of the City's accounting policies are described below.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation**

The City's basic financial statements consist 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. The statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The City, however, has no business-type activities.

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 statement of net assets presents the financial condition of the governmental 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. 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 governmental program is self-financing or draws 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 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.

**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 two categories of funds utilized by the City: governmental and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions 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 purpose 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 – This fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the Charter of the City.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Stoll Lane Capital Projects Fund – This fund accounts for grants, loans and capital expenditures related to road construction and replacement of the water mains on Stoll Lane. The water mains are the property of the Cincinnati Water Works and they are being repaired as a result of the road construction. The repairs are being financed by the Cincinnati Water Works.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

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. The City's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has one agency fund, the Mayor's Court fund, which is used to account for the collection and distribution of court fees.

**Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total 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 (e.g., revenues and other financing sources) and uses (e.g., 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund financial statements.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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 year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-exchange 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 tax is recognized in the year in which the income is earned. (See Note 9) Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) 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 non-exchange 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 taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), fines and forfeitures, and grants.

Deferred Revenue

Deferred revenues arise 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, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

**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's Mayor's Court has its own checking accounts for collection and distribution of court fines and forfeitures which are presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts."

During fiscal year 2004, the City's investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General fund during fiscal year 2004 amounted to \$18,964 which includes \$7,668 assigned from other funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported as cash equivalents on the financial statements.

**Materials and Supplies Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditures/expense is recorded in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**Capital Assets**

All of the City's capital assets are classified as general capital assets. General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in 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 are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values on the date received. The City maintains a capitalization threshold of twenty five hundred dollars. 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 expended.

All capital assets except for land and construction in progress are depreciated.

Asset Description	Estimated Life
Land Improvements	20 Years
Building and Improvements	20 – 50 Years
Furniture, Fixtures and Equipment	3 – 10 Years
Vehicles	5 – 10 Years
Infrastructure	10 – 50 Years

The City's infrastructure consists of streets, curbs and gutters, sidewalks, storm drains, fire hydrants and street lighting. For 2004, the City reported infrastructure for the first time. The City has reported only the amounts acquired in 2004.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

Vacation benefits and compensatory time 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. The City records a liability for accumulated unused vacation and compensatory time when earned for all employees.

**Insurance Benefits**

The City has elected to provide employee medical/surgical, dental and life insurance benefits through United Healthcare of Ohio for all full-time employees. The premium varies with each employee depending on the coverage elected. The portion of the premium picked-up by the City varies depending upon negotiated agreement or the employee's contract. The City provides vision insurance through VSP.

**Deferred Compensation**

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Accrued Liabilities and Long-Term Obligations**

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

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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for improving the living environment of the City, the City's street repair/improvement programs and activities related to the City's participation in the joint fire district.

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimates**

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

**Reserves of Fund Balance**

Reserves of fund balance in governmental funds indicate that a portion of fund balances is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances.

**Interfund Transactions**

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Budgets and Budgetary Accounting**

All funds, other than agency funds, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the function level within each fund. More detailed appropriation allocations may be made by the Clerk-Treasurer as long as the allocations are within Council's appropriated amount.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City's Accountant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

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

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES**

**Changes in Accounting Principles**

For 2004, the City has implemented *GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*, *GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, *GASB Statement No. 38, "Certain Financial Statement Note Disclosures"*, *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"*, *GASB Statement No. 40, "Deposit and Investment Risk Disclosures"*, *GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences, GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers."*

*GASB Statement No. 34* creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type. The government-wide statements combine the governmental activities into one column.

*GASB Statement No. 37* clarifies certain provisions of *GASB Statement No. 34*, including the required content of Management's Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

*GASB Statement No. 38* modifies, establishes, and rescinds certain financial statement note disclosures.

*GASB Statement No. 39* further defines the guidelines of *GASB Statement No. 14, "The Financial Reporting Entity"*. The implementation of this new statement had no effect on the City's financial statements for 2004.

*GASB Statement No. 40* creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the City's financial statements for fiscal year 2004.

*GASB Statement No. 41* only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement did not apply to the presentation of budgetary statements by the City for 2004.

*GASB Interpretation No. 6* clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

*GASB Technical Bulletin No. 2004-2* addresses the amount that should be recognized as an expenditure/expense and as a liability for each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

For 2004, the City has modified estimated useful lives and increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$500 to \$2,500.

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES (Continued)**

**Restatement of Fund Balances**

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Stoll Lane</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2003	\$ 1,063,444	\$ 1,404,041	\$ 472,494	\$ 2,939,979
Fund Reclassifications	82,468	-	(82,468)	-
GASB Interpretation No. 6	6,179	-	-	6,179
GASB Technical Bulletin No 2004-2	<u>(31,686)</u>	<u>-</u>	<u>(351)</u>	<u>(32,037)</u>
Adjusted Fund Balance, December 31, 2003	<u>\$ 1,120,405</u>	<u>\$ 1,404,041</u>	<u>\$ 389,675</u>	2,914,121
GASB 34 Adjustments				
Deferred Assets				
Delinquent Property Taxes				75,681
Income Tax				211,770
Accounts Receivable				15,463
Intergovernmental Receivables				126,655
Capital Assets, Net				709,176
Accrued Interest Payable				(10,648)
Long Term Liabilities				
Bonds Payable				(379,100)
Loans Payable				(222,019)
Capital Leases				(19,981)
Compensated Absences				<u>(394,822)</u>
Governmental Activities, Net Assets December 31, 2003				<u>\$ 3,026,296</u>

**NOTE 4 – ACCOUNTABILITY**

**Accountability**

The Stoll Lane capital projects fund had a fund balance deficit of \$109,181 due to adjustments for accrued liabilities which generate expenditures that are greater than those recognized on a cash basis. The accrued liabilities were related to construction projects for which the City was reimbursed by Cincinnati Waterworks during 2005.

**NOTE 5 – BUDGET TO GAAP RECONCILIATION**

While 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 Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and out are operating transactions (budget basis) as opposed to balance sheet transactions.

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

Net Change in Fund Balance	General
GAAP Basis	\$ 129,143
Increases (Decreases) Due To	
Revenue Accruals	(3,775)
Expenditure Accruals	(20,256)
Encumbrances	(16,744)
Transfers	3,100
Advances	(7,700)
Budget Basis	\$ 83,768

**NOTE 6 – DEPOSITS AND INVESTMENTS**

The investment and deposit of City monies are governed by the Ohio Revised Code. 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 Council 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.

**NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)**

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

Protection of the 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 City Accountant by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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) and repurchase agreements secured by such obligations; and
6. The State Treasurer's investment pool (STAROhio).

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; and,
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.

**NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)**

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

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,091,555 of the City's bank balance of \$1,193,424 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to losses involving amounts exceeding insured limits.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of December 31, 2004, the City only had investments with STAROhio.

	Fair Value	Maturity
STAROhio	\$ <u>710,763</u>	Average 33 Days

**Interest Rate Risk**

The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk**

STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

**NOTE 7 – PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property (other than public utility) located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes were collected in and financed 2005 operations.

**NOTE 7 – PROPERTY TAXES (Continued)**

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$11.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$ 71,330,300	90.58%
Public Utility Property	3,652,990	4.64
Tangible Personal	<u>3,762,580</u>	<u>4.78%</u>
 Total Assessed Value	 <u>\$ 78,745,870</u>	 <u>\$ 100.00%</u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Silverton. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**NOTE 8 – RECEIVABLES**

Receivables at December 31, 2004, consisted of municipal income tax, property and other taxes, accounts, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full and will be received within one year. A summary of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Homestead and Rollback	\$ 33,331
Personal Property Exemption	3,340
Shared Income Funds	46,224
Revenue Assistance	6,227
Local Government	9,264
Gasoline Excise Tax	31,110
Gasoline Cents Per Gallon	29,105
Motor Vehicle License Tax	19,482
Permissive Tax	735
City of Deerpark Fire Hydrant Reimbursement	7,678
Total Governmental Activities	\$ 186,496

**NOTE 9 – INCOME TAX**

The City levies a municipal income tax of 1.25% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City. The City does not allow a credit for income taxes paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

In 2004, the proceeds were allocated to the General Fund.

**NOTE 10 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Restated Balance at 12/31/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 12/31/04</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 405,926	\$ -	\$ -	\$ 405,926
Construction in Progress	<u>29,669</u>	<u>1,087,062</u>	<u>(190,655)</u>	<u>926,076</u>
Total Capital Assets Not Being Depreciated	<u>435,595</u>	<u>1,087,062</u>	<u>(190,655)</u>	<u>1,332,002</u>
Capital Assets Being Depreciated				
Land Improvements	47,211	-	-	47,211
Buildings and Improvements	262,500	-	-	262,500
Furniture, Fixtures and Equipment	227,549	16,080	-	243,629
Vehicles	349,547	22,388	(38,446)	333,489
Infrastructure-Roads	<u>-</u>	<u>190,655</u>	<u>-</u>	<u>190,655</u>
Totals Capital Assets, Being Depreciated	<u>886,807</u>	<u>229,123</u>	<u>(38,446)</u>	<u>1,077,484</u>
Less Accumulated Depreciation				
Land Improvements	(33,286)	(2,361)	-	(35,647)
Building and Improvements	(186,060)	(2,924)	-	(188,984)
Furniture, Fixtures and Equipment	(130,694)	(18,904)	-	(149,598)
Vehicles	(263,186)	(25,806)	38,446	(250,546)
Infrastructure-Roads	<u>-</u>	<u>(9,533)</u>	<u>-</u>	<u>(9,533)</u>
Total Accumulated Depreciation	<u>(613,226)</u>	<u>(59,528)</u>	<u>38,446</u>	<u>(634,308)</u>
Total Capital Assets Being Depreciated, Net	<u>273,581</u>	<u>169,595</u>	<u>-</u>	<u>443,176</u>
Governmental Activities Capital Assets, Net	<u>\$ 709,176</u>	<u>\$ 1,256,657</u>	<u>\$ (190,655)</u>	<u>\$ 1,775,178</u>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 10,995
Security of Persons and Property	22,769
Leisure Time Services	3,737
Community and Economic Development	<u>22,027</u>
Total Depreciation Expense	<u>\$ 59,528</u>

## NOTE 11 – DEFINED BENEFIT PENSION PLANS

### 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 percent 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$34,861, \$29,118, and \$26,050 respectively; 87.55 percent has been contributed for 2004 and 100 percent for 2003 and 2002. No contributions were made to the member-directed plan for 2004 by the City or by the plan members.

### 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 information 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 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's required contributions to the Fund for the years ended December 31, 2004, 2003, and 2002 were \$92,157, \$78,722, and \$80,513 respectively. The full amount has been contributed for 2003 and 2002. 82.11 percent has been contributed for 2004.

## NOTE 12 – POSTEMPLOYMENT BENEFITS

### 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*. 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 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$14,602. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

### 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*. 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 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees and survivors 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.

**NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)**

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$60,784 for police. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

**NOTE 13 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2004, the City contracted with Hylant-MacLean-Cincinnati Insurance for crime, commercial auto, commercial fire/earthquake/theft, general liability (including property), and inland marine. The coverage is as follows:

Type of Coverage	Coverage	Deductible
Crime	\$ 1,000/10,000	\$ 100
Commercial Auto (Per Accident)	1,000,000/3,000,000	250
Commercial Fire/Earthquake/Theft	1,746,318	1,000
General Liability (Aggregate/Each Occurrence)	5,000,000/3,000,000	-
Inland Marine	489,958	500

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

For 2004, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), a group purchasing pool. The intent of the Plan is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

**NOTE 14 – CAPITALIZED LEASES – LESSEE DISCLOSURE**

In a prior year, the City entered into capital leases for vehicles and reproduction equipment. During 2004, the City entered into an additional capital lease for reproduction equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program expenditures on a budgetary basis.

2004 principal payments of \$7,682 included the final payments on two leased vehicles of \$3,930 and payments of \$3,752 on continuing leases for copier equipment.

Also in 2004, the City entered into a new lease prior to the full retirement of the existing lease for a copier in the police department. Therefore, \$1,683 remaining on the old lease was eliminated on the financial statements upon entering into the new lease. The remaining liability for the copier equipment lease is \$18,026.

**NOTE 14 – CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)**

General capital assets consisting of equipment have been capitalized in the amount of \$22,073 which equals the present value of the future minimum lease payments at the time of acquisition.

Asset	Asset Value	Accumulated Depreciation	Net Book Value December 31, 2004
Equipment – Copier for Admin Department	\$ 14,663	\$ 4,398	\$ 10,265
Equipment – Copier for Police Department	<u>7,410</u>	<u>1,482</u>	<u>5,928</u>
Total	<u>\$ 22,073</u>	<u>\$ 5,880</u>	<u>\$ 16,193</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004.

Fiscal Years Ending December 31, _____	Amount
2005	\$ 4,272
2006	4,272
2007	4,272
2008	4,272
2009	<u>938</u>
Total Minimum Lease Payments	18,026
Less Amount Representing Interest	<u>-</u>
Present Value of Minimum Lease Payments	<u>\$ 18,026</u>

**NOTE 15 – SHORT-TERM OBLIGATIONS**

A summary of the note transactions for the year ended December 31, 2004, follows:

	Balance at December 31, 2003	Additions	Deductions	Balance at December 31, 2004
Special Revenue Funds				
Fire Equipment Bond				
Anticipation Note – 2.04%	\$ <u>30,000</u>	\$ <u>-</u>	\$ <u>30,000</u>	\$ <u>-</u>
Capital Projects Fund				
Belkenton Sewer Project Bond				
Anticipation Note – 2.04%	<u>78,377</u>	<u>-</u>	<u>78,377</u>	<u>-</u>
Grand Total	<u>\$ 108,377</u>	<u>\$ -</u>	<u>\$ 108,377</u>	<u>\$ -</u>

**NOTE 16 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations during 2004 were as follows:

	Balance at December 31, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2004</u>	Due Within <u>One Year</u>
General Obligation Bonds					
Voted					
2003 Various Purpose					
Refunding Bond – 3.69%	\$ <u>379,100</u>	\$ <u>-</u>	\$ <u>41,600</u>	\$ <u>337,500</u>	\$ <u>43,100</u>
Other Long-Term Obligations					
2001 Ohio Public Works					
Commission Loan – 0.00%	217,519	-	10,877	206,642	5,438
2002 Ohio Public Works					
Commission Loan – 0.00%	4,500	422,890	-	427,390	11,387
2004 Ohio Public Works					
Commission Loan – 0.00%	-	163,903	-	163,903	4,098
2004 Fire Equipment Bond					
Anticipation Notes – 2.54%	-	20,000	-	20,000	20,000
2004 Belkenton Storm Sewer					
Bond Anticipation Notes – 2.54%	-	58,077	-	58,077	58,077
Compensated Absences Payable	394,822	5,785	33,168	367,439	119,785
Capital Lease Obligations	<u>19,981</u>	<u>7,410</u>	<u>9,365</u>	<u>18,026</u>	<u>4,272</u>
Total Other Long-Term					
Obligations	<u>636,822</u>	<u>678,065</u>	<u>53,410</u>	<u>1,261,477</u>	<u>223,057</u>
Total General Long-Term					
Obligations	<u>\$ 1,015,922</u>	<u>\$ 678,065</u>	<u>\$ 95,010</u>	<u>\$ 1,598,977</u>	<u>\$ 266,157</u>

On April 1, 2003, the City issued Various Purpose General Obligation Refunding Bonds in the amount of \$379,100. \$279,100 of the bonds were issued for the purpose of refunding the outstanding principal amount for bonds issued in March, 2000, which were used to acquire and renovate a building for the Deer Park-Silverton Joint Fire District. Upon completion, the building was immediately given to the Fire District. The remaining \$100,000 of the bonds issued on April 1, 2003 were for financing the demolition of a municipal swimming pool and conversion of such into a soccer field under authority of Chapter 133 of the Ohio Revised Code. Interest on the bonds is payable annually on April 1 of each year, commencing April 1, 2004, until the entire principal sum of the bonds has been paid. The bonds were issued at an interest rate of 3.69% through 2011. The portion of the bonds related to the Joint Fire District will be paid from the Joint Fire District capital projects fund. The portion of the bonds related to the demolition of the municipal swimming pool and its conversion to a soccer field will be paid from the Capital Improvement capital projects fund.

In October 2001 the City entered into a project loan agreement with the Ohio Public Works Commission for fire hydrant replacements. The original loan amount was \$200,537, payable over 20 years, without interest. The City of Silverton received an additional \$16,982 in 2003. The City of Silverton is responsible for the OPWC fire hydrant loan payments; however, due to terms pertaining to the Joint Fire District, the City of Deer Park is reimbursing the City 70.61 percent of the loan payments. The amount to be reimbursed by the City of Deer Park is included in "Intergovernmental Receivable" on the balance sheet. The project was complete as of December 31, 2003 and the first payment by the City of Silverton was made on July 1, 2004. The twice yearly loan payments will be paid from the Fire Hydrant capital projects fund.

**NOTE 16 – LONG-TERM OBLIGATIONS (Continued)**

In July 2002, the City entered into a project loan agreement with the Ohio Public Works Commission for the purpose of making improvements to Stoll Lane. The original loan amount was \$562,500. OPWC will pay contractors directly as the project progresses and the City will not begin payments on the loan until the project is complete. As of December 31, 2004, OPWC had disbursed \$427,390 to contractors for this project, and this amount has been recognized as a long-term liability on the government-wide financial statements. Because the City has not received the entire proceeds of the loan, no debt service payment schedule has been prepared and neither principal nor interest are included in the schedule on the following page.

In December 2004 the City finalized a loan agreement with the Ohio Public Works Commission for street upgrades to East Gatewood Lane which were completed in 2004. The loan amount was \$163,903, payable over 20 years, without interest. The first payment by the City of Silverton is due on July 1, 2005. The twice yearly loan payments will be paid from the East Gatewood Lane capital projects fund.

On July 15, 2004 the City issued \$20,000 in Bond Anticipation Notes for the purpose of financing the purchase of fire equipment for the joint fire district. This note will be paid from the Fire Department special revenue fund.

On July 15, 2004 the City issued \$58,077 in Bond Anticipation Notes for the purpose of financing the Belkenton storm sewer project. This note will be paid from the Belkenton Sewer Project capital project fund.

Compensated absences and capital lease obligations will be paid from the general fund.

As of December 31, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,057,225 and the unvoted legal debt margin was \$3,457,432.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2004, were:

Years	General Obligation Bonds		Fire Hydrant	Road Upgrade
	Principal	Interest	OPWC Loan Principal	OPEC Loan Principal
2005	\$ 43,100	\$ 12,454	\$ 5,438	\$ 4,098
2006	44,800	10,863	10,876	8,195
2007	46,300	9,210	10,876	8,195
2008	48,100	7,502	10,876	8,195
2009	49,900	5,727	10,876	8,195
2010-2014	105,300	5,824	54,380	40,976
2015-2019	-	-	54,380	40,976
2020-2024	-	-	48,940	40,976
2025-2027	-	-	-	4,097
Total	\$ 337,500	\$ 51,620	\$ 206,642	\$ 163,903

**NOTE 17 – INTERFUND ACTIVITY**

**Interfund Receivable/Payable**

Interfund balances at December 31, 2004, consist of the following individual fund receivables and payables:

		Receivable
		<u>General</u>
Payable	Other Governmental Fund	<u>\$7,700</u>

A short-term advance to the Fire Hydrant Fund was made in December, 2004 to pay the OPWC debt service payment. The advance will be repaid to the General Fund upon receipt of the City of Deer Park's reimbursement of their portion of the debt payment.

**Transfers From/To Other Funds**

		Transfers From
		<u>General</u>
Transfers to	All Other Governmental Funds	<u>\$257,260</u>

The City has transferred amounts for debt service payments and for construction projects.

**NOTE 18 – CONTINGENT LIABILITIES**

**Litigation**

The City of Silverton is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Federal and State Grants**

For the period January 1, 2004, to December 31, 2004, the City received federal and State grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**NOTE 19 – SUBSEQUENT EVENT**

On July 14, 2005, the City reissued the Belkenton Sewer Project Bond Anticipation Note and the Fire Equipment Bond Anticipation Note. Both notes matured on July 13, 2006.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Manager and  
Members of the City Council  
City of Silverton  
Hamilton County, Ohio

We have audited the financial statements of the City of Silverton, Ohio, (the City) as of and for the year ended December 31, 2004, and have issued our report thereon dated March 16, 2007, wherein we note the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* and changed the capital assets capitalization threshold and useful lives as described in Note 3. We conducted our audit in accordance with U.S. generally accepted auditing standards and the 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 of Silverton, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Silverton, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Silverton, Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Silverton, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Silverton, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the City of Silverton, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Silverton, Ohio's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted two items that we consider to be significant deficiencies and they are summarized in the Schedule of Findings as items 2004-20431-001 and 002.

City Manager and  
Members of the City Council  
City of Silverton  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Silverton, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the Schedule of Findings as item 2004-20431-003.

We noted certain matters that we reported to management of the City of Silverton, Ohio, in a separate letter dated March 16, 2007.

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

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
March 16, 2007

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
DECEMBER 31, 2004  
SCHEDULE OF FINDINGS**

Findings Related to the Financial Statements to be Reported in Accordance with GAGAS.

**Finding Number** 2004-20431-001  
**Significant Deficiency:** **Internal Control**

The following internal control weaknesses were noted during the course of our audit of the City's general purpose financial statements:

- Current W-4's and I-9's were not maintained for all employees. W-4's should be updated each year. I-9's should be signed by all employees hired after 1987.
- The tax administrator posts cash receipts transaction to the taxes receivable ledger, as well as, receives and deposits cash. These functions should be segregated.

**Finding Number** 2004-20431-002  
**Significant Deficiency:** **Uncollateralized Deposits**

The City currently has \$1,091,555 in uninsured and uncollateralized deposits. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the City to losses involving amounts exceeding insured limits.

**Finding Number** 2004-20431-003  
**Noncompliant Citation:** **Expenditures and  
Encumbrances Exceed  
Appropriations**

The Capital Outlay appropriation account of the Stoll Lane Capital Improvement Fund had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2004 in the amount of \$460,136.

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
DECEMBER 31, 2003  
STATUS OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different; Corrective Action Taken; or Finding No Longer Valid; Explain</u>
2003-20431-001	Internal control weaknesses were noted during the course of our audit of the City's general purpose financial statements.	No	Not Corrected, Repeat
2003-20431-002	The City currently has \$373,408 in uninsured and uncollateralized deposits. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the City to losses involving amounts exceeding insured limits.	No	Not Corrected, Repeat



**Mary Taylor, CPA**  
Auditor of State

**CITY OF SILVERTON**

**HAMILTON 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  
NOVEMBER 8, 2007**