

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO**

DECEMBER 31, 2003

*GENERAL PURPOSE FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT*



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Silverton, Hamilton County, prepared by VonLehman & Company, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 10, 2007

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HAMILTON COUNTY, OHIO
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the City of Silverton, Ohio as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Silverton, Ohio's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Silverton, Ohio, as of December 31, 2003, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 2007 on our consideration of the City of Silverton, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City of Silverton's management and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
March 16, 2007

**City of Silverton
Hamilton County, Ohio
Combined Balance Sheet
All Governmental Fund Types and Account Groups
December 31, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS								
Assets								
Equity in Pooled Cash and Cash Equivalents	\$ 967,528	\$ 269,316	\$ 2,421	\$ 1,691,982	\$ -	\$ -	\$ -	\$ 2,931,247
Cash and Cash Equivalents in Segregated Accounts	-	-	-	-	9,785	-	-	9,785
Receivables								
Municipal Income Tax	330,139	-	-	-	-	-	-	330,139
Property and Other Taxes	602,182	3,010	-	-	-	-	-	605,192
Accounts	881	-	-	-	-	-	-	881
Special Assessments	15,463	-	-	-	-	-	-	15,463
Due From Other Funds	7,812	-	-	-	-	-	-	7,812
Due From Other Governments	102,242	80,363	-	-	-	-	-	182,605
Materials and Supplies Inventory	1,143	-	-	-	-	-	-	1,143
Prepaid Items	8,888	-	-	-	-	-	-	8,888
Fixed Assets	-	-	-	-	-	1,587,671	-	1,587,671
Other Debits								
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations	-	-	-	-	-	-	2,421	2,421
Amount to be Provided for Retirement of Long-Term Obligations	-	-	-	-	-	-	1,034,859	1,034,859
Total Assets and Other Debits	\$ 2,036,278	\$ 352,689	\$ 2,421	\$ 1,691,982	\$ 9,785	\$ 1,587,671	\$ 1,037,280	\$ 6,718,106
LIABILITIES, FUND EQUITY AND OTHER CREDITS								
Liabilities								
Accounts Payable	\$ 33,493	\$ 2,821	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,314
Contracts Payable	405	1,886	-	-	-	-	-	2,291
Accrued Salaries Payable	3,900	-	-	-	-	-	-	3,900
Due to Other Funds	-	-	-	-	7,812	-	-	7,812
Due to Other Governments	27,965	1,276	-	-	1,688	-	32,037	62,966
Due to Individuals	-	-	-	-	285	-	-	285
Deferred Revenue	900,892	55,178	-	-	-	-	-	956,070
Accrued Interest Payable	-	282	-	736	-	-	-	1,018
Notes Payable	-	30,000	-	78,377	-	-	-	108,377
General Obligation Bonds Payable	-	-	-	-	-	-	379,100	379,100
Compensated Absences Payable	6,179	-	-	-	-	-	388,643	394,822
Capital Leases Payable	-	-	-	-	-	-	19,981	19,981
Loans Payable	-	-	-	-	-	-	217,519	217,519
Total Liabilities	972,834	91,443	-	79,113	9,785	-	1,037,280	2,190,455
Fund Equity and Other Credits								
Investment in General Fixed Assets	-	-	-	-	-	1,587,671	-	1,587,671
Retained Earnings, Unreserved	-	-	-	-	-	-	-	-
Fund Balances:								
Reserved for Encumbrances	7,675	9,665	-	-	-	-	-	17,340
Reserved for Materials and Supplies Inventory	1,143	-	-	-	-	-	-	1,143
Unreserved	1,054,626	251,581	2,421	1,612,869	-	-	-	2,921,497
Total Fund Equity and Other Credits	1,063,444	261,246	2,421	1,612,869	-	1,587,671	-	4,527,651
Total Liabilities, Fund Equity, and Other Credits	\$ 2,036,278	\$ 352,689	\$ 2,421	\$ 1,691,982	\$ 9,785	\$ 1,587,671	\$ 1,037,280	\$ 6,718,106

See accompanying notes.

**City of Silverton
Hamilton County, Ohio
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2003**

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
Revenues					
Municipal Income Tax	\$ 1,025,489	\$ -	\$ -	\$ -	\$ 1,025,489
Property and Other Taxes	632,816	-	-	-	632,816
Intergovernmental	138,552	203,481	-	1,673,727	2,015,760
Charges for Services	267,625	-	-	-	267,625
Rent	1,800	-	-	-	1,800
Fines, Licenses and Permits	64,317	10,273	-	-	74,590
Donations	3,753	-	-	100	3,853
Interest	15,145	1,240	-	-	16,385
Miscellaneous	23,231	313	-	-	23,544
Total Revenues	<u>2,172,728</u>	<u>215,307</u>	<u>-</u>	<u>1,673,827</u>	<u>4,061,862</u>
Expenditures					
Current					
Security of Persons and Property	1,071,062	1,862	-	-	1,072,924
Transportation	420	183,650	-	-	184,070
Public Health Services	4,362	-	-	-	4,362
Leisure Time Activities	70,564	929	-	-	71,493
Community Environment	21,587	-	-	-	21,587
Basic Utilities Services	184,426	-	-	-	184,426
General Government	619,792	2	-	-	619,794
Capital Outlay	-	-	-	129,916	129,916
Debt Service					
Principal Retirement	6,660	11,098	-	298,900	316,658
Interest and Fiscal Charges	859	1,582	-	8,901	11,342
Total Expenditures	<u>1,979,732</u>	<u>199,123</u>	<u>-</u>	<u>437,717</u>	<u>2,616,572</u>
Excess of Revenues Over Expenditures	<u>192,996</u>	<u>16,184</u>	<u>-</u>	<u>1,236,110</u>	<u>1,445,290</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Notes	-	-	-	379,100	379,100
Proceeds from Long-Term Loans	-	-	-	16,982	16,982
Proceeds from Sale of Fixed Assets	650	-	-	-	650
Operating Transfers - In	-	84,233	-	51,739	135,972
Operating Transfers - Out	(133,284)	(2,688)	-	-	(135,972)
Total Other Financing Sources (Uses)	<u>(132,634)</u>	<u>81,545</u>	<u>-</u>	<u>447,821</u>	<u>396,732</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>60,362</u>	<u>97,729</u>	<u>-</u>	<u>1,683,931</u>	<u>1,842,022</u>
Fund Balances (Deficit) at Beginning of Year (Restated - Note 3)	1,003,165	163,517	2,421	(71,062)	1,098,041
Decrease in Reserve for Inventory	(83)	-	-	-	(83)
Fund Balances at End of Year	<u>\$ 1,063,444</u>	<u>\$ 261,246</u>	<u>\$ 2,421</u>	<u>\$ 1,612,869</u>	<u>\$ 2,939,980</u>

See accompanying notes.

City of Silverton
Hamilton County, Ohio
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Year Ended December 31, 2003

	General Fund			Special Revenue Funds			Debt Service Fund			Capital Projects Funds			Total (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues															
Municipal Income Tax	\$ 1,079,000	\$ 1,086,076	\$ 7,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,079,000	\$ 1,086,076	\$ 7,076
Property and Other Taxes	626,919	632,816	5,897	-	-	-	-	-	-	-	-	-	626,919	632,816	5,897
Intergovernmental	131,757	134,289	2,532	195,250	207,422	12,172	-	-	-	2,246,358	1,673,727	(572,631)	2,573,365	2,015,438	(557,927)
Charges for Services	262,380	267,625	5,245	-	-	-	-	-	-	-	-	-	262,380	267,625	5,245
Rent	-	1,800	1,800	-	-	-	-	-	-	-	-	-	-	1,800	1,800
Fines, Licenses and Permits	56,525	56,760	235	9,900	10,273	373	-	-	-	-	-	-	66,425	67,033	608
Donations	3,700	3,753	53	-	-	-	-	-	-	-	100	100	3,700	3,853	153
Interest	14,500	15,145	645	700	1,240	540	-	-	-	-	-	-	15,200	16,385	1,185
Miscellaneous	33,126	34,066	940	150	480	330	-	-	-	-	-	-	33,276	34,546	1,270
Total Revenues	2,207,907	2,232,330	24,423	206,000	219,415	13,415	-	-	-	2,246,358	1,673,827	(572,531)	4,660,265	4,125,572	(534,693)
Expenditures															
Current															
Security of Persons and Property	1,076,800	1,058,811	17,989	3,825	1,862	1,963	-	-	-	-	-	-	1,080,625	1,060,673	19,952
Transportation	500	420	80	293,339	225,051	68,288	-	-	-	-	-	-	293,839	225,471	68,368
Public Health Services	4,375	4,362	13	-	-	-	-	-	-	-	-	-	4,375	4,362	13
Leisure Time Activities	73,500	71,561	1,939	41,029	929	40,100	-	-	-	-	-	-	114,529	72,490	42,039
Community Environment	22,175	22,613	(438)	-	-	-	-	-	-	-	-	-	22,175	22,613	(438)
Basic Utilities Services	185,375	184,027	1,348	-	-	-	-	-	-	-	-	-	185,375	184,027	1,348
General Government	625,335	624,394	941	-	-	-	-	-	-	-	-	-	625,335	624,394	941
Capital Outlay	2,050	2,048	2	82,468	-	82,468	-	-	-	2,425,778	202,699	2,223,079	2,510,296	204,747	2,305,549
Debt Service															
Principal Retirement	-	-	-	40,000	40,000	-	2,421	-	2,421	397,377	397,277	100	439,798	437,277	2,521
Interest and Fiscal Charges	-	-	-	4,200	3,781	419	-	-	-	7,659	6,710	949	11,859	10,491	1,368
Total Expenditures	1,990,110	1,968,236	21,874	464,861	271,623	193,238	2,421	-	2,421	2,830,814	606,686	2,224,128	5,288,206	2,846,545	2,441,661
Excess of Revenues Over (Under) Expenditures	217,797	264,094	46,297	(258,861)	(52,208)	206,653	(2,421)	-	2,421	(584,456)	1,067,141	1,651,597	(627,941)	1,279,027	1,906,968
Other Financing Sources (Uses)															
Proceeds from Sale of Notes	-	-	-	30,000	30,000	-	-	-	-	457,477	457,477	-	487,477	487,477	-
Proceeds from Long-Term Loans	-	-	-	-	-	-	-	-	-	17,175	16,982	(193)	17,175	16,982	(193)
Proceeds from Sale of Fixed Assets	500	650	150	-	-	-	-	-	-	-	-	-	500	650	150
Operating Transfers - In	-	-	-	84,990	84,233	(757)	-	-	-	49,100	49,051	(49)	134,090	133,284	(806)
Operating Transfers - Out	(134,090)	(133,284)	806	-	-	-	-	-	-	-	-	-	(134,090)	(133,284)	806
Total Other Financing Sources (Uses)	(133,590)	(132,634)	956	114,990	114,233	(757)	-	-	-	523,752	523,510	(242)	505,152	505,109	(43)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	84,207	131,460	47,253	(143,871)	62,025	205,896	(2,421)	-	2,421	(60,704)	1,590,651	1,651,355	(122,789)	1,784,136	1,906,925
Fund Balances at Beginning of Year	799,665	799,665	-	143,879	143,879	-	2,421	2,421	-	60,706	60,706	-	1,006,671	1,006,671	-
Prior Year Encumbrances Appropriated	17,120	17,120	-	50,780	50,780	-	-	-	-	40,625	40,625	-	108,525	108,525	-
Fund Balances at End of Year	\$ 900,992	\$ 948,245	\$ 47,253	\$ 50,788	\$ 256,684	\$ 205,896	\$ -	\$ 2,421	\$ 2,421	\$ 40,627	\$ 1,691,982	\$ 1,651,355	\$ 992,407	\$ 2,899,332	\$ 1,906,925

See accompanying notes.

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

NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION

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

The Reporting Entity

A 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 represents the primary City operations which are directly responsible to the Mayor and Council. Services provided include police protection, parks and recreation, planning, zoning, street maintenance and repair, parking, waste disposal, and public health and welfare. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the City Manager through administrative and managerial requirements and procedures.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. The City does not have any component units included in its reporting entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following governmental fund types.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the City's governmental fund types:

- (A) The General Fund is the operating fund of the City and is used to account 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.
- (B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.
- (C) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.
- (D) The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

- (A) The General Fixed Assets Account Group is used to account for all fixed assets of the City.
- (B) The General Long-Term Obligations Account Group is established to account for all long-term obligations of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds.

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 sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, shared revenues and donations. On an accrual basis, revenue from income tax is recognized in the year in which the exchange on which the tax is imposed takes place, and revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, shared revenues 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, state-levied locally shared taxes (including gasoline tax), fines, licenses and permits.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables not collected within the available period have also been reported as deferred revenue.

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.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reported in the combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds are legally required to be budgeted.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance.

On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources in force at the time final appropriations were passed by Council.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. Amounts shown in the statements represent the appropriated budgeted amounts and all supplemental appropriations passed during the year. One supplemental appropriation measure was legally enacted during 2003 by Council.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made to security of persons and property, transportation, public health services, leisure time activities, community environment, basic utilities, and general government within each fund. The appropriations set by Council remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council's appropriated amount.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding calendar year and need not be reappropriated.

Cash and Cash Equivalents

To improve cash management, all 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 combined balance sheet. The City's Mayor's Court has its own checking account for collection and distribution of court fines and forfeitures, which is presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

During 2003, the City's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$15,145 which includes \$5,256 assigned from other City funds.

Material and Supplies Inventory

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures, and the related assets are reported in the general fixed assets account group. Assets in the general fixed assets account group are not depreciated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All purchased fixed assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are valued at their estimated fair market value on the date received. The City maintains a capitalization threshold of five hundred dollars.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs, gutters, sidewalks, street lights, traffic signals, fire hydrants, and drainage systems are not capitalized or reported, as these assets are immovable and of value only to the City.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Compensated Absences

Vacation benefits and compensatory time are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated, unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. 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.

The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

Insurance Benefits

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

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General obligation bonds, long-term loans and capital lease obligations are recognized as a liability of the general long-term obligations account group until due.

Reservations of Fund Equity

Reserves of fund equity indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved for encumbrances and materials and supplies inventory.

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.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 – PRIOR PERIOD ADJUSTMENT

In the prior year, the City overstated contracts payable and retainage payable in the Stewart Road Capital Projects Fund and understated contracts payable and retainage payable in the Street Construction, Maintenance, and Repair Special Revenue Fund. In addition, intergovernmental receivables were understated in the General Fund. The restatement of these amounts had the following effect on fund balance:

	General Fund	Special Revenue Fund	Capital Projects Fund
Fund Balance			
Reported December 31, 2002	\$ 947,247	\$ 180,153	\$ (87,698)
Contracts Payable	-	(450)	450
Retainage Payable	-	(16,186)	16,186
Due from Other Governments	55,918	-	-
Fund Balance			
Restated December 31, 2002	\$ 1,003,165	\$ 163,517	\$ (71,062)

NOTE 4 – ACCOUNTABILITY

Accountability

The Fire Department special revenue fund and the Belkenton Road capital projects funds had fund balance deficits of \$30,282 and \$78,913, respectively. The deficits in the Fire Department special revenue fund and the Belkenton Road capital projects fund are due to notes payable being reported as fund liabilities. The fund deficits will be eliminated when bonds are issued or when the notes are paid off.

NOTE 5 - BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, appropriations, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual (Budget Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Receipt and payment of year-end interfund loans are treated as other sources or uses (budget basis) rather than an increase or decrease in an asset or liability account (GAAP basis).

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

Excess of Revenues and Other Financing Sources Over
Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	\$ 60,362	\$ 97,729	\$ 1,683,931
Adjustments			
Revenue Accruals	59,602	4,108	-
Expenditure Accruals	22,458	(30,966)	(70,592)
Prepaid Items	8,321	-	-
Reallocation of Debt	-	2,688	(2,688)
Principal Retirement	-	(28,902)	(98,377)
Proceeds of Notes	-	30,000	78,377
Encumbrances	(19,283)	(12,632)	-
Budget Basis	\$ 131,460	\$ 62,025	\$ 1,590,651

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that 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. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

State statute permits interim monies to be deposited or invested in the following securities:

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

- I. 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; or
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 until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Clerk-Treasurer 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 \$1,350 in undeposited cash on hand which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

At year-end, the carrying amount of the City's deposits was \$2,237,899 and the bank balance was \$2,267,182. Of the bank balance, \$122,523 was covered by federal depository insurance, and \$2,144,659 was uninsured and uncollateralized. Although all state 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.

GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and fair value of investments, classified by risk. The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The City's only investment at year-end was STAROhio. This investment had a fair value of \$701,783. The investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash & Cash Equivalents/ Deposits</u>	<u>Investments</u>
Deposits with Financial Institutions	\$ 2,941,032	\$ -
Cash on Hand	(1,350)	-
Investments		
STAR Ohio	<u>(701,783)</u>	<u>701,783</u>
 GASB Statement No. 3	 <u>\$ 2,237,899</u>	 <u>\$ 701,783</u>

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes were collected in and financed 2004 operations.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. For public utilities which own properties within the City limits, 2003 utility property taxes became a lien December 31, 2002, were levied after October 1, 2003, and were collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$11.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$ 71,230,300	91.04%
Public Utility Property	3,662,990	4.68%
Tangible Personal	<u>3,346,650</u>	<u>4.28%</u>
 Total Assessed Value	 <u>\$ 78,239,940</u>	 <u>100.00%</u>

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

NOTE 7 - PROPERTY TAXES

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 semiannually, 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 collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue.

NOTE 8 - 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 tax paid to another municipality.

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

In 2003, the proceeds were allocated to the general fund. Income tax revenue for 2003 was \$1,025,489.

NOTE 9 – RECEIVABLES

Receivables at December 31, 2003, consisted of municipal income tax, property and other taxes, accounts, special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible. A summary of intergovernmental receivables follows:

General Fund	
Homestead and Rollback	\$ 31,113
Local Government	15,184
Liquor Permits	49
Mayor's Court Fines	40
Ohio Public Deferred Compensation-Repayment	440
Personal Property Exemption	3,925
Shared Income Tax	48,821
Local Government Revenue Assistance	<u>2,670</u>
Total General Fund	<u>102,242</u>
Special Revenue Funds	
Street Construction, Maintenance, and Repair Fund	
Gasoline Cents Per Gallon	30,606
Permissive Tax	761
Motor Vehicle License Tax	15,848
Gasoline Excise Tax	<u>27,173</u>
Total Street Construction, Maintenance, and Repair Fund	<u>74,388</u>

NOTE 9 – RECEIVABLES (Continued)

State Highway Fund	
Gasoline Cents Per Gallon	2,485
Motor Vehicle License Tax	1,289
Gasoline Excise Tax	<u>2,201</u>
Total State Highway Fund	<u>5,975</u>
Total Special Revenue Funds	<u>80,363</u>
Total All Funds	<u>\$ 182,605</u>

NOTE 10 – FIXED ASSETS

Changes in general fixed assets during the year ended December 31, 2003, were as follows:

	Balance at December 31, <u>2002</u>	<u>Additions</u>	<u>Deductions</u>	Balance at December 31, <u>2003</u>
Land	\$ 405,926	\$ -	\$ -	\$ 405,926
Land Improvements	229,100	1,525	-	230,625
Buildings	307,136	-	59,500	247,636
Equipment	314,615	34,979	-	349,594
Vehicles	<u>347,418</u>	<u>26,483</u>	<u>20,011</u>	<u>353,890</u>
Totals	<u>\$ 1,604,195</u>	<u>\$ 62,987</u>	<u>\$ 79,511</u>	<u>\$ 1,587,671</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$29,118, \$26,050, and \$37,267 respectively; 86.82 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$3,180 made by the City and \$1,995 made by the plan members.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers. The City has no firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$78,722, \$80,513, and \$79,904, respectively. The full amount has been contributed for 2002 and 2001. 80.66 percent has been contributed for 2003 with the remainder being reported as a liability.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$17,028. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$51,923 for police. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2003, the City contracted with Hylant-MacLean-Cincinnati Insurance for crime, commercial auto, commercial fire/earthquake/theft, general liability (including property), and inland marine. The coverage is as follows:

Type of Coverage	Coverage	Deductible
Crime	\$ 1,000/10,000	\$ 100
Commercial Auto (per accident)	\$1,000,000/3,000,000	\$ 250
Commercial Fire /Earthquake/Theft	\$1,746,318	\$ 1,000
General Liability (aggregate/each occurrence)	\$5,000,000/3,000,000	\$ -
Inland Marine	\$489,958	\$ 500

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

For 2003, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), a group purchasing pool. The intent of the Plan is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the past, the City has entered into capital leases for vehicles and reproduction equipment. The lease agreements are accounted for on a GAAP basis as capital outlay expenditures with offsetting amounts reported as other financing sources. The terms of all agreements provide options to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

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

Vehicles and reproduction equipment acquired by leases have been capitalized in the general fixed assets account group at amounts equal to the present value of the lease payments at the time of acquisition. The amount capitalized in the general fixed assets account group was \$230,916. A corresponding liability was recorded in the general long-term obligations account group. During fiscal year 2003, the City entered into a new lease prior to the full retirement of the old lease. Therefore, the balance of \$5,998 remaining on the old lease was eliminated on the financial statements upon entering into the new lease. Principal payments in fiscal year 2003 totaled \$2,164 in the governmental funds for the old lease.

Principal payments of \$15,594 were made on leases that existed at December 31, 2003, which resulted in a remaining liability of \$19,981.

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003.

<u>Years Ending December 31,</u>	<u>GLTOAG</u>
2004	\$ 7,321
2005	3,321
2006	3,321
2007	3,321
2008	<u>2,767</u>
Total Minimum Lease Payments	20,051
Less: Amount Representing Interest	<u>(70)</u>
Present Value of Minimum Lease Payments	<u>\$ 19,981</u>

NOTE 15 – SHORT-TERM OBLIGATIONS

A summary of the note transactions for the year ended December 31, 2003 follows:

	<u>Balance at December 31, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31 2003</u>
Special Revenue Funds				
Fire Equipment Bond				
Anticipation Note – 2.04%	\$ 40,000	\$ 30,000	\$ 40,000	\$ 30,000
Capital Projects Fund				
Belkenton Sewer Project Bond				
Anticipation Note – 2.04%	<u>98,377</u>	<u>78,377</u>	<u>98,377</u>	<u>78,377</u>
Grand Total	<u>\$ 138,377</u>	<u>\$ 108,377</u>	<u>\$ 138,377</u>	<u>\$ 108,377</u>

Both notes are issued in anticipation of long-term bond financing and will be refinanced until such bonds are issued. They are backed by the full faith and credit of the City and will mature within one year. The liability for the notes is presented in the fund that received the note proceeds.

NOTE 16 – LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2003 were as follows:

	Balance at December 31, <u>2002</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31 <u>2003</u>
General Obligation Bonds Voted:				
2003 Various Purpose Refunding Bond – 3.69%	\$ <u>298,900</u>	\$ <u>379,100</u>	\$ <u>298,900</u>	\$ <u>379,100</u>
Other Long-Term Obligations:				
2001 Ohio Public Works Commission Loan – 0.00%	200,537	16,982	-	217,519
Compensated Absences Payable	398,548	-	9,905	388,643
Capital Lease Obligations	24,968	16,605	21,592	19,981
Due to Other Governments	<u>43,178</u>	<u>32,037</u>	<u>43,178</u>	<u>32,037</u>
 Total Other Long-Term Obligations	 <u>667,231</u>	 <u>65,624</u>	 <u>74,675</u>	 <u>658,180</u>
 Total General Long-Term Obligations	 <u>\$ 966,131</u>	 <u>\$ 444,724</u>	 <u>\$ 373,575</u>	 <u>\$ 1,037,280</u>

The Various Purpose General Obligation Refunding Bonds were issued on April 1, 2003, in the amount of \$379,100 for the purpose of (i.) refunding the outstanding principal amount for the Deer Park-Silverton Joint Fire District and (ii.) financing the demolition of a municipal swimming pool and conversion of such into a soccer field under authority of the general laws of the State of Ohio, particularly Chapter 133 of the Ohio Revised Code. Interest of the Bonds shall be payable annually on April 1 of each year, commencing April 1, 2004, until the entire principal sum of the Bonds has been paid. The bonds were issued at an interest rate of 3.69% through 2011. The bonds will be paid from the joint fire district capital project fund.

Future maturities on this bond are as follows:

<u>Years Ending December 31,</u>	
2004	\$ 41,600
2005	43,100
2006	44,800
2007	46,300
2008	48,100
Thereafter	<u>155,200</u>
	 <u>\$ 379,100</u>

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

NOTE 16 – LONG-TERM OBLIGATIONS (Continued)

Future maturities on this note are as follows:

<u>Years Ending December 31,</u>	
2004	\$ 5,438
2005	5,438
2006	5,438
2007	5,438
2008	5,438
Thereafter	<u>190,329</u>
	<u>\$ 217,519</u>

Compensated absences and due to other governments (which represents contractually required pension contributions paid outside the available period), will be paid from the funds from which the employees' salaries are paid. Capital lease obligations will be paid from the general fund and the street special revenue fund.

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,512,620 and the unvoted legal debt margin was \$3,600,623.

Principal and interest requirements to retire the City's outstanding obligation at December 31, 2003, were:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 41,600	\$ 13,989	\$ 55,589
2005	43,100	12,454	55,554
2006	44,800	10,863	55,663
2007	46,300	9,210	55,510
2008	48,100	7,502	55,602
Thereafter	<u>155,200</u>	<u>11,591</u>	<u>166,791</u>
Total	<u>\$ 379,100</u>	<u>\$ 65,609</u>	<u>\$ 444,709</u>

NOTE 17 – DUE FROM/TO OTHER FUNDS

As of December 31, 2003, due from other funds and due to other funds that resulted from an interfund transaction was as follows:

<u>Fund Type/Fund</u>	<u>December 31, 2003</u>	
	<u>Due From Other Funds</u>	<u>Due From Other Funds</u>
General Fund	\$ 7,812	\$ -
Agency Fund Mayor's Court	<u>-</u>	<u>7,812</u>
Total All Funds	<u>\$ 7,812</u>	<u>\$ 7,812</u>

NOTE 18 - CONTINGENT LIABILITIES

Litigation

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

Federal and State Grants

For the period January 1, 2003, to December 31, 2003, 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.



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

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

We have audited the financial statements of the City of Silverton, Ohio, as of and for the year ended December 31, 2003, which collectively comprise the City of Silverton, Ohio's general purpose financial statements and have issued our report thereon dated March 16, 2007. 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 of Silverton, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Silverton, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Silverton, Ohio's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted two items that we consider to be significant deficiencies and they are summarized in the Schedule of Findings as items 2003-20431-001 and 002.

Compliance and Other Matters

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

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

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

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
March 16, 2007

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO
DECEMBER 31, 2003
SCHEDULE OF FINDINGS**

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

Finding Number 2003-20431-001
Significant Deficiency: Internal Control

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

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

Finding Number 2003-20431-002
Significant Deficiency: Uncollateralized Deposits

The City currently has \$2,167,182 in uninsured and uncollateralized deposits. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the City to losses involving amounts exceeding insured limits.

**CITY OF SILVERTON
HAMILTON COUNTY, OHIO
DECEMBER 31, 2002 AND 2001
STATUS OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different; Corrective Action Taken; or Finding No Longer Valid; Explain</u>
2002-20431-004	It was noted that the City's expenditures exceeded appropriations in the general fund for 2002.	Yes	
2002-20431-001	Internal control weaknesses were noted during the course of our audit of the City's general purpose financial statements.	No	Not corrected, Repeat
2002-20431-02	It was noted during the review of the Board minutes that approximately \$6,000 was spent recovering data that was lost due to a system failure. Periodic backups of all computer data should be both performed and tested for recoverability to prevent this in the future.	Yes	
2002-20431-003	It was noted during the review of Board Minutes that minutes of multiple council meetings had not been prepared and approved by the Council. Minutes for all meetings should be kept during the meeting then formally prepared to be approved at the next council meeting.	Yes	
2002-20431-005	The City currently has \$373,408 in uninsured and uncollateralized deposits. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the City to losses involving amounts exceeding Insured limits.	No	Not corrected, Repeat



Mary Taylor, CPA
Auditor of State

CITY OF SILVERTON

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**