

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO**

DECEMBER 31, 2005

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT



Mary Taylor, CPA
Auditor of State

City Manager and Members of 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 and Company, Inc., for the audit period January 1, 2005 through December 31, 2005. 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

July 29, 2008

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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, and the aggregate remaining fund information of the City of Silverton, Ohio, as of and for the year ended December 31, 2005, 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 the 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, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages 1 through 7 is not a required part of the basic financial statements but is 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
April 25, 2008

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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, 2005. 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 increased by \$843,741, which represents a 36 percent increase from 2004. This increase was due primarily to an increase in income tax revenues because the City added a second tax staff member to focus on collection of delinquent income taxes.
- General revenues accounted for \$2,853,526 or 80 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$731,578 or 20 percent of total governmental revenues of \$3,585,104.

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 2005?" The Statement of Net Assets and the Statement 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, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Reporting the City's Most Significant Funds

Fund Financial Statements

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. However, the focus of the fund financial statements is on the City's most significant funds, and therefore only the major funds are presented in separate columns. The only major fund for the City of Silverton is the General Fund.

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, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

The City as a Whole

As stated previously, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2005 compared to 2004: Net assets at December 31, 2004 have been restated due to the City changing their capital asset threshold from \$2,500 to \$5,000.

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004 Restated</u>
Current and other assets	\$ 3,674,492	\$ 3,206,102
Capital assets, net	<u>2,038,417</u>	<u>1,737,593</u>
Total assets	<u>5,712,909</u>	<u>4,943,695</u>
Current and other liabilities	958,762	988,967
Long-term liabilities		
Due within one year	219,811	176,693
Due in more than one year	<u>1,334,844</u>	<u>1,422,284</u>
Total liabilities	<u>2,513,417</u>	<u>2,587,944</u>
Invested in capital assets, net of related debt	842,391	832,605
Restricted	452,211	369,053
Unrestricted	<u>1,904,890</u>	<u>1,154,093</u>
Total net assets	<u>\$ 3,199,492</u>	<u>\$ 2,355,751</u>

As displayed in the table above, total net assets of the City as a whole, increased by \$838,741 from total net assets reported at December 31, 2004. The change in total net assets is addressed in the following section.

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of governmental activities for 2005 and 2004:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues		
Charges for Services	\$ 367,770	\$ 377,208
Operating Grants and Contributions	284,385	222,742
Capital Grants and Contributions	<u>79,423</u>	<u>258,750</u>
Total Program Revenues	<u>731,578</u>	<u>858,700</u>
General Revenues		
Property and Other Local Taxes	571,926	681,248
Income Taxes	1,764,299	1,298,217
Grants and Entitlements Not Restricted For Specific Purposes	375,200	234,078
Investment Earnings	36,915	18,964
Miscellaneous	<u>105,186</u>	<u>15,186</u>
Total General Revenues	<u>2,853,526</u>	<u>2,247,693</u>
Total Revenues	<u>3,585,104</u>	<u>3,106,393</u>
Program Expenses		
General Government	816,870	467,189
Security of Persons and Property	1,368,415	1,141,253
Public Health and Welfare	4,483	4,371
Public Works	254,531	1,681,807
Community Environment	222,323	372,313
Leisure Time Activities	62,184	57,597
Interest on Long-Term Debt	<u>12,557</u>	<u>14,823</u>
Total Expenses	<u>2,741,363</u>	<u>3,739,353</u>
Change in Net Assets	<u>\$ 843,741</u>	<u>\$ (632,960)</u>

The change in net assets during 2005 has significantly increased over 2004. Total revenue has increased by \$478,711. One reason for this is because the City added a second tax staff member beginning in 2005 to focus on delinquent income tax collections. Public Works expense decreased from 2004. This is because in 2004, certain expenses represented water line construction costs supported by pass-through funding from Cincinnati Water Works (CWW). Because CWW is responsible for maintaining these lines, the cost was not capitalized on the City's books in 2004, but expensed. As a result of these factors, the City's revenues exceed its operating expenses, enabling it to save these funds to be used for current and future capital improvements, including road improvements.

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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. In addition to requiring mandatory annual tax return filing, corporations and other individual taxpayers are required to pay their estimated taxes quarterly.

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
General Government	\$ 816,870	\$ (691,096)	\$ 467,189	\$ (354,785)
Security of Persons and Property	1,368,415	(1,344,220)	1,141,253	(1,138,925)
Public Health and Welfare	4,483	(4,483)	4,371	(4,371)
Public Works	254,531	97,767	1,515,820	(1,515,820)
Community Environment	222,323	1,033	372,313	(127,657)
Leisure Time Activities	62,184	(56,229)	57,597	(52,318)
Transportation	-	-	165,987	328,046
Interest On Long-Term Debt	<u>12,557</u>	<u>(12,557)</u>	<u>14,823</u>	<u>(14,823)</u>
Total Expenses	<u>\$ 2,741,363</u>	<u>\$ (2,009,785)</u>	<u>\$ 3,739,353</u>	<u>\$ (2,880,653)</u>

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 ordinance. This was changed via Council ordinance to the fund level effective January 1, 2006.

Original General Fund budgeted revenues were \$2,410,642. The final budgeted amount was \$2,628,142. The small increase was primarily due to increases in income property tax revenues. The difference between actual budget basis revenues and final budgeted revenues was \$18,652.

The increase in appropriations from the original to the final budget was \$107,813. Actual budget-basis expenditures were less than final budgeted expenditures by \$90,271, due mainly to decreases in community environment expenditures. Also, actual transfers to the Street and State Highway funds were significantly less than budgeted because those funds did not need the subsidy transfers.

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

At December 31, 2005, the City had invested in a broad range of capital assets, including land, land improvements, buildings, equipment, vehicles and infrastructure.

**Capital Assets at Year-End
(Net of Depreciation)**

	Governmental Activities	
	2005	2004 Restated
Land	\$ 405,926	\$ 405,926
Assets Held for Resale	95,150	-
Construction in Progress	223,945	926,076
Land Improvements	4,655	5,915
Buildings and Improvements	49,700	73,516
Furniture, Fixtures and Equipment	91,624	69,413
Vehicles	141,928	75,625
Infrastructure	1,025,489	181,122
Total	\$ 2,038,417	\$ 1,737,593

2004 Restated - During 2005, the capital asset threshold was increased from \$2,500 to \$5,000, which decreased total capital assets at December 31, 2004 by \$37,585.

Capital assets increased by \$300,824. The City added several vehicles and a large dump truck to their asset inventory during 2005. There were also additional expenditures made in relation to outstanding Issue II infrastructure projects. Assets held for resale include land and a house that the City owns but is holding for resale at a future date. See note 10 of the notes to the basic financial statements for more detailed information.

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Long-Term Debt

At December 31, 2005, the City of Silverton had the following long-term debt outstanding:

	Governmental Activities	
	2005	2004
2003 Various Purpose Refunding Bonds	\$ 294,400	\$ 337,500
2005 Vehicle Acquisitions Bonds	65,732	-
Ohio Public Works Commission Loans		
2001 - Fire Hydrants	195,766	206,642
2002 - Stoll Lane Improvements	432,689	427,390
2004 - East Gatewood Lane Improvements	155,708	163,903
2004 Fire Equipment Bond Anticipation Notes	-	20,000
2004 Belkenton Sewer Road Bond Anticipation Notes	-	58,077
Total	\$ 1,144,295	\$ 1,213,512

The City combined two bond anticipation notes into one issue for 2005. The outstanding balance at December 31, 2005 was \$37,977. These notes were retired in 2006.

The City's overall 10.5 percent legal debt margin was \$8,572,081 as of December 31, 2005. The more restrictive unvoted legal debt margin was \$3,945,236 as of the same date. See Note 16 of the notes to the basic financial statements for more detailed information.

Current Financial Challenges and Initiatives

The future challenge for the City is to generate additional revenues with which to finance operations and to fund necessary road repairs and other capital needs. One of the initiatives to meet this challenge was to add, in 2005, a second income tax employee designated to pursue increased collections of delinquent income taxes. As the financial statements reflect, the City has been successful in collecting back-taxes owed.

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 desire 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, 2005

		<u>Governmental Activities</u>
Assets		
Equity In Pooled Cash and Cash Equivalents	\$	1,814,582
Cash and Cash Equivalents In Segregated Accounts		6,902
Receivables		
Property and Other Taxes		601,126
Income Taxes		945,822
Accounts		65,636
Intergovernmental		215,758
Prepaid Items		21,168
Materials and Supplies Inventory		3,498
Nondepreciable Capital Assets		725,021
Depreciable Capital Assets, Net		1,313,396
		<hr/>
Total Assets		5,712,909
		<hr/>
Liabilities		
Accounts Payable		50,769
Contracts Payable		109,455
Notes Payable		37,977
Accrued Wages and Benefits		1,307
Intergovernmental Payable		223,005
Deferred Revenue		525,852
Accrued Interest Payable		8,925
Matured Compensated Absences Payable		1,472
Long-Term Liabilities		
Due Within One Year		219,811
Due In More Than One Year		1,334,844
		<hr/>
Total Liabilities		2,513,417
		<hr/>
Net Assets		
Invested In Capital Assets, Net of Related Debt		842,391
Restricted For		
Debt Service		2,421
Other Purposes		449,790
Unrestricted		1,904,890
		<hr/>
Total Net Assets	\$	3,199,492
		<hr/> <hr/>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u> <u>Services</u> <u>and Sales</u>	<u>Operating Grants</u> <u>Contributions</u> <u>and Interest</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Change in</u> <u>Net Assets</u>
					<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental Activities					
Security of Persons and Property	\$ 1,368,415	\$ 12,685	\$ 11,510	\$ -	\$ (1,344,220)
Public Health and Welfare	4,483	-	-	-	(4,483)
Public Works and Transportation	254,531	-	272,875	79,423	97,767
Leisure Time Activities	62,184	5,955	-	-	(56,229)
Community Environment	222,323	223,356	-	-	1,033
General Government	816,870	125,774	-	-	(691,096)
Interest On Long-Term Debt	12,557	-	-	-	(12,557)
Total Governmental Activities	\$ 2,741,363	\$ 367,770	\$ 284,385	\$ 79,423	\$ (2,009,785)

General Revenues

Taxes	
Income Taxes	\$ 1,764,299
Property and Other Local Taxes	571,926
Grants and Contributions Not Restricted To Specific Programs	375,200
Investment Earnings	36,915
Miscellaneous	105,186
Total General Revenues	2,853,526
Change In Net Assets	843,741
Net Assets Beginning of Year, Restated	2,355,751
Net Assets End of Year	\$ 3,199,492

See accompanying notes.

CITY OF SILVERTON, HAMILTON COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity In Pooled Cash and Cash Equivalents	\$ 1,275,226	\$ 539,356	\$ 1,814,582
Cash and Cash Equivalents In Segregated Accounts	6,292	610	6,902
Receivables:			
Property and Other Local Taxes	601,126	-	601,126
Income Taxes	945,822	-	945,822
Accounts	65,636	-	65,636
Intergovernmental	96,923	118,835	215,758
Prepays	21,168	-	21,168
Materials and Supplies Inventory	-	3,498	3,498
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ 3,012,193	\$ 662,299	\$ 3,674,492
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	49,056	1,713	50,769
Contracts Payable	-	109,455	109,455
Accrued Wages and Benefits Payable	1,307	-	1,307
Matured Compensated Absences Payable	1,472	-	1,472
Intergovernmental Payable	111,804	111,201	223,005
Accrued Interest Payable	556	-	556
Notes Payable	37,977	-	37,977
Deferred Revenue	1,503,019	99,949	1,602,968
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,705,191</u>	<u>322,318</u>	<u>2,027,509</u>
Fund Balances			
Reserved For			
Materials and Supplies Inventory	-	3,498	3,498
Prepays	21,168	-	21,168
Unreserved (Deficit), Reported In			
General Fund	1,285,834	-	1,285,834
Special Revenue Funds	-	355,137	355,137
Capital Projects Funds	-	(21,075)	(21,075)
Debt Service Fund	-	2,421	2,421
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,307,002</u>	<u>339,981</u>	<u>1,646,983</u>
Total Liabilities and Fund Balances	\$ 3,012,193	\$ 662,299	\$ 3,674,492

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Total Governmental Fund Balances		\$ 1,646,983
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.		2,038,417
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property and Other Taxes Receivable	\$ 75,274	
Accounts Receivable	36,468	
Income Taxes Receivable	805,820	
Intergovernmental and Other Receivables	159,554	1,077,116
Long-term liabilities, including bonds payable, are not due and payable in current period and therefore are not reported in the funds:		
General Obligation Bonds	(360,132)	
OPWC Loans Payable	(784,163)	
Capital Lease Payable	(13,754)	
Compensated Absences Payable	(396,606)	
Accrued Interest on Long-term Debt	(8,369)	(1,563,024)
Net Assets of Governmental Activities		\$ <u>3,199,492</u>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property and Other Local Taxes	\$ 677,182	\$ -	\$ 677,182
Income Taxes	1,292,101	-	1,292,101
Intergovernmental	312,930	312,340	625,270
Charges for Services	248,356	-	248,356
Fines, Forfeitures, Licenses and Permits	125,639	13,405	139,044
Interest	36,915	7,486	44,401
Other	5,277	93,585	98,862
	<u>2,698,400</u>	<u>426,816</u>	<u>3,125,216</u>
Expenditures			
Current			
Security of Persons and Property	1,344,381	19,799	1,364,180
Public Health and Welfare	4,483	-	4,483
Public Works	-	276,036	276,036
Leisure Time Activities	59,217	-	59,217
Community Environment	369,598	1,172	370,770
Transportation	-	191,638	191,638
General Government	637,555	-	637,555
Capital Outlay	-	97,141	97,141
Debt Service			
Principal Retirement	4,272	171,291	175,563
Interest and Fiscal Charges	556	13,302	13,858
	<u>2,420,062</u>	<u>770,379</u>	<u>3,190,441</u>
Excess (Deficit) of Revenues Over Expenditures	<u>278,338</u>	<u>(343,563)</u>	<u>(65,225)</u>
Other Financing Sources (Uses)			
Transfers In	-	220,884	220,884
Transfers Out	(220,884)	-	(220,884)
Proceeds of Loan	-	28,072	28,072
Proceeds of Bonds	-	74,002	74,002
	<u>(220,884)</u>	<u>322,958</u>	<u>102,074</u>
Net Change in Fund Balance	57,454	(20,605)	36,849
Fund Balance, Beginning of Year	<u>1,249,548</u>	<u>360,586</u>	<u>1,610,134</u>
Fund Balance, End of Year	<u><u>\$ 1,307,002</u></u>	<u><u>\$ 339,981</u></u>	<u><u>\$ 1,646,983</u></u>

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
YEAR ENDED DECEMBER 31, 2005**

Net Change in Fund Balances - Total Governmental Funds	\$ 36,849
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital Outlay	433,873
Depreciation Expense	(113,629)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	459,889
Repayment of bond, note, loan and capital lease principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	175,563
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,857
The statement of activities reports losses arising from the disposal of capital assets. Conversely, governmental funds do not report losses but only the proceeds received on disposal.	(21,420)
Note and loan proceeds are reported as other financing sources in governmental funds. In the government-wide statements issuing debt increases long-term liabilities.	(102,074)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported expenditures in governmental funds.	<u>(27,167)</u>
Change in Net Assets of Governmental Activities	\$ <u>843,741</u>

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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenue				
Property and Other Local Taxes	\$ 568,054	\$ 619,471	\$ 623,880	\$ 4,409
Income Taxes	1,157,292	1,262,043	1,271,026	8,983
Charges for Services	269,471	293,862	295,954	2,092
Fines, Forfeitures, Licenses and Permits	107,501	117,231	118,066	835
Intergovernmental	260,306	283,867	285,888	2,021
Interest	33,612	36,654	36,915	261
Other	6,706	7,314	7,365	51
Total Revenues	<u>2,402,942</u>	<u>2,620,442</u>	<u>2,639,094</u>	<u>18,652</u>
Expenditures				
Current				
General Government	531,900	591,550	598,460	(6,910)
Security of Persons and Property	1,291,175	1,314,585	1,315,144	(559)
Public Health and Welfare	4,500	4,500	4,483	17
Leisure Time Activities	58,150	56,350	54,388	1,962
Community Environment	358,075	405,105	360,085	45,020
Total Expenditures	<u>2,243,800</u>	<u>2,372,090</u>	<u>2,332,560</u>	<u>39,530</u>
Excess of Revenues Over Expenditures	<u>159,142</u>	<u>248,352</u>	<u>306,534</u>	<u>58,182</u>
Other Financing Sources (Uses)				
Advances In	7,700	7,700	7,700	-
Advances Out	-	(5,000)	(5,000)	-
Transfers Out	(164,142)	(148,665)	(97,924)	50,741
Total Other Financing Sources (Uses)	<u>(156,442)</u>	<u>(145,965)</u>	<u>(95,224)</u>	<u>50,741</u>
Net Change in Fund Balance	2,700	102,387	211,310	108,923
Fund Balance at Beginning of Year	1,133,765	1,133,765	1,133,765	-
Prior Year Encumbrances Appropriated	16,744	16,744	16,744	-
Fund Balance at End of Year	<u>\$ 1,153,209</u>	<u>\$ 1,252,896</u>	<u>\$ 1,361,819</u>	<u>\$ 108,923</u>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2005**

	<u>Agency Funds</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	\$ <u>23,900</u>
Liabilities	
Intergovernmental Payable	\$ 1,490
Deposits Held and Due to Others	<u>22,410</u>
Total Liabilities	\$ <u>23,900</u>

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 and Solicitor. 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 Clerk-Treasurer who is elected.

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 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 City Manager 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is the City's major governmental fund:

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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The City's fiduciary funds include two agency funds. Both funds are related to Mayor's court and account for the collections of court fines and evidence. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement FocusGovernment-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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, but were levied to finance 2006 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 2005, 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, 2005.

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.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue reported in the fund financials for 2005 amounted to \$44,401.

Materials and Supplies Inventory

Materials and Supplies Inventory are presented at cost on a first-in, first-out basis and are expensed when used.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 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 expenditure/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 arise 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 five thousand dollars, which was increased from twenty-five hundred dollars in 2004 (See Note 4). 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 expensed.

All capital assets except for land, assets held for resale and construction in progress are depreciated using the straight-line method over the following useful lives:

<u>Asset Description</u>	<u>Estimated Life</u>
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. The City began reporting infrastructure in 2004. Only the amounts acquired from that point will be included in capital assets.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A liability for sick leave is accrued based on guidelines set forth in GASB Statement No. 16 "Accounting for Compensated Absences". The vesting method was implemented and states that the City will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The City has its own termination policy that enables employees to be paid for sick leave based on how many years of service have accumulated. Eligibility is determined by department. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

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

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, loans and capital leases are recognized as liabilities on the governmental fund financial statements when due.

Reservations and Designations of Fund Balances

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances, prepaids, and inventory.

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 of legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity

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 object level within each fund. This was changed via Council ordinance to the fund level effective January 1, 2006. 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 Clerk-Treasurer. 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 – BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balance on the basis of U.S. 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.

NOTE 3 – BUDGET TO GAAP RECONCILIATION (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

Net Change in Fund Balance - GAAP Basis	\$ 57,454
Increase/ (Decrease)	
Due to Revenue Accruals	(46,606)
Due to Expenditure Accruals	<u>200,462</u>
Net Change in Fund Balance - Budget Basis	<u>\$ 211,310</u>

NOTE 4 – PRIOR PERIOD ADJUSTMENT - CHANGE IN CAPITAL ASSET CAPITALIZATION THRESHOLD

For 2005, The City increased its threshold for capitalizing fixed assets from \$2,500 to \$5,000. A prior period adjustment was required in order to restate the City's capital assets as of December 31, 2004. A threshold adjustment was made when the City eliminated all assets under \$5,000 from their capital asset inventory. The following is the effect on net assets of governmental activities.

Governmental Activities Net Assets – December 31, 2004	\$ 2,393,336
Threshold Adjustment	<u>(37,585)</u>
Governmental Activities Net Assets – December 31, 2004, as Restated	<u>\$ 2,355,751</u>

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

Accountability

The Sampson Road Improvements Capital Projects Fund had a deficit fund balance of \$102,457 due to adjustments for accrued liabilities for 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 the Ohio Public Works Commission during 2006.

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.

1. 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.
2. 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.
3. Interim deposits are deposits of interim 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.

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

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, and Federal Home Loan Mortgage Corporation. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide 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.

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 Finance Director 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 year end, \$1,223,910 of the City's bank balance of \$1,353,887 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.

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

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, 2005, the City only had investments with STAROhio.

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$ <u>732,884</u>	Average 33 Days

Interest Rate Risk

The City's investment policy states that the maximum maturity for any investment is limited to a final stated maturity of five years. This policy is in line with state statute that also 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 2005 for real and public utility property taxes represented collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) were for 2005 taxes.

2005 real property taxes were levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes were collected in and financed 2006 operations.

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. 2005 public utility property taxes became a lien December 31, 2004, were levied after October 1, 2005, and were collected in 2005 with real property taxes.

2005 tangible personal property taxes were levied after October 1, 2004, on the value as of December 31, 2004. Collections were made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

NOTE 7 – PROPERTY TAXES (Continued)

The full tax rate for all City operations for the year ended December 31, 2005, was \$8.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$ 85,471,400	92.36%
Public Utility Property	3,803,170	4.11
Tangible Personal	<u>3,262,330</u>	<u>3.53</u>
Total	\$ <u>92,536,900</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, 2005, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 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.

NOTE 8 – RECEIVABLES

Receivables at December 31, 2005, 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 within one year. A summary of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Homestead and Rollback	\$ 29,005
Personal Property Exemption	2,682
Shared Income Funds	27,844
County Local Government	24,991
State Local Government	9,264
Public Safety Grant	3,137
Gasoline Excise Tax	49,134
Gasoline Cents Per Gallon	27,056
Motor Vehicle License Tax	15,596
Permissive Tax	<u>27,049</u>
Total Governmental Activities	\$ <u>215,758</u>

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. The proceeds are allocated to the General Fund.

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Restated*</u> <u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/05</u>
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 405,926	\$ -	\$ -	\$ 405,926
Assets Held for Resale	-	95,150	-	95,150
Construction in Progress	<u>926,076</u>	<u>206,745</u>	<u>(908,876)</u>	<u>223,945</u>
Subtotal	<u>1,332,002</u>	<u>301,895</u>	<u>(908,876)</u>	<u>725,021</u>
Capital Assets Being Depreciated				
Land Improvements	40,600	-	-	40,600
Buildings and Improvements	262,500	-	(23,800)	238,700
Furniture, Fixtures and Equipment	141,917	36,081	-	179,998
Vehicles	317,518	95,897	-	413,415
Infrastructure	<u>190,655</u>	<u>908,876</u>	<u>-</u>	<u>1,099,531</u>
Subtotal	<u>953,190</u>	<u>1,042,854</u>	<u>(23,800)</u>	<u>1,972,244</u>
Totals at Historical Cost	<u>2,285,192</u>	<u>1,344,749</u>	<u>(932,676)</u>	<u>2,697,265</u>
Less Accumulated Depreciation				
Land Improvements	34,685	1,260	-	35,945
Buildings and Improvements	188,984	2,396	(2,380)	189,000
Furniture, Fixtures and Equipment	72,504	15,870	-	8,374
Vehicles	241,893	29,594	-	271,487
Infrastructure	<u>9,533</u>	<u>64,509</u>	<u>-</u>	<u>74,042</u>
Total Accumulated Depreciation	<u>547,599</u>	<u>113,629</u>	<u>2,380</u>	<u>658,848</u>
Capital Assets, Net	\$ <u>1,737,593</u>	\$ <u>1,231,120</u>	\$ <u>(930,296)</u>	\$ <u>2,038,417</u>

*See Note 4

NOTE 10 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 10,154
Leisure Time Activities	20,414
Public Health	2,967
Public Works	<u>80,094</u>
Total Depreciation Expense	<u>\$ 113,629</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, 2005, 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 2005 was 13.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were approximately \$74,000, \$49,000, and \$46,000 respectively; 91 percent has been contributed for 2005 and 100 percent was contributed for 2004 and 2003.

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.

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's required contributions to the Fund for the years ended December 31, 2005, 2004, and 2003 were approximately \$121,000, \$92,000, and \$131,000 respectively. The full amount has been contributed for 2004 and 2003 and 73 percent has been contributed for 2005.

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 2005 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, 2005, include a rate of return on investments of 6.50 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 .50 to 6.00 percent annually for the next nine years and 4.00 percent annually after nine 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 approximately 359,000. Actual employer contributions for 2005 which were used to fund postemployment benefits were approximately \$22,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were approximately \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were approximately \$31.3 billion and \$20.2 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.

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

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 2005. 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.

The City's actual contributions for 2005 that were used to fund postemployment benefits were approximately \$52,000 for police. The OP&F's total health care expense for the year ended December 31, 2005, was approximately \$108 million, which was net of member contributions of approximately \$55.3 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was approximately 13,900 for police and approximately 10,500 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. The City is a member of the Ohio Plan. The Ohio Plan was formed in 1988 to provide affordable, comprehensive property and liability coverage to public entities. The Ohio Plan is managed by the Board of Directors, which is composed of individual representatives from various Plan members. The administrators, Hylant Administrative Services, provide services from Toledo, Ohio.

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 2005, the City participated in a group purchasing pool for workers' compensation coverage. The intent of the pool 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 two capital leases for copiers. The leases met the criteria of capital leases 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. Principal of \$4,272 was paid in 2005.

General capital assets consisting of equipment have been capitalized in the amount of \$22,073 at December 31, 2005 which equals the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation on these assets at December 31, 2005 was \$8,830.

NOTE 14 – CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)

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, 2005.

Years Ending December 31,		
2006	\$	4,272
2007		4,272
2008		4,272
2009		<u>938</u>
Total Future Minimum Lease Payments		13,754
Less Amount Representing Interest		<u>-</u>
Present Value of Future Minimum Lease Payments		<u>\$ 13,754</u>

NOTE 15 – SHORT-TERM OBLIGATION

The City issued a bond anticipation note in 2005. The note was retired in 2006.

Combined - Fire Equipment/ Belkenton Sewer Bond	<u>1/1/2005 Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/2005 Balance</u>
Anticipation Note	\$ <u>-</u>	\$ <u>37,977</u>	\$ <u>-</u>	\$ <u>37,977</u>

NOTE 16 – LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2005 were as follows:

Description	<u>12/31/2004 Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/2005 Balance</u>	<u>Amounts Due Within One Year</u>
Various Purpose General Obligation Refunding Bonds	\$ 337,500	\$ -	\$ 43,100	\$ 294,400	\$ 44,800
Vehicle Acquisition General Obligation Bonds (dump truck)	-	74,002	8,270	65,732	13,343
Ohio Public Works Commission Loan - Fire Hydrants	206,642	-	10,876	195,766	10,876
Ohio Public Works Commission Loan - Stoll Lane	427,390	28,072	22,773	432,689	22,773
Ohio Public Works Commission Loan - E. Gatewood Lane	163,903	-	8,195	155,708	8,195
Fire Equipment Bond Anticipation Notes	20,000	-	20,000	-	-
Belkenton Storm Sewer Bond Anticipation Notes	58,077	-	58,077	-	-
Capital Lease Obligations	18,026	-	4,272	13,754	4,272
Compensated Absences	<u>367,439</u>	<u>103,258</u>	<u>74,091</u>	<u>396,606</u>	<u>115,552</u>
Total Governmental Activities	<u>\$ 1,598,977</u>	<u>\$ 205,332</u>	<u>\$ 249,654</u>	<u>\$ 1,554,655</u>	<u>\$ 219,811</u>

NOTE 16 – LONG-TERM OBLIGATIONS (Continued)

In 2003, the City issued Various Purpose General Obligation Refunding Bonds in the amount of \$379,100. The bonds were issued at an interest rate of 3.69% through 2011.

In 2005, the City issued five-year General Obligation Bonds in the amount of \$74,002. These bonds were issued to acquire a dump truck. The bonds were issued at an interest rate of 5.12% through 2010. In 2007 the City retired the remaining bonds in full.

In October, 2001, the City entered into a project loan agreement with the Ohio Public Works Commission (OPWC) for fire hydrant replacements. The original loan amount was \$217,518, payable over 20 years, without interest. The City is responsible for the OPWC fire hydrant loan payments; however, due to contractual terms pertaining to the Joint Fire District, the City of Deer Park is reimbursing the City 70.61% of the loan payments.

In July, 2002, the City entered into a loan agreement with the OPWC for the purpose of making improvements to Stoll Lane. The final loan amount was \$455,461, payable over 20 years, without interest. During 2005 the City received \$28,072 in additional funding, and loan payments began. In December, 2004, the City finalized a loan agreement, payable over 20 years, without interest, with the OPWC for \$163,903 in street upgrades to East Gatewood Lane which were completed in 2004.

The source of monies to retire all outstanding debt obligations is the General Fund.

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,572,081 and the unvoted legal debt margin was \$3,945,236.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2005, were:

Years	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2006	\$ 58,143	\$ 14,060	\$ 41,844
2007	60,335	11,715	41,844
2008	62,863	9,279	41,844
2009	65,428	6,739	41,844
2010	59,763	4,092	41,844
2011-2015	53,600	1,978	209,220
2016-2020	-	-	209,220
2021-2025	-	-	156,503
Total	<u>\$ 360,132</u>	<u>\$ 47,863</u>	<u>\$ 784,163</u>

NOTE 17 – INTERFUND ACTIVITY

Transfers From/To Other Funds

The General Fund has transferred amounts for debt service payments, general operations and for construction projects to other nonmajor governmental funds.

	Transfer In	Transfer Out
General Fund	\$ -	\$ 220,884
Nonmajor Governmental Funds	<u>220,884</u>	<u>-</u>
Total	<u>\$ 220,884</u>	<u>\$ 220,884</u>

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, 2005, to December 31, 2005, 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 – COMMITMENTS

The City has several projects outstanding as of the issuance of financial statements for the year ended December 31, 2005. Outstanding commitments include \$124,000 for Sampson Lane Improvements and \$290,000 for Plainfield Road Improvements. The City also committed to the Plainfield/Montgomery Intersection Project for \$645,000. Of this amount, the State will be providing \$366,000 in funding and the City will provide the remaining \$279,000.

NOTE 20 – SUBSEQUENT EVENTS

In late 2007 the City was approved by the OPWC for a zero-interest 20-year loan in the amount of \$216,000 for road improvements to Belkenton Avenue. This project will begin in 2008.

On March 20, 2008, City Council authorized the City Manager to enter into an option to purchase a building to be remodeled and used as the municipal building. The City plans on marketing the existing building for economic development in the downtown area. An estimate of the total cost is \$1,500,000 to be funded mostly by debt combined with a portion of the City's fund reserves.

**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 governmental activities, each major fund, and the aggregate remaining fund information of the City of Silverton, Ohio (the City) as of and for the year ended December 31, 2005 which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2008. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization'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 organization'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. The Schedule of Findings on the following pages contains items that we consider to be significant deficiencies, as defined above. We believe none of the significant deficiencies described above are material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the Schedule of Findings on the following pages.

We also noted other matters that we reported to management of the City in a separate letter dated April 25, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings.

We did not audit the City's responses and, accordingly, we express no opinion on them.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
April 25, 2008

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO
DECEMBER 31, 2005
SCHEDULE OF FINDINGS**

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

Finding Number 2005-20431-001
Significant Deficiency: **Internal Control**

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

- Current W-4's and I-9's were not maintained for all employees. I-9's should be signed by all employees hired after 1987.

Officials' Response

Management will analyze the existing processes and determine how and when these recommendations will be implemented.

- The tax administrator posts cash receipts transaction to the taxes receivable ledger, as well as, receives and deposits cash. These functions should be segregated.

Officials' Response

The City will outsource its tax collection process in the future.

- Compensated absences subsidiary ledger details contain discrepancies as compared to those totals present in the City's financial statements. The City should perform an internal review of 100% of such accounts in order to ensure that the liability is properly reflected in the financial statements.

Officials' Response

Management will analyze the existing processes and determine how and when these recommendations will be implemented.

Finding Number 2005-20431-002
**Significant Deficiency
and Noncompliance:** **Expenditures Exceeding
Appropriations**

Ohio Rev. Code, Section 5705.41B requires that expenditures must not exceed appropriations for any function. During 2005, expenditures exceeded appropriations in the "General Government and Security" function in the General Fund.

The City should monitor its expenditures on an ongoing basis to eliminate future instances of this occurrence.

Officials' Response

Management has implemented internal controls to monitor and ensure that actual expenses do not exceed appropriations.

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO
DECEMBER 31, 2004
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>
2004-20431-001	Internal control weaknesses were noted during the course of our audit of the City's general purpose financial statements.	No	Not Corrected, Repeat
2004-20431-003	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.	Yes	Corrective Action Taken



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
AUGUST 12, 2008**