

City of Silverton, Ohio

Basic Financial Statements



For the Year Ended

December 31, 2007



Mary Taylor, CPA
Auditor of State

Members of 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 Plattenburg & Associates, Inc., for the audit period January 1, 2007 through December 31, 2007. 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

August 10, 2009

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INDEPENDENT AUDITOR'S 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 (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2007, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2009, 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 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 29, 2009

CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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, 2007. 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 \$796,141, which represents a 19% increase from 2006. This increase was due primarily to the City spending less on operational expenditures and saving to invest in capital improvements of the City.
- General revenues accounted for \$3,035,014 or 82% of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$688,682 or 18% percent of total governmental revenues of \$3,723,696.
- The City had \$2,927,555 in expenses; only \$688,682 of these expenses were offset by program specific charges for services and sales, and grants and contributions.

Using This Annual Financial Report

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

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

Reporting the City as a Whole

One of the most important questions asked about the City is "How did we do financially during 2007?" The Statement of Net Assets and the Statements of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited

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.

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. City has one major fund: the General Fund.

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

Fiduciary Funds – The City's fiduciary fund consists of 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, 2007
 Unaudited

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 2007 compared to 2006:

| | Governmental Activities | |
|---|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Current and other assets | \$ 4,786,095 | \$ 4,129,762 |
| Capital assets, net | <u>2,969,747</u> | <u>2,790,657</u> |
| Total assets | <u>7,755,842</u> | <u>6,920,419</u> |
| Current and other liabilities | 751,789 | 846,534 |
| Long-term liabilities: | | |
| Due within one year | 213,680 | 230,792 |
| Due in more than one year | <u>1,866,221</u> | <u>1,715,082</u> |
| Total liabilities | <u>2,831,690</u> | <u>2,792,408</u> |
| Invested in capital assets, net of related debt | 1,321,763 | 1,257,149 |
| Restricted | 510,469 | 495,362 |
| Unrestricted | <u>3,091,920</u> | <u>2,375,500</u> |
| Total net assets | <u>\$ 4,924,152</u> | <u>\$ 4,128,011</u> |

As displayed in the table above total net assets of the City as a whole, increased by \$796,141 from total net assets reported at December 31, 2006. Revenues have remained fairly consistent with the exception of a large inheritance tax distribution received during 2007. The City was also able to earn substantially more in interest from investments. The excess is being used for current and future infrastructure projects. During 2007, the City completed the Plainfield Road South Improvement project and began the Plainfield/Montgomery Road intersection project.

CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
 Unaudited

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 2007 and 2006:

| | Governmental Activities | |
|---|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 341,804 | \$ 339,034 |
| Operating grants and contributions | 256,878 | 250,035 |
| Capital grants and contributions | <u>90,000</u> | <u>150,000</u> |
| Total program revenues | <u>688,682</u> | <u>739,069</u> |
| General revenues: | | |
| Property and other local taxes | 623,116 | 617,252 |
| Income taxes | 1,687,365 | 1,703,614 |
| Grants and entitlements not restricted for specific purposes | 500,164 | 348,534 |
| Investment earnings | 95,354 | 72,958 |
| Miscellaneous | <u>129,015</u> | <u>125,472</u> |
| Total general revenues | <u>3,035,014</u> | <u>2,867,830</u> |
| Total revenues | <u>3,723,696</u> | <u>3,606,899</u> |
| Program expenses: | | |
| General government | 966,348 | 869,772 |
| Security of persons and property | 1,344,204 | 1,291,398 |
| Public health and welfare | 4,746 | 4,575 |
| Public works | 279,264 | 299,211 |
| Community environment | 298,739 | 185,865 |
| Leisure time activities | 25,349 | 14,175 |
| Interest on long-term debt | <u>8,905</u> | <u>13,384</u> |
| Total expenses | <u>2,927,555</u> | <u>2,678,380</u> |
| Change in net assets | 796,141 | 928,519 |
| Net assets beginning of year | <u>4,128,011</u> | <u>3,199,492</u> |
| Net assets end of year | <u>\$ 4,924,152</u> | <u>\$ 4,128,011</u> |

The positive change in net assets of \$796,141 during 2007 allows the City to accumulated resources and invest in their commitment to improving the City's infrastructure. Total revenues increased by \$116,797 compared to a year ago. Along with this increase, there was an increase in expenditures of \$249,175.

CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
 Unaudited

Governmental Activities

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

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

The following table indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by income and property tax revenues and unrestricted revenue.

| | Governmental Activities | | | |
|----------------------------------|--------------------------------|------------------------------|----------------------------|------------------------------|
| | Total Cost | Net Cost | Total Cost | Net Cost |
| | of Services | of Services | of Services | of Services |
| | <u>2007</u> | <u>2007</u> | <u>2006</u> | <u>2006</u> |
| General government | \$ 966,348 | \$ (859,855) | \$ 869,772 | \$ (772,487) |
| Security of persons and property | 1,344,204 | (1,342,911) | 1,291,398 | (1,273,221) |
| Public health and welfare | 4,746 | (4,746) | 4,575 | (4,575) |
| Public works | 279,264 | 67,614 | 299,211 | 94,111 |
| Community environment | 298,739 | (71,564) | 185,865 | 40,490 |
| Leisure time activities | 25,349 | (18,506) | 14,175 | (10,245) |
| Interest on long-term debt | <u>8,905</u> | <u>(8,905)</u> | <u>13,384</u> | <u>(13,384)</u> |
| Total Expenses | <u>\$ 2,927,555</u> | <u>\$ (2,238,873)</u> | <u>\$ 2,678,380</u> | <u>\$ (1,939,311)</u> |

When looking at the sources of income to support governmental activities, it should be noted that charges for services are only 9 percent of total revenues. Revenues provided by sources other than City residents in the form of operating and capital grants and contributions comprise another 9 percent. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**
Unaudited

The City's Funds

Information about the City's major governmental funds begins on page 12. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$3,722,454 and expenditures of \$3,258,897. The General Fund's balance increased by \$169,356, primarily due to increases in revenues from delinquent income tax collections, investment earnings and inheritance tax settlements.

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 by City Council in the form of an appropriation resolution.

Original and final General Fund budgeted revenues were \$2,662,209. The difference between actual budget basis revenues and final budgeted revenues was \$717,666 due to the City receiving additional revenues from income taxes and interest.

The increase in appropriations from the original to the final budget was \$670,782 as a result of additional transfers made from the General Fund during 2007 that was not budgeted in the beginning of the year. The difference between actual budget basis expenditures and final budgeted expenditures was \$137,103, which was mainly due to management's overall control of operational expenditures.

Capital Assets and Debt Administration

At December 31, 2007, the City had invested in a broad range of capital assets, including land, assets held for resale, land improvements, construction in progress, building and improvements, furniture, fixtures and equipment, vehicles and infrastructure.

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

| | Governmental Activities | |
|-----------------------------------|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Land | \$ 405,926 | \$ 405,926 |
| Assets held for resale | 95,150 | 95,150 |
| Construction in progress | 80,114 | 539,542 |
| Land improvements | 3,675 | 4,165 |
| Buildings and improvements | 62,338 | 65,034 |
| Furniture, fixtures and equipment | 163,559 | 138,821 |
| Vehicles | 131,195 | 137,355 |
| Infrastructure | <u>2,027,790</u> | <u>1,404,664</u> |
| Total | <u>\$ 2,969,747</u> | <u>\$ 2,790,657</u> |

**CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**
Unaudited

Net capital assets increased by \$179,090. The largest increase was in infrastructure and construction in progress for street improvements made during the year. 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.

Debt

At December 31, 2007, the City of Silverton had the following long-term debt outstanding:

Outstanding Long-Term Debt at Year-End

| | Governmental Activities | |
|---|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| 2003 Various Purpose Refunding Bonds | \$ 203,300 | \$ 249,600 |
| 2005 Vehicle Acquisitions Bonds | - | 52,389 |
| Ohio Public Works Commission Loans | | |
| 2001 - Fire Hydrants | 174,014 | 184,890 |
| 2002 - Stoll Lane Improvements | 387,142 | 424,493 |
| 2004 - East Gatewood Lane Improvements | 139,318 | 132,935 |
| 2006 - Sampson Lane Improvements | 244,117 | 256,966 |
| 2007 - Plainfield Road South Improvements | <u>494,883</u> | <u>222,753</u> |
| Total | <u>\$ 1,642,774</u> | <u>\$ 1,524,026</u> |

Along with the retirement of existing debt, the City was able to borrow another \$284,819 for improvements to Plainfield Road South. These projects are in line with the overall capital improvement plan.

The Vehicle Acquisitions Bonds of \$52,389 were retired during 2007.

The City's overall 10.5 percent legal debt margin was \$8,041,228 of December 31, 2007. The more restrictive unvoted legal debt margin was \$3,429,798 as of the same date. See Note 13 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.

CITY OF SILVERTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited

Contacting the City's Finance Department

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

CITY OF SILVERTON, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

| | | Governmental Activities |
|--|----|----------------------------|
| <i>Assets</i> | | |
| Equity in pooled cash and cash equivalents | \$ | 2,602,815 |
| Cash and cash equivalents in segregated accounts | | 7,819 |
| Receivables: | | |
| Property and other taxes | | 645,287 |
| Income taxes | | 1,143,445 |
| Accounts | | 67,655 |
| Intergovernmental | | 292,571 |
| Prepaid items | | 19,195 |
| Materials and supplies inventory | | 7,308 |
| Nondepreciable capital assets | | 581,190 |
| Depreciable capital assets, net | | 2,388,557 |
| Total assets | | 7,755,842 |
| <i>Liabilities</i> | | |
| Accounts payable | | 75,886 |
| Accrued wages and benefits | | 1,673 |
| Intergovernmental payable | | 119,673 |
| Unearned revenue | | 548,926 |
| Accrued interest payable | | 5,631 |
| Long-term liabilities: | | |
| Due within one year | | 213,680 |
| Due in more than one year | | 1,866,221 |
| Total liabilities | | 2,831,690 |
| <i>Net Assets</i> | | |
| Invested in capital assets, net of related debt | | 1,321,763 |
| Restricted for: | | |
| Debt Service | | 35,452 |
| Other purposes | | 475,017 |
| Unrestricted | | 3,091,920 |
| Total net assets | \$ | 4,924,152 |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

| | | Program Revenues | | | Net (Expense) Revenue and Change in Net Assets |
|--|--------------|--------------------------------------|---|--|---|
| | Expenses | Charges for Services and Sales | Operating Grants Contributions and Interest | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Security of persons and property | \$ 1,344,204 | 1,293 | - | - | (1,342,911) |
| Public health and welfare | 4,746 | - | - | - | (4,746) |
| Public works | 279,264 | - | 256,878 | 90,000 | 67,614 |
| Leisure time activities | 25,349 | 6,843 | - | - | (18,506) |
| Community environment | 298,739 | 227,175 | - | - | (71,564) |
| General government | 966,348 | 106,493 | - | - | (859,855) |
| Interest on long-term debt | 8,905 | - | - | - | (8,905) |
| Total governmental activities | 2,927,555 | 341,804 | 256,878 | 90,000 | (2,238,873) |
| | | | | | |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Income taxes | | | | | 1,687,365 |
| Property and other local taxes | | | | | 623,116 |
| Grants and contributions not restricted to specific programs | | | | | 500,164 |
| Investment earnings | | | | | 95,354 |
| Miscellaneous | | | | | 129,015 |
| Total general revenues | | | | | 3,035,014 |
| | | | | | |
| Change in net assets | | | | | 796,141 |
| Net assets beginning of year | | | | | 4,128,011 |
| Net assets end of year | | | | \$ | 4,924,152 |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

| | General | Other | Total |
|--|---------------------|------------------|------------------|
| | Fund | Governmental | Governmental |
| | <u>Fund</u> | <u>Funds</u> | <u>Funds</u> |
| Assets | | | |
| Equity in pooled cash and cash equivalents | \$ 1,363,072 | 1,239,743 | 2,602,815 |
| Cash and cash equivalents in segregated accounts | 6,859 | 960 | 7,819 |
| Receivables: | | | |
| Property and other local taxes | 645,287 | - | 645,287 |
| Income taxes | 1,143,445 | - | 1,143,445 |
| Accounts | 67,655 | - | 67,655 |
| Intergovernmental | 86,258 | 206,313 | 292,571 |
| Prepays | 17,916 | 1,279 | 19,195 |
| Materials and supplies inventory | 2,803 | 4,505 | 7,308 |
| | <u>3,333,295</u> | <u>1,452,800</u> | <u>4,786,095</u> |
| Total assets | | | |
| | <u>3,333,295</u> | <u>1,452,800</u> | <u>4,786,095</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | 54,410 | 21,476 | 75,886 |
| Accrued wages and benefits payable | 1,673 | - | 1,673 |
| Intergovernmental payable | 109,010 | 10,663 | 119,673 |
| Deferred revenue | 1,755,944 | 96,629 | 1,852,573 |
| | <u>1,921,037</u> | <u>128,768</u> | <u>2,049,805</u> |
| Total liabilities | | | |
| | <u>1,921,037</u> | <u>128,768</u> | <u>2,049,805</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Encumbrances | 15,850 | 44,054 | 59,904 |
| Inventory | 2,803 | 4,505 | 7,308 |
| Prepays | 17,916 | 1,279 | 19,195 |
| Unreserved, reported in: | | | |
| General fund | 1,375,689 | - | 1,375,689 |
| Special revenue funds | - | 380,904 | 380,904 |
| Debt service funds | - | 35,452 | 35,452 |
| Capital projects funds | - | 857,838 | 857,838 |
| | <u>1,412,258</u> | <u>1,324,032</u> | <u>2,736,290</u> |
| Total fund balances | | | |
| | <u>1,412,258</u> | <u>1,324,032</u> | <u>2,736,290</u> |
| Total liabilities and fund balances | \$ <u>3,333,295</u> | <u>1,452,800</u> | <u>4,786,095</u> |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2007

Total governmental fund balances \$ 2,736,290

*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. 2,969,747

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 | 101,362 | |
| Accounts receivable | 28,937 | |
| Income taxes receivable | 999,288 | |
| Intergovernmental and other receivables | 174,060 | |
| | | 1,303,647 |

Long-term liabilities, including bonds payable, are not due and
 payable in the current period and therefore are not reported
 in the funds:

| | | |
|------------------------------------|----------------|--------------------|
| General obligation bonds | (203,300) | |
| OPWC loans payable | (1,439,474) | |
| Capital lease payable | (5,210) | |
| Compensated absences payable | (431,917) | |
| Accrued interest on long-term debt | <u>(5,631)</u> | <u>(2,085,532)</u> |

Net assets of governmental activities \$ 4,924,152

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2007

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Property and other local taxes | \$ 647,741 | - | 647,741 |
| Income taxes | 1,694,376 | - | 1,694,376 |
| Intergovernmental | 460,219 | 336,534 | 796,753 |
| Charges for services | 237,291 | - | 237,291 |
| Fines, forfeitures, licenses and permits | 106,493 | 13,807 | 120,300 |
| Interest | 95,354 | 13,431 | 108,785 |
| Other | 104,978 | 12,230 | 117,208 |
| Total revenues | <u>3,346,452</u> | <u>376,002</u> | <u>3,722,454</u> |
| Expenditures: | | | |
| Current: | | | |
| Security of persons and property | 1,300,325 | 4,715 | 1,305,040 |
| Public health and welfare | 4,746 | - | 4,746 |
| Public works | - | 366,431 | 366,431 |
| Leisure time activities | 22,085 | - | 22,085 |
| Community environment | 308,009 | 3,737 | 311,746 |
| Transportation | - | 257,725 | 257,725 |
| General government | 711,960 | 1,921 | 713,881 |
| Capital outlay | - | 96,535 | 96,535 |
| Debt service: | | | |
| Principal retirement | 4,272 | 166,071 | 170,343 |
| Interest and fiscal charges | - | 10,365 | 10,365 |
| Total expenditures | <u>2,351,397</u> | <u>907,500</u> | <u>3,258,897</u> |
| Excess of revenues over (under) expenditures: | <u>995,055</u> | <u>(531,498)</u> | <u>463,557</u> |
| Other financing sources (uses): | | | |
| Transfers in | 18,427 | 844,126 | 862,553 |
| Transfers out | (844,126) | (18,427) | (862,553) |
| Issuance of OPWC loan | - | 284,819 | 284,819 |
| Total other financing sources (uses) | <u>(825,699)</u> | <u>1,110,518</u> | <u>284,819</u> |
| Net change in fund balance | 169,356 | 579,020 | 748,376 |
| Fund balance, beginning of year | <u>1,242,902</u> | <u>745,012</u> | <u>1,987,914</u> |
| Fund balance, end of year | <u>\$ 1,412,258</u> | <u>1,324,032</u> | <u>2,736,290</u> |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, 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, 2007

Net change in fund balances - total governmental funds \$ 748,376

*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 | 442,309 |
| Depreciation expense | (263,219) |

| | |
|--|-------|
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 1,242 |
|--|-------|

| | |
|---|---------|
| Repayment of bond, loan and lease principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. | 170,343 |
|---|---------|

| | |
|--|-------|
| In the statement of activities, interest is accrued on outstanding bonds, whereas in in governmental funds, an interest expenditure is reported when due. | 1,460 |
|--|-------|

| | |
|--|-----------|
| OPWC loan proceeds are reported as other financing sources in governmental funds. In the government-wide statements issuing debt increases long-term liabilities. | (284,819) |
|--|-----------|

| | |
|--|-----------------|
| Some expenses reported in the statement of activities, such as compensated absences do not require the use current financial resources and therefore are not reported as expenditures in governmental funds. | <u>(19,551)</u> |
|--|-----------------|

Change in net assets of governmental activities \$ 796,141

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|---------------------|-------------------|---------------------|----------------------------------|
| Revenue | | | | |
| Property and Other Local Taxes | \$ 618,443 | \$ 618,443 | \$ 647,741 | \$ 29,298 |
| Income Taxes | 1,450,442 | 1,450,442 | 1,709,165 | 258,723 |
| Charges for Services | 234,061 | 234,061 | 231,085 | (2,976) |
| Fines, Forfeitures, Licenses and Permits | 93,049 | 93,049 | 103,432 | 10,383 |
| Intergovernmental | 214,698 | 214,698 | 489,806 | 275,108 |
| Interest | 50,000 | 50,000 | 93,088 | 43,088 |
| Other | <u>1,516</u> | <u>1,516</u> | <u>105,558</u> | <u>104,042</u> |
| Total Revenues | <u>2,662,209</u> | <u>2,662,209</u> | <u>3,379,875</u> | <u>717,666</u> |
| Expenditures | | | | |
| Current | | | | |
| General Government | 775,969 | 795,063 | 785,636 | 9,427 |
| Security of Persons and Property | 1,306,311 | 1,338,455 | 1,291,627 | 46,828 |
| Public Health and Welfare | 4,631 | 4,745 | 4,745 | - |
| Leisure Time Activities | 25,711 | 26,344 | 26,648 | (304) |
| Community Environment | <u>268,512</u> | <u>275,119</u> | <u>242,967</u> | <u>32,152</u> |
| Total Expenditures | <u>2,381,135</u> | <u>2,439,726</u> | <u>2,351,623</u> | <u>88,103</u> |
| Excess of Revenues Over Expenditures | <u>281,074</u> | <u>222,483</u> | <u>1,028,252</u> | <u>805,769</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | 18,427 | 18,427 | - |
| Transfers Out | <u>(280,935)</u> | <u>(893,126)</u> | <u>(844,126)</u> | <u>49,000</u> |
| Total Other Financing Sources (Uses) | <u>(280,935)</u> | <u>(874,699)</u> | <u>(825,699)</u> | <u>49,000</u> |
| Net Change in Fund Balance | 139 | (652,216) | 202,553 | 854,769 |
| Fund Balance at Beginning of Year | <u>1,130,903</u> | <u>1,130,903</u> | <u>1,130,903</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 1,131,042</u> | <u>\$ 478,687</u> | <u>\$ 1,333,456</u> | <u>\$ 854,769</u> |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2007

Assets

| | | |
|--|----|---------------|
| Equity in pooled cash and cash equivalents | \$ | 10,332 |
| Cash in segregated accounts | | <u>16,148</u> |
| Total assets | | <u>26,480</u> |

Liabilities

| | | |
|---------------------------------|----|---------------|
| Intergovernmental payable | | 2,242 |
| Deposits held and due to others | | <u>24,238</u> |
| Total liabilities | \$ | <u>26,480</u> |

See accompanying notes to the basic financial statements.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Silverton (the “City”) is a chartered municipal corporation operating under the laws of the State of Ohio. In 1884, the area was incorporated as the Hamlet of Silverton and continued that status until December 31, 1904, when by election it became the Village of Silverton. On January 4, 1961, Silverton officially became a city. The municipal government is known as a Council/Manager form of government. Legislative power is vested in a six member council, all of whom serve a two year term. The Council appoints a City Manager. The City Manager is the chief executive officer and the head of the administrative agencies of the City. He/she appoints all department heads and employees, except the Mayor and Solicitor. The Mayor is elected at large for a two year term. The Solicitor is appointed by Council. During 2006, the citizens voted to amend the charter by eliminating the voted clerk-treasurer position and replacing with a finance director that is appointed by the city manager.

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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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. 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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned. (See Note 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, 2007, but were levied to finance 2009 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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met because such amounts have not yet been earned.

Expenses/Expenditures

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

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

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity In Pooled Cash and Cash Equivalents" on the financial statements. The City's Mayor's Court has its own checking accounts for collection and distribution of court fines and forfeitures which are presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts."

During fiscal year 2007, the City's investments included various federal securities.

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

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue reported in the fund financials for 2007 amounted to \$108,785. This amount includes an increase of \$2,266 in the market value of the City's investments at December 31, 2007 as required under Governmental Accounting Standards Board (GASB) Statement 31 "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*"

Materials and Supplies Inventory

Inventories 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, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditures/expense is recorded in the year in which services are consumed.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Capital Assets

All of the City's capital assets are classified as general capital assets. General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values on the date received. The City maintains a capitalization threshold of 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 expended.

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

| <u>Asset Description</u> | <u>Estimated Life</u> |
|-----------------------------------|-----------------------|
| Land Improvements | 20 Years |
| Building and Improvements | 20 – 50 Years |
| Furniture, Fixtures and Equipment | 3 – 10 Years |
| Vehicles | 5 – 10 Years |
| Infrastructure | 10 – 50 Years |

The City's infrastructure consists of streets, curbs and gutters, sidewalks, storm drains, fire hydrants and street lighting. The City began reporting infrastructure in 2004. Only the amounts acquired from that point will be included in capital assets.

Compensated Absences

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

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, 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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 of Fund Balance

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 balance has been reserved for encumbrances, prepaids and inventory.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling 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. Of the City's \$510,469 in restricted net assets, none were restricted by enabling legislation.

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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 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 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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 - <i>GAAP Basis</i> | \$ | 169,356 |
| | | |
| Increase / (decrease): | | |
| Due to revenues | | 33,423 |
| Due to expenditures | | 15,624 |
| Due to encumbrances | | <u>(15,850)</u> |
| | | |
| Net change in fund balance - <i>Budget Basis</i> | \$ | <u>202,553</u> |

NOTE 4 – DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the Ohio Revised Code. Additionally, the City adopted an investment policy in 2006 which also governs investments. State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that 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.

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

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations; and
6. The State Treasurer's investment pool (STAROhio).

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

At year-end, the City had the following Investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity</u> |
|--|--------------------|--------------------|
| Federal Home Loan Bank Bonds | \$698,908 | Less than one year |
| Federal Home Loan Mortgage Corp. Bonds | <u>499,930</u> | One-three years |
| Total | <u>\$1,198,838</u> | |

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,433,889 of the City's bank balance of \$1,554,797 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.

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

The City's investment policy states that investment in corporate entities must have a debt rating of Aa or better by Standard & Poors' or Moody's rating service. The City's investments in US government agencies all have a rating of AAA by Standard & Poors'.

Concentration of Credit Risk

The City's investment policy does not place any limit on investments in any single issuer. Five percent or more of the City's investments are in the following:

| <u>Investment Type</u> | <u>Percent</u> |
|--|----------------|
| Federal Home Loan Bank Bonds | 58.3% |
| Federal Home Loan Mortgage Corp. Bonds | 41.7% |

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 2007 for real and public utility property taxes represents collections of 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are 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. 2007 real property taxes were collected in and financed 2008 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. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2007 with real property taxes. 2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

The full tax rate for all City operations for the year ended December 31, 2007, was \$8.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 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 Assessed Value | \$ <u><u>92,228,600</u></u> | <u><u>100.00%</u></u> |

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Silverton. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007, 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 2007 operations, and the collection of delinquent taxes

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2007, consisted of municipal income tax, property and other taxes, accounts, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full and will be received within one year. A summary of intergovernmental receivables follows:

| | <u>Amount</u> |
|-------------------------------|-------------------|
| Governmental Activities | |
| Homestead and Rollback | \$ 28,895 |
| Personal Property Exemption | 3,500 |
| County Local Government | 45,518 |
| State Local Government | 8,345 |
| Gasoline Excise Tax | 52,239 |
| Gasoline Cents Per Gallon | 26,700 |
| Motor Vehicle License Tax | 13,096 |
| Permissive Tax | 24,278 |
| Hamilton County MRF Grant | <u>90,000</u> |
| Total Governmental Activities | <u>\$ 292,571</u> |

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 were allocated to the General Fund.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

| Governmental Activities: | | | | | |
|--|----|------------------|------------------|------------------|------------------|
| | | Balance | | | Balance |
| | | <u>12/31/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>12/31/07</u> |
| <i>Capital assets not being depreciated:</i> | | | | | |
| Land | \$ | 405,926 | - | - | 405,926 |
| Assets Held for Resale | | 95,150 | - | - | 95,150 |
| Construction in Progress | | <u>539,542</u> | <u>366,431</u> | <u>(825,859)</u> | <u>80,114</u> |
| Subtotal | | <u>1,040,618</u> | <u>366,431</u> | <u>(825,859)</u> | <u>581,190</u> |
| <i>Capital assets being depreciated:</i> | | | | | |
| Land Improvements | | 40,600 | - | - | 40,600 |
| Buildings and Improvements | | 256,730 | - | - | 256,730 |
| Furniture, Fixtures and Equipment | | 222,568 | 51,885 | - | 274,453 |
| Vehicles | | 426,809 | 23,993 | - | 450,802 |
| Infrastructure | | <u>1,614,403</u> | <u>825,859</u> | - | <u>2,440,262</u> |
| Subtotal | | <u>2,561,110</u> | <u>901,737</u> | - | <u>3,462,847</u> |
| Totals at historical cost | | <u>3,601,728</u> | <u>1,268,168</u> | <u>(825,859)</u> | <u>4,044,037</u> |
| Less accumulated depreciation: | | | | | |
| Land Improvements | | 36,435 | 490 | - | 36,925 |
| Buildings and Improvements | | 191,696 | 2,696 | - | 194,392 |
| Furniture, Fixtures and Equipment | | 83,747 | 27,147 | - | 110,894 |
| Vehicles | | 289,454 | 30,153 | - | 319,607 |
| Infrastructure | | <u>209,739</u> | <u>202,733</u> | - | <u>412,472</u> |
| Total accumulated depreciation | | <u>811,071</u> | <u>263,219</u> | - | <u>1,074,290</u> |
| Capital assets, net | \$ | <u>2,790,657</u> | <u>1,004,949</u> | <u>(825,859)</u> | <u>2,969,747</u> |

Depreciation expense was charged to governmental functions as follows:

| | | |
|----------------------------------|----|----------------|
| Security of persons and property | \$ | 9,996 |
| Leisure time activities | | 26,137 |
| Public Health | | 3,264 |
| Public Works | | <u>223,822</u> |
| Total depreciation expense | \$ | <u>263,219</u> |

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Both the Ohio Police and Firemen’s Disability and Pension Fund and the Ohio Public Employees Retirement System are reported using GASB Statement No. 27 “Accounting for Pensions by State and Local Governmental Employers”. Substantially all City employees are covered by one of the two cost-sharing multiple-employer defined benefit pension plans, namely, the Police and Firemen’s Disability and Pension Fund or the Ohio Public Employees Retirement System of Ohio (OPERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

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, 2007, 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 2007 was 13.85 percent, except for those plan members in law enforcement or public safety.

The City’s required contributions to OPERS for the years ended December 31, 2007, 2006, 2005 were approximately \$86,000, \$79,000, and \$74,000, respectively; 91 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007, 2006, and 2005 were approximately \$118,000, \$118,000, and \$120,000, respectively. The full amount has been contributed for 2006 and 2005 and 71 percent has been contributed for 2007.

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. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pension."* 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 2007 the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively.

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, 2007, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from one to six percent annually for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at four percent.

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.

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

The number of active contributing participants in the traditional and combined plans was approximately 375,000 and the number of active contributing participants used for both plans in the December 31, 2006 actuarial valuation was 362,000. Actual employer contributions for 2007, 2006 and 2005 which were used to fund postemployment benefits were \$34,000, \$23,000 and \$22,000, respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006, (the latest information available) were \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, 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.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 45*. 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 6.75 percent of covered payroll was applied to the postemployment health care program during 2007. 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 2007, 2006 and 2005 that were used to fund postemployment benefits were \$41,000, \$47,000 and \$52,000, respectively for police. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120.4 million, which was net of member contributions of \$58.5 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was approximately 14,000 for police.

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.

**CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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 2007, the City participated in a group purchasing pool. The intent of the Plan is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

NOTE 12 – CAPITALIZED LEASES – LESSEE DISCLOSURE

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

Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program expenditures on a budgetary basis. Principal of \$4,272 was paid in 2007.

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

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, 2007.

| Year Ending December 31 | | |
|---|----|-----------------|
| 2008 | \$ | 4,272 |
| 2009 | | <u>938</u> |
| Total Future Minimum Lease Payments | | 5,210 |
| Less: Amount Representing Interest | | <u>-</u> |
| Present Value of Future Minimum Lease Payments | | <u>\$ 5,210</u> |
| | | |
| | | |

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2007 were as follows:

| Description | 12/31/2006 | Issued | Retired | 12/31/2007 | Amounts Due |
|-------------------------------|---------------------|----------------|----------------|------------------|--------------------|
| | Balance | | | Balance | Within One Year |
| Various Purpose General | | | | | |
| Obligation Refunding Bonds | \$ 249,600 | - | 46,300 | 203,300 | 48,100 |
| Vehicle Acquisition General | | | | | |
| Obligation Bonds (dumptruck) | 52,389 | - | 52,389 | - | - |
| Ohio Public Works Commission | | | | | |
| Loan - Fire Hydrants | 184,890 | - | 10,876 | 174,014 | 10,876 |
| Ohio Public Works Commission | | | | | |
| Loan - Stoll Lane | 409,915 | - | 22,773 | 387,142 | 22,773 |
| Ohio Public Works Commission | | | | | |
| Loan - E Gatewood Lane | 147,513 | - | 8,195 | 139,318 | 8,195 |
| Ohio Public Works Commission | | | | | |
| Loan - Sampson Lane | 256,966 | - | 12,849 | 244,117 | 12,848 |
| Ohio Public Works Commission | | | | | |
| Loan - Plainfield Rd. South | 222,753 | 284,819 | 12,689 | 494,883 | 25,379 |
| | | | | | |
| Capital Lease Obligations | 9,482 | - | 4,272 | 5,210 | 4,272 |
| Compensated Absences | <u>412,366</u> | <u>184,518</u> | <u>164,967</u> | <u>431,917</u> | <u>81,237</u> |
| | | | | | |
| Total Governmental Activities | \$ <u>1,945,874</u> | <u>469,337</u> | <u>335,310</u> | <u>2,079,901</u> | <u>213,680</u> |

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.

During 2007, the City retired the Vehicle Acquisition General Obligation Bonds in the amount of \$52,389.

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

In July 2002, the City entered into a project loan agreement with the Ohio Public Works Commission for the purpose of making improvements to Stoll Lane. The original loan amount is \$455,461, payable over 20 years without interest.

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

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

During 2006, improvements to Sampson Lane were completed. The City received \$256,966 from the Ohio Public Works Commission 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 Ohio Public Works Commission. During 2007 an additional \$284,819 was received for a total of \$507,572 for the project. All work was completed in 2007 and repayment of the loan began.

Compensated absences and capital lease obligations will be paid from the General Fund.

As of December 31, 2007, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,041,228 and the unvoted legal debt margin was \$3,429,798.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2007 were:

| | <u>General Obligation Bonds</u> | | <u>OWDA Loans</u> |
|--------------|---------------------------------|-----------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> |
| 2008 | \$ 48,100 | 7,502 | 80,071 |
| 2009 | 49,900 | 5,727 | 80,071 |
| 2010 | 51,700 | 3,886 | 80,071 |
| 2011 | 53,600 | 1,978 | 80,071 |
| 2012 | - | - | 80,071 |
| 2013-2017 | - | - | 400,355 |
| 2018-2022 | - | - | 400,355 |
| 2023-2027 | - | - | 238,409 |
| Total | \$ 203,300 | 19,093 | 1,439,474 |

NOTE 14 – 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 2007 and transferred to the General Fund.

| | | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|-----------|---------------------|----------------------|
| General Fund | \$ | 18,427 | 844,126 |
| Other governmental funds | | 844,126 | 18,427 |
| Total | \$ | 862,553 | 862,553 |

CITY OF SILVERTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 15 – 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, 2007, to December 31, 2007, 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 16 – SUBSEQUENT EVENTS

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 with debt being issued to complete the project.

The City was approved by the Ohio Public Works Commission 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.

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2007, the City has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Statement No. 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. This also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. Collectively, these benefits are commonly referred to as "other postemployment benefits (OPEB)."

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

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CITY OF SILVERTON

Yellow Book Report

December 31, 2007

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**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 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 (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. These items are identified in the accompanying schedule of findings and responses as item 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City'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. However, we believe that none of the significant deficiencies described above is a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 29, 2009.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 29, 2009

**CITY OF SILVERTON
Schedule of Findings and Responses
Year Ended December 31, 2007**

2007-001 - Significant Deficiencies Related to the Payroll System:

We noted the following significant deficiencies as part of payroll control testing:

- Pay rates were not approved on three percent of transactions tested.
- Timesheets were not approved by a department head on thirteen percent of transactions tested.

The City should implement application and monitoring controls over the payroll system to ensure that all payroll transactions are accurately and completely reported.

Management Response:

Management concurs.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.

June 29, 2009

**CITY OF SILVERTON
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007**

| <u>Finding Number</u> | <u>Finding Summary</u> | <u>Fully Corrected</u> | <u>Not Corrected, Partially Corrected, Significantly Different; Corrected Action Taken; or Finding No Longer Valid; Explain</u> |
|-----------------------|--|----------------------------|---|
| 2006-20431-001 | Internal control weaknesses were noted relating to W-4's, I-9's, cash receipt posting and compensated absence detail | Yes | Corrected 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 25, 2009**