

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO**

**DECEMBER 31, 2006**

*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, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of 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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**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Silverton, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2006, 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, 2006  
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, 2006. 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 \$928,519, which represents a 29 percent increase from 2005. This increase was due primarily to the City spending less on operational expenditures and saving to invest in capital improvements.
- General revenues accounted for \$2,867,830 or 80 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$739,069 or 20 percent of total governmental revenues of \$3,606,899.

**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 2006?" 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, 2006  
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 funds consist of two agency funds. 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, 2006  
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 2006 compared to 2005:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 4,129,762	\$ 3,674,492
Capital assets, net	<u>2,790,657</u>	<u>2,038,417</u>
Total assets	<u>6,920,419</u>	<u>5,712,909</u>
Current and other liabilities	846,534	958,792
Long-term liabilities		
Due within one year	230,792	219,811
Due in more than one year	<u>1,715,082</u>	<u>1,334,844</u>
Total liabilities	<u>2,792,408</u>	<u>2,513,417</u>
Invested in capital assets, net of related debt	1,257,149	842,391
Restricted	495,362	452,211
Unrestricted	<u>2,375,500</u>	<u>1,904,890</u>
Total net assets	<u>\$ 4,128,011</u>	<u>\$ 3,199,492</u>

As displayed in the table above, total net assets of the City as a whole, increased by \$928,519 from total net assets reported at December 31, 2005. The reason for this increase is explained in the next section. During 2006, the City completed the Sampson Lane improvement project and began the Plainfield Road South project.

**CITY OF SILVERTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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 2006 and 2005:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues		
Charges for Services	\$ 339,034	\$ 367,770
Operating Grants and Contributions	250,035	284,385
Capital Grants and Contributions	<u>150,000</u>	<u>79,423</u>
Total Program Revenues	<u>739,069</u>	<u>731,578</u>
General Revenues		
Property and Other Local Taxes	617,252	571,926
Income Taxes	1,703,614	1,764,299
Grants and Entitlements Not Restricted For Specific Purposes	348,534	375,200
Investment Earnings	72,958	36,915
Miscellaneous	<u>125,472</u>	<u>105,186</u>
Total General Revenues	<u>2,867,830</u>	<u>2,853,526</u>
Total Revenues	<u>3,606,899</u>	<u>3,585,104</u>
Program Expenses		
General Government	869,772	816,870
Security of Persons and Property	1,291,398	1,368,415
Public Health and Welfare	4,575	4,483
Public Works	299,211	254,531
Community Environment	185,865	222,323
Leisure Time Activities	14,175	62,184
Interest on Long-Term Debt	<u>13,384</u>	<u>12,557</u>
Total Expenses	<u>2,678,380</u>	<u>2,741,363</u>
Change in Net Assets	<u>\$ 928,519</u>	<u>\$ 843,741</u>

The change in net assets during 2006 has increased over 2005. The reason for this is because the City added a second tax staff member beginning in 2005 to focus on delinquent income tax collections. As a result, 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, 2006  
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
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
General Government	\$ 869,772	\$ (772,487)	\$ 816,870	\$ (691,096)
Security of Persons and Property	1,291,398	(1,273,221)	1,368,415	(1,344,220)
Public Health and Welfare	4,575	(4,575)	4,483	(4,483)
Public Works	299,211	94,111	254,531	97,767
Community Environment	185,865	40,490	222,323	1,033
Leisure Time Activities	14,175	(10,245)	62,184	(56,229)
Interest On Long-Term Debt	<u>13,384</u>	<u>(13,384)</u>	<u>12,557</u>	<u>(12,557)</u>
Total Expenses	<u>\$ 2,678,380</u>	<u>\$(1,939,311)</u>	<u>\$ 2,741,363</u>	<u>\$(2,009,785)</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 fund level (personal services and other expenditures) basis by City Council in the form of an appropriation resolution.

Original and final General Fund budgeted revenues were \$2,529,617. The difference between actual budget basis revenues and final budgeted revenues was \$398,888.

The increase in appropriations from the original to the final budget was \$355,791. Actual budget-basis expenditures were less than final budgeted expenditures by \$175,511. The City had vacancies in 2006 in the Police department, within the Securities of Persons and Property function resulting in a decrease in actual vs. budgeted expenditures.

**CITY OF SILVERTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

At December 31, 2006, 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	
	2006	2005
Land	\$ 405,926	\$ 405,926
Assets Held for Resale	95,150	95,150
Construction in Progress	539,542	223,945
Land Improvements	4,165	4,655
Buildings and Improvements	65,034	49,700
Furniture, Fixtures and Equipment	138,821	91,624
Vehicles	137,355	141,928
Infrastructure	1,404,664	1,025,489
Total	\$ 2,790,657	\$ 2,038,417

Capital assets increased by \$752,240. The largest increase was in infrastructure and construction in progress for Sampson Lane and Plainfield Road South street improvements. The City also purchased a backhoe and made some improvements to existing buildings. Assets held for resale include land and a house that the City owns but is holding for resale at a future date. See note 8 of the notes to the basic financial statements for more detailed information.

**Long-Term Debt**

At December 31, 2006, the City of Silverton had the following long-term debt outstanding:

	Governmental Activities	
	2006	2005
2003 Various Purpose Refunding Bonds	\$ 249,600	\$ 294,400
2005 Vehicle Acquisitions Bonds	52,389	65,732
Ohio Public Works Commission Loans		
2001 - Fire Hydrants	184,890	195,766
2002 - Stoll Lane Improvements	424,493	432,689
2004 - East Gatewood Lane Improvements	132,935	155,708
2006 - Sampson Lane Improvements	256,966	-
2007 - Plainfield Road South Improvements	222,753	-
Total	\$ 1,524,026	\$ 1,144,295

**CITY OF SILVERTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

Along with the retirement of existing debt, the City borrowed \$479,719 for improvements to Sampson Land and Plainfield Road South. These projects are in line with the overall capital improvement plan.

The Combined - Fire Equipment/Belkenton Sewer one-year notes of \$37,977 were retired in 2006.

The City's overall 10.5 percent legal debt margin was \$8,159,977 of December 31, 2006. The more restrictive unvoted legal debt margin was \$3,548,547 as of the same date. See Note 14 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, 2006**

	<b>Governmental Activities</b>
<b>Assets</b>	
Equity In Pooled Cash and Cash Equivalents	\$ 2,017,892
Cash and Cash Equivalents In Segregated Accounts	4,948
Receivables	
Property and Other Taxes	610,752
Income Taxes	1,165,245
Accounts	60,955
Intergovernmental	245,911
Prepaid Items	20,716
Materials and Supplies Inventory	3,343
Nondepreciable Capital Assets	1,040,618
Depreciable Capital Assets, Net	1,750,039
	6,920,419
 <b>Liabilities</b>	
Accounts Payable	59,676
Contracts Payable	122,065
Accrued Wages and Benefits	954
Intergovernmental Payable	109,414
Deferred Revenue	535,575
Accrued Interest Payable	7,091
Matured Compensated Absences Payable	11,759
Long-Term Liabilities	
Due Within One Year	230,792
Due In More Than One Year	1,715,082
	2,792,408
 <b>Net Assets</b>	
Invested In Capital Assets, Net of Related Debt	1,257,149
Restricted For	
Debt Service	18,667
Other Purposes	476,695
Unrestricted	2,375,500
	4,128,011
<b>Total Net Assets</b>	<b>\$ 4,128,011</b>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants Contributions and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Change in Net Assets</u>
					<u>Total Governmental Activities</u>
<b>Governmental Activities</b>					
Security of Persons and Property	\$ 1,291,398	\$ 11,464	\$ 6,713	\$ -	\$ (1,273,221)
Public Health and Welfare	4,575	-	-	-	(4,575)
Public Works and Transportation	299,211	-	243,322	150,000	94,111
Leisure Time Activities	14,175	3,930	-	-	(10,245)
Community Environment	185,865	226,355	-	-	40,490
General Government	869,772	97,285	-	-	(772,487)
Interest On Long-Term Debt	13,384	-	-	-	(13,384)
<b>Total Governmental Activities</b>	<b>\$ 2,678,380</b>	<b>\$ 339,034</b>	<b>\$ 250,035</b>	<b>\$ 150,000</b>	<b>\$ (1,939,311)</b>

**General Revenues**

Taxes

Income Taxes	\$ 1,703,614
Property and Other Local Taxes	617,252
Grants and Contributions Not Restricted To Specific Programs	348,534
Investment Earnings	72,958
Miscellaneous	<u>125,472</u>

Total General Revenues 2,867,830

Change In Net Assets 928,519

Net Assets Beginning of Year 3,199,492

**Net Assets End of Year** \$ 4,128,011

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Equity In Pooled Cash and Cash Equivalents	\$ 1,130,903	\$ 886,989	\$ 2,017,892
Cash and Cash Equivalents In Segregated Accounts	4,378	570	4,948
Receivables:			
Property and Other Local Taxes	610,752	-	610,752
Income Taxes	1,165,245	-	1,165,245
Accounts	60,955	-	60,955
Intergovernmental	127,417	118,494	245,911
Prepays	19,305	1,411	20,716
Materials and Supplies Inventory	-	3,343	3,343
	<u>3,118,955</u>	<u>1,010,807</u>	<u>4,129,762</u>
<b>Total Assets</b>	<b>\$ 3,118,955</b>	<b>\$ 1,010,807</b>	<b>\$ 4,129,762</b>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 35,412	\$ 24,264	\$ 59,676
Contracts Payable	-	122,065	122,065
Accrued Wages and Benefits Payable	954	-	954
Matured Compensated Absences Payable	1,176	10,583	11,759
Intergovernmental Payable	99,013	10,401	109,414
Deferred Revenue	1,739,498	98,482	1,837,980
	<u>1,876,053</u>	<u>265,795</u>	<u>2,141,848</u>
Total Liabilities	<u>1,876,053</u>	<u>265,795</u>	<u>2,141,848</u>
 <b>Fund Balances</b>			
Reserved For			
Encumbrances	54,473	5,705	60,178
Materials and Supplies Inventory	-	3,343	3,343
Prepays	19,305	1,411	20,716
Unreserved (Deficit), Reported In			
General Fund	1,169,124	-	1,169,124
Special Revenue Funds	-	373,459	373,459
Capital Projects Funds	-	18,667	18,667
Debt Service Fund	-	342,427	342,427
	<u>1,242,902</u>	<u>745,012</u>	<u>1,987,914</u>
Total Fund Balances	<u>1,242,902</u>	<u>745,012</u>	<u>1,987,914</u>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,118,955</b>	<b>\$ 1,010,807</b>	<b>\$ 4,129,762</b>

See accompanying notes.



**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

**Total Governmental Fund Balances** \$ 1,987,914

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. 2,790,657

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	\$ 75,177	
Accounts Receivable	33,443	
Income Taxes Receivable	1,006,299	
Intergovernmental and Other Receivables	<u>187,486</u>	1,302,405

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	(301,989)	
OPWC Loans Payable	(1,222,037)	
Capital Lease Payable	(9,482)	
Compensated Absences Payable	(412,366)	
Accrued Interest on Long-term Debt	(7,091)	<u>(1,952,965)</u>

**Net Assets of Governmental Activities** **\$ 4,128,011**

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property and Other Local Taxes	\$ 669,070	\$ -	\$ 669,070
Income Taxes	1,503,135	-	1,503,135
Intergovernmental	276,709	396,695	673,404
Charges for Services	225,699	-	225,699
Fines, Forfeitures, Licenses and Permits	97,285	21,094	118,379
Interest	61,849	11,109	72,958
Other	111,227	7,738	118,965
	<u>2,944,974</u>	<u>436,636</u>	<u>3,381,610</u>
<b>Expenditures</b>			
Current			
Security of Persons and Property	1,252,342	3,620	1,255,962
Public Health and Welfare	4,575	-	4,575
Public Works	-	830,469	830,469
Leisure Time Activities	11,444	-	11,444
Community Environment	288,362	1,037	289,399
Transportation	-	254,723	254,723
General Government	627,251	-	627,251
Capital Outlay	-	127,654	127,654
Debt Service			
Principal Retirement	4,272	99,987	104,259
Interest and Fiscal Charges	616	14,046	14,662
	<u>2,188,862</u>	<u>1,331,536</u>	<u>3,520,398</u>
Excess (Deficit) of Revenues Over Expenditures	<u>756,112</u>	<u>(894,900)</u>	<u>(138,788)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	5,269	829,904	835,173
Transfers Out	(825,481)	(9,692)	(835,173)
Proceeds of Loan	-	479,719	479,719
	<u>(820,212)</u>	<u>1,299,931</u>	<u>479,719</u>
Total Other Financing Sources (Uses)	<u>(820,212)</u>	<u>1,299,931</u>	<u>479,719</u>
Net Change in Fund Balance	(64,100)	405,031	340,931
<b>Fund Balance, Beginning of Year</b>	<u>1,307,002</u>	<u>339,981</u>	<u>1,646,983</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,242,902</u>	<u>\$ 745,012</u>	<u>\$ 1,987,914</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, 2006**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 340,931**

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	944,478
Depreciation Expense	(192,238)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	229,562
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Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	58,143
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,278
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Loan repayments are reported as revenues and loans made are reported as expenses in the governmental funds but only affect assets on the statement of net assets.	41,844
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OPWC loan proceeds are reported as other financing sources in governmental funds. In the government-wide statements issuing debt increases long-term liabilities.	(479,719)
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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>(15,760)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>928,519</u></b>
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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, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenue</b>				
Property and Other Local Taxes	\$ 559,984	\$ 559,984	\$ 669,070	\$ 109,086
Income Taxes	1,293,852	1,293,852	1,484,191	190,339
Charges for Services	198,145	198,145	227,355	29,210
Fines, Forfeitures, Licenses and Permits	86,467	86,467	99,199	12,732
Intergovernmental	240,295	240,295	275,614	35,319
Interest	53,968	53,968	61,849	7,881
Other	96,906	96,906	111,227	14,321
	<u>2,529,617</u>	<u>2,529,617</u>	<u>2,928,505</u>	<u>398,888</u>
<b>Total Revenues</b>				
<b>Expenditures</b>				
Current				
General Government	681,802	681,802	631,712	50,090
Security of Persons and Property	1,360,545	1,360,545	1,260,590	99,955
Public Health and Welfare	4,938	4,938	4,575	363
Leisure Time Activities	12,623	12,623	11,696	927
Community Environment	329,070	329,070	304,894	24,176
	<u>2,388,978</u>	<u>2,388,978</u>	<u>2,213,467</u>	<u>175,511</u>
<b>Total Expenditures</b>				
Excess of Revenues Over Expenditures	<u>140,639</u>	<u>140,639</u>	<u>715,038</u>	<u>223,377</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	5,269	5,269	5,269	-
Transfers Out	<u>(595,433)</u>	<u>(951,224)</u>	<u>(951,224)</u>	<u>-</u>
	<u>(590,164)</u>	<u>(945,955)</u>	<u>(945,955)</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>				
Net Change in Fund Balance	(449,525)	(805,316)	(230,917)	223,377
<b>Fund Balance at Beginning of Year</b>	<u>1,367,259</u>	<u>1,367,259</u>	<u>1,361,819</u>	<u>(5,440)</u>
<b>Fund Balance at End of Year</b>	<u>\$ 917,734</u>	<u>\$ 561,943</u>	<u>\$ 1,130,902</u>	<u>\$ 217,937</u>

See accompanying notes.

**CITY OF SILVERTON, HAMILTON COUNTY, OHIO**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**DECEMBER 31, 2006**

	<b>Agency Funds</b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 9,355
Cash and Cash Equivalents in Segregated Accounts	16,460
<b>Total Assets</b>	<b>25,815</b>
 <b>Liabilities</b>	
Intergovernmental Payable	1,322
Deposits Held and Due to Others	24,493
<b>Total Liabilities</b>	<b>\$ 25,815</b>

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 Solicitor. During 2005, the citizens voted to amend the charter by eliminating the voted Clerk-Treasurer position and replacing the position with a Finance Director who is appointed by the City Manager. This became effective for 2006.

**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.

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

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The City, however, has no business-type activities.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

**Fund Accounting**

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

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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 only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has two agency funds, the Mayor's Court Fund, which is used to account for the collection and distribution of court fees and the Block Watch Fund, which is used to account for activity of a neighborhood block watch.

**Measurement Focus****Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**Fund Financial Statements**

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

**Basis of Accounting**

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

**Revenues - Exchange and Non-exchange Transactions**

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



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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), fines and forfeitures, and grants.

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but were levied to finance 2007 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 2006, 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, 2006. These investments were sold during 2006 and invested in an interest-earning money market sweep account.

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

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the City during 2006 amounted to \$72,958.

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

**Materials and Supplies Inventory**

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

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 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. 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.

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

Vacation benefits and compensatory time are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

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, which has been determined to be all employees with twenty years of service or more. 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, long term notes and 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, prepaid items, 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.

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

**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 fund level. More detailed appropriation allocations may be made by the Finance Director or City Manager as long as the allocations are within Council's appropriated amount.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City's Finance Director. 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.

**NOTE 3 – BUDGET TO GAAP RECONCILIATION (Continued)**

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

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

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

Net Change in Fund Balance - GAAP Basis	\$ (64,100)
Increase/ (Decrease)	
Due to Revenue Accruals	(16,469)
Due to Expenditure Accruals	<u>(150,348)</u>
Net Change in Fund Balance - Budget Basis	<u>\$ (230,917)</u>

**NOTE 4 – DEPOSITS AND INVESTMENTS**

The investment and deposit of City monies are governed by the Ohio Revised Code and the City's investment policy which was adopted by Council in 2006. 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. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City 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.

**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 City 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 collateralized securities that are in the possession of an outside party. At year end, \$1,967,452 of the City's bank balance of \$2,088,360 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 4 – 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.

**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's investment policy allows investments that are authorized in ORC 135.14.

**NOTE 5 – 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 2006 for real and public utility property taxes represented collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) were for 2006 taxes.

2006 real property taxes were levied after October 1, 2006, on the assessed value as of January 1, 2006, 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 2007 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. 2006 public utility property taxes became a lien December 31, 2005, were levied after October 1, 2006, and were collected in 2006 with real property taxes. 2006 tangible personal property taxes were levied after October 1, 2005, on the value as of December 31, 2005. Collections were made in 2006. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2006, was \$8.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$ 85,639,100	92.86%
Public Utility Property	3,568,300	3.87
Tangible Personal	<u>3,021,200</u>	<u>3.28%</u>
Total	<u>\$ 92,228,600</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.

**NOTE 5 – PROPERTY TAXES (Continued)**

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, 2006, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred revenue.

**NOTE 6 – RECEIVABLES**

Receivables at December 31, 2006, 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:

	Amount
Governmental Activities	
Homestead and Rollback	\$ 28,649
Personal Property Exemption	3,720
Shared Income Funds	46,631
County Local Government	6,218
State Local Government	9,932
Public Safety Grant	2,167
Inheritance Tax	30,100
Gasoline Excise Tax	48,968
Gasoline Cents Per Gallon	27,079
Motor Vehicle License Tax	15,647
Permissive Tax	26,800
Total Governmental Activities	\$ 245,911

**NOTE 7 – 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 8 – CAPITAL ASSETS

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

	Restated* Balance <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>12/31/06</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>223,945</u>	<u>830,469</u>	<u>(514,872)</u>	<u>539,542</u>
Subtotal	<u>725,021</u>	<u>830,469</u>	<u>(514,872)</u>	<u>1,040,618</u>
Capital Assets Being Depreciated				
Land Improvements	40,600	-	-	40,600
Buildings and Improvements	238,700	18,030	-	256,730
Furniture, Fixtures and Equipment	179,998	67,585	(25,015)	222,568
Vehicles	413,415	28,394	(15,000)	426,809
Infrastructure	<u>1,099,531</u>	<u>514,872</u>	<u>-</u>	<u>1,614,403</u>
Subtotal	<u>1,972,244</u>	<u>628,881</u>	<u>(40,015)</u>	<u>2,561,110</u>
Totals at Historical Cost	<u>2,697,265</u>	<u>1,459,350</u>	<u>(554,887)</u>	<u>3,601,728</u>
Less Accumulated Depreciation				
Land Improvements	35,945	490	-	36,435
Buildings and Improvements	189,000	2,696	-	191,696
Furniture, Fixtures and Equipment	88,374	20,388	(25,015)	83,747
Vehicles	271,487	32,967	(15,000)	289,454
Infrastructure	<u>74,042</u>	<u>135,697</u>	<u>-</u>	<u>209,739</u>
Total Accumulated Depreciation	<u>658,848</u>	<u>192,238</u>	<u>(40,015)</u>	<u>811,071</u>
Capital Assets, Net	<u>\$ 2,038,417</u>	<u>\$ 1,267,112</u>	<u>\$ (514,872)</u>	<u>\$ 2,790,657</u>

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 9,337
Leisure Time Activities	23,477
Public Health	2,731
Public Works	<u>156,693</u>
Total Depreciation Expense	<u>\$ 192,238</u>

**NOTE 9 – 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, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 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 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$78,892, \$73,772, and \$34,861 respectively; 92 percent has been contributed for 2006 and 100 percent was contributed for 2005 and 2004.

**Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 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, 2006, 2005, and 2004 were \$118,124, \$120,646, and \$92,157 respectively. The full amount has been contributed for 2005 and 2004 and 77 percent has been contributed for 2006.

**NOTE 10 – 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 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund postemployment benefits were approximately \$23,000. 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 approximately \$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. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

**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 10 – 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 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were approximately \$47,000 for police. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. 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 11 – 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 2006, the City participated in a group purchasing pool for workers' compensation coverage. The intent of the Plan is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

**NOTE 12 – CAPITALIZED LEASES – LESSEE DISCLOSURE**

In a prior year, the City entered into two capital leases for vehicles and reproduction equipment. 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 2006.

General capital assets consisting of equipment have been capitalized in the amount of \$22,073 at December 31, 2006 which equals the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation on these assets at December 31, 2006 was \$13,245.

**NOTE 12 – 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, 2006.

Years Ending <u>December 31,</u>	
2007	\$ 4,272
2008	4,272
2009	<u>938</u>
Total Future Minimum Lease Payments	9,482
Less Amount Representing Interest	<u>-</u>
Present Value of Future Minimum Lease Payments	\$ <u>9,482</u>

**NOTE 13 – SHORT-TERM OBLIGATION**

The City retired the following short-term note in 2006.

Combined - Fire Equipment/ Belkenton Sewer Bond		<u>1/1/2006 Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/2006 Balance</u>
Anticipation Note    2005    3.12%	\$ <u>37,997</u>	\$ <u>-</u>	\$ <u>37,997</u>	\$ <u>-</u>	

**NOTE 14 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations during 2006 were as follows:

Description	<u>Issue Date</u>	<u>Interest Rate</u>	<u>12/31/05 Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/06 Balance</u>	<u>Amounts Due Within One Year</u>
Various Purpose General Obligation Refunding Bonds	2003	3.69%	\$ 294,400	\$ -	\$ 44,800	\$ 249,600	\$ 46,300
Vehicle Acquisition General Obligation Bonds (Dump Truck)	2005	5.12%	65,732	-	13,343	52,389	14,035
Ohio Public Works Commission Loan - Fire Hydrants	2001	0.00%	195,766	-	10,876	184,890	10,876
Ohio Public Works Commission Loan - Stoll Lane	2002	0.00%	432,689	-	8,196	424,493	22,773
Ohio Public Works Commission Loan - E. Gatewood Lane	2004	0.00%	155,708	-	22,773	132,935	8,195
Ohio Public Works Commission Loan - Sampson Lane	2006	0.00%	-	256,966	-	256,966	12,848
Ohio Public Works Commission Loan - Plainfield Rd. South	2007	0.00%	-	222,753	-	222,753	12,689
Capital Lease Obligations			13,754	-	4,272	9,482	4,272
Compensated Absences			<u>396,606</u>	<u>128,027</u>	<u>112,267</u>	<u>412,366</u>	<u>98,804</u>
Total Governmental Activities			<u>\$1,554,655</u>	<u>\$ 607,746</u>	<u>\$ 216,527</u>	<u>\$ 1,945,874</u>	<u>\$ 230,792</u>

**NOTE 14 – 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 of Silverton 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 project loan agreement with the OPWC for the purpose of making improvements to Stoll Lane. The original loan amount was \$455,461, payable over 20 years without interest.

In December, 2004, the City finalized a loan agreement with the OPWC for \$163,903 in street upgrades to East Gatewood Lane which were completed in 2004.

During 2006, improvements to Sampson Lane were completed. The City received \$256,966 for this project from the OPWC and will repay the loan over the next 20 years, without interest.

During 2006, improvements to Plainfield Road south began. As of December 31, 2006 the City had received \$222,753 from the OPWC. This project will continue and be completed in 2007, at which time principal payments will begin on the full loan amount.

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

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,159,977 and the unvoted legal debt margin was \$3,548,547.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2006, were:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2007	\$ 60,335	\$ 11,715	\$ 67,382
2008	62,863	9,279	65,196
2009	65,428	6,739	65,196
2010	59,763	4,092	65,196
2011	53,600	19,780	65,196
2012-2016	-	-	325,978
2017-2021	-	-	325,978
2022-2026	-	-	241,917
Total	<u>\$ 301,989</u>	<u>\$ 51,605</u>	<u>\$ 1,222,037</u>

**NOTE 15 – INTERFUND ACTIVITY**

**Transfers From/To Other Funds**

The General Fund has transferred amounts for debt service payments, general operations and for construction projects. Certain funds of the city were closed out in 2006 and transferred to the General Fund.

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 5,269	\$ 825,481
Nonmajor Governmental Funds	<u>829,904</u>	<u>9,692</u>
Total	<u>\$ 835,173</u>	<u>\$ 835,173</u>

**NOTE 16 – 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, 2006, to December 31, 2006, 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 17 – COMMITMENTS**

The City has several projects outstanding as of the issuance of financial statements for the year ended December 31, 2006. Outstanding commitments include \$124,000 for Sampson Lane improvements and \$290,000 for Plainfield Road South 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 18 – 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 repair 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, 2006 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 terms 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

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

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, 2006  
SCHEDULE OF FINDINGS**

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

**Finding Number**

2006-20431-001

**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.

**CITY OF SILVERTON  
HAMILTON COUNTY, OHIO  
DECEMBER 31, 2005  
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>
2005-20431-001	Internal control weaknesses were noted during the course of our audit of the City's general purpose financial statements.	No	Not Corrected, Repeat
2005-20431-002	Expenditures exceeded appropriations in the City's "General Government and Security" function in the General Fund.	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**