



**Auditor of State
Betty Montgomery**

CITY OF KENTON
HARDIN COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Kenton
Hardin County
P.O. Box 220
Kenton, OH 43326

To the Members of Council:

We have audited the accompanying general-purpose financial statements of the City of Kenton, Hardin County, (the "City"), as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City'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 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 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 Kenton, Hardin County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 August 18, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Betty Montgomery
Auditor of State

August 18, 2003

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CITY OF KENTON
HARDIN COUNTY

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$911,124	\$677,066	\$1,707,784
Cash and Cash Equivalents in Segregated Accounts			
Receivables (Net, where applicable, of allowance for uncollectibles):			
Income Taxes	212,202		
Property Taxes	261,881	146,335	
Accounts	19,591		361,043
Special Assessments		7,525	15,351
Accrued Interest		422	
Due from Other Funds	19,719	3,260	15
Intergovernmental Receivable	179,018	681,868	
Materials and Supplies Inventory		16,291	22,171
Loans Receivable		204,442	
Prepaid Items	21,907	13,406	28,341
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			23,592,647
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	<u>1,625,442</u>	<u>1,750,615</u>	<u>25,727,352</u>
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	43,421	15,640	199,870
Accrued Wages and Benefits	84,932	13,514	80,354
Compensated Absences Payable	32,093	6,074	84,607
Due to Other Funds			
Intergovernmental Payable		84,625	
Deferred Revenue	411,188	695,120	15,351
Deposits Held and Due to Others	16,005		79,980
Accrued Interest Payable			10,145
Notes Payable			770,000
Capital Leases Payable			
OWDA Loans Payable			13,593,193
General Obligation Bonds Payable			200,000
OPWC Loan Payable			25,616
Total Liabilities	<u>587,639</u>	<u>814,973</u>	<u>15,059,116</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets			
Contributed Capital			3,434,943
Retained Earnings:			
Unreserved			7,233,293
Fund Balance:			
Reserved for Encumbrances	70,103	58,422	
Reserved for Property Taxes	11,737	2,708	
Reserved for Materials and Supplies		16,291	
Reserved for Prepaid Items	21,907	13,406	
Reserved for Loans Receivable		204,442	
Unreserved, Undesignated (Deficit)	934,056	640,373	
Total Fund Equity and Other Credits	<u>1,037,803</u>	<u>935,642</u>	<u>10,668,236</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,625,442</u>	<u>\$1,750,615</u>	<u>\$25,727,352</u>

The notes to the Financial Statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets Account Group	General Long- Term Obligations Account Group	
Agency			
			\$3,295,974
55,673			55,673
			212,202
			408,216
			380,634
			22,876
			422
			22,994
			860,886
			38,462
			204,442
			63,654
	5,819,907		29,412,554
		2,241,488	2,241,488
<u>55,673</u>	<u>5,819,907</u>	<u>2,241,488</u>	<u>37,220,477</u>
			258,931
		115,450	294,250
		237,051	359,825
22,994			22,994
20,607			105,232
			1,121,659
12,072			108,057
			10,145
		60,200	830,200
		392,787	392,787
			13,593,193
		1,436,000	1,636,000
			25,616
<u>55,673</u>		<u>2,241,488</u>	<u>18,758,889</u>
	5,819,907		5,819,907
			3,434,943
			7,233,293
			128,525
			14,445
			16,291
			35,313
			204,442
			1,574,429
	5,819,907		18,461,588
<u>\$55,673</u>	<u>\$5,819,907</u>	<u>\$2,241,488</u>	<u>\$37,220,477</u>

**CITY OF KENTON
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum) Only</u>
Revenues:				
Municipal Income Tax	\$2,299,489			\$2,299,489
Property and Other Taxes	269,721	128,266		397,987
Charges for Services	60,925	88,006		148,931
Licenses and Permits	39,101	1,245		40,346
Fines and Forfeitures	250,920	78,050		328,970
Intergovernmental	287,580	348,871		636,451
Special Assessments		5,260		5,260
Interest	63,982	1,291		65,273
Other	15,183	17,255		32,438
Total Revenues	3,286,901	668,244		3,955,145
Expenditures:				
Current:				
General Government:				
Legislative and Executive	594,063	450		594,513
Judicial	333,865	2,454		336,319
Intergovernmental		72,684		72,684
Security of Persons and Property	1,749,136	4,384		1,753,520
Public Health and Welfare	75,500			75,500
Transportation		668,650		668,650
Community Environment	35,138	51,119		86,257
Leisure Time Activities		183,069		183,069
Capital Outlay	90,698	181,304		272,002
Debt Service:				
Principal Retirement	35,961	12,487	184,100	232,548
Interest	21,326	2,703	76,556	100,585
Total Expenditures	2,935,687	1,179,304	260,656	4,375,647
Excess of Revenues Over (Under) Expenditures	351,214	(511,060)	(260,656)	(420,502)
Other Financing Sources (Uses):				
Sale of Fixed Assets	60	442		502
Operating Transfers - In	22,000	670,500	260,656	953,156
Operating Transfers - Out	(820,643)	(132,513)		(953,156)
Total Other Financing Sources (Uses)	(798,583)	538,429	260,656	502
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(447,369)	27,369		(420,000)
Fund Balances at Beginning of Year	1,485,172	903,071		2,388,243
Decrease in Reserve for Inventory		5,202		5,202
Fund Balances at End of Year	\$1,037,803	\$935,642	\$0	\$1,973,445

The notes to the financial statements are an integral part of this statement.

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CITY OF KENTON
HARDIN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Municipal Income Tax	\$2,175,000	\$2,263,042	\$88,042
Property and Other Taxes	263,512	265,305	1,793
Charges for Services	61,000	60,925	(75)
Licenses and Permits	38,750	39,101	351
Fines and Forfeitures	246,000	245,767	(233)
Intergovernmental	296,974	336,630	39,656
Special Assessments			
Interest	90,000	64,000	(26,000)
Other	1,000	14,628	13,628
Total Revenues	3,172,236	3,289,398	117,162
Expenditures:			
Current:			
General Government			
Legislative and Executive	742,160	611,404	130,756
Judicial	377,321	329,342	47,979
Intergovernmental			
Security of Persons and Property	1,989,349	1,790,008	199,341
Public Health and Welfare	75,500	75,500	
Transportation			
Community Environment	67,900	39,221	28,679
Leisure Time Activities			
Capital Outlay	90,698	90,698	
Debt Service:			
Principal Retirement	35,961	35,961	
Interest and Fiscal Charges	21,326	21,326	
Total Expenditures	3,400,215	2,993,460	406,755
Excess of Revenues Over (Under) Expenditures	(227,979)	295,938	523,917
Other Financing Sources (Uses):			
Other Sources			
Sale of Fixed Assets	100	60	(40)
Operating Transfers - In	72,000	22,000	(50,000)
Operating Transfers - Out	(955,200)	(820,643)	134,557
Total Other Sources (Uses)	(883,100)	(798,583)	84,517
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,111,079)	(502,645)	608,434
Fund Balances at Beginning of Year	1,252,270	1,252,270	
Prior Year Encumbrances Appropriated	47,576	47,576	
Fund Balances at End of Year	\$188,767	\$797,201	\$608,434

The notes to the financial statements are an integral part of this statement.

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
128,000	127,248	(752)			
101,300	88,006	(13,294)			
500	1,245	745			
80,175	77,444	(2,731)			
447,189	381,211	(65,978)			
5,400	5,260	(140)			
2,200	2,627	427			
40,851	47,412	6,561			
<u>805,615</u>	<u>730,453</u>	<u>(75,162)</u>			
127,409	40,142	87,267			
72,684	72,684				
12,858	4,812	8,046			
886,064	682,366	203,698			
156,265	82,049	74,216			
230,430	194,759	35,671			
181,304	181,304	0			
12,487	12,487		184,100	184,100	
2,703	2,703		76,556	76,556	
<u>1,682,204</u>	<u>1,273,306</u>	<u>408,898</u>	<u>260,656</u>	<u>260,656</u>	
<u>(876,589)</u>	<u>(542,853)</u>	<u>333,736</u>	<u>(260,656)</u>	<u>(260,656)</u>	
100	442	342			
805,000	670,500	(134,500)	260,656	260,656	
<u>(182,600)</u>	<u>(132,513)</u>	<u>50,087</u>			
<u>622,500</u>	<u>538,429</u>	<u>(84,071)</u>	<u>260,656</u>	<u>260,656</u>	
(254,089)	(4,424)	249,665			
516,365	516,365				
91,061	91,061				
<u>\$353,337</u>	<u>\$603,002</u>	<u>\$249,665</u>			

CITY OF KENTON
HARDIN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Operating Revenues:			
Charges for Services	\$3,375,156	\$99,351	\$3,474,507
Miscellaneous Income	17,416		17,416
Total Operating Revenues	3,392,572	99,351	3,491,923
Operating Expenses:			
Personal Services	947,963		947,963
Contractual Services	340,037	124,378	464,415
Materials and Supplies	450,036		450,036
Other	32,027		32,027
Depreciation	668,574		668,574
Total Operating Expenses	2,438,637	124,378	2,563,015
Operating Income (Loss)	953,935	(25,027)	928,908
Non-Operating Revenues (Expenses)			
Capital Contributions	292,569		292,569
Sale of Fixed Assets	86		86
Loss on Disposal of Fixed Assets	(360)		(360)
Interest and Fiscal Charges	(352,821)		(352,821)
Total Non-Operating Revenues (Expenses)	(60,526)		(60,526)
Net Income (Loss)	893,409	(25,027)	868,382
Depreciation on Fixed Assets Acquired by Contributed Capital	90,726		90,726
Retained Earnings at Beginning of Year	6,249,158	25,027	6,274,185
Retained Earnings at End of Year	7,233,293		7,233,293
Contributed Capital at Beginning of Year	3,525,669		3,525,669
Depreciation on Fixed Assets Acquired by Contributed Capital	(90,726)		(90,726)
Contributed Capital at End of Year	3,434,943		3,434,943
Total Fund Equity at End of Year	\$10,668,236		\$10,668,236

The notes to the financial statements are an integral part of this statement.

CITY OF KENTON
HARDIN COUNTY

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Enterprise Funds</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Increase (Decrease) in Cash and Cash Equivalents:			
Cash flows from operating activities:			
Cash Received from Customers	\$3,395,490		\$3,395,490
Cash Received from Quasi-External Transactions with Other Funds		99,548	99,548
Cash Payments for Materials and Supplies	(716,272)		(716,272)
Cash Payments to Employees for Services	(956,033)		(956,033)
Cash Payments for Claims		(198,103)	(198,103)
Customer Deposits Received	42,605		42,605
Customer Deposits Applied	(36,760)		(36,760)
Net Cash Provided by Operating Activities	<u>1,729,030</u>	<u>(98,555)</u>	<u>1,630,475</u>
Cash Flows from (used for) Capital and Related Financing Activities:			
Acquisition of Capital Assets	(378,926)		(378,926)
Principal Payments	(1,518,816)		(1,518,816)
Interest Payments	(357,213)		(357,213)
Proceeds From Notes	770,000		770,000
Proceeds From Special Assessments			
Proceeds from the Sale of Fixed Assets	86		86
Net Cash From (Used for) Capital and Related Financing Activities	<u>(1,484,869)</u>		<u>(1,484,869)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	244,161	(98,555)	145,606
Cash and Cash Equivalents at Beginning of Year	<u>1,463,623</u>	<u>98,555</u>	<u>1,562,178</u>
Cash and Cash Equivalents at End of Year	<u>1,707,784</u>		<u>1,707,784</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	953,935	(25,027)	928,908
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Depreciation	668,574		668,574
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	2,896	197	3,093
(Increase) Decrease in Due from Other Fund	22		22
Increase (Decrease) in Special Assessments Receivable			
(Increase) Decrease in Inventory	3,936		3,936
(Increase) Decrease in Prepaid Expenses	(5,357)		(5,357)
Increase (Decrease) in Accounts Payable	176,616		176,616
Increase (Decrease) in Contracts Payable	(50,702)		(50,702)
Increase (Decrease) in Accrued Wages	24,052		24,052
Increase (Decrease) in Compensated Absences	(32,122)		(32,122)
Increase (Decrease) in Claims Payable		(73,725)	(73,725)
Increase (Decrease) in Deferred Revenue			
Increase (Decrease) in Accounts Payable from Fixed Asset Purchases	(18,665)		(18,665)
Increase (Decrease) in Customer Deposits	5,845		5,845
Net Cash Provided by Operating Activities	<u>\$1,729,030</u>	<u>(\$98,555)</u>	<u>\$1,630,475</u>

The notes to the financial statements are an integral part of this statement.

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**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002**

1. DESCRIPTION OF REPORTING ENTITY

A. Reporting Entity

The City of Kenton (the "City") is a home rule municipal corporation established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four-year term. The legislative authority is vested in a seven-member Council, with a presiding President of Council, who are elected to two-year terms. Other elected officials consist of the auditor, treasurer and law director who are elected to four-year terms. The City provides the following services: police and fire safety; street maintenance and sanitation; parks and recreation; water and sewer utilities, and a staff to provide essential support to these services. These activities comprise the primary government of the City and whose activities are directly responsible to Council and the Mayor. They are, therefore, included in the reporting entity.

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 for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The following potential component units have been excluded from the reporting entity because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes or the issuance of debt for these organizations:

Kenton City School District

The Kenton City School District, including the City of Kenton and surrounding rural areas, is a distinct political subdivision of the State of Ohio operated under the direction of an elected school board possessing its own budgeting and taxing authority.

Grove Cemetery Association

The Grove Cemetery Association is an organization which is defined as a jointly-governed organization. A jointly-governed organization is an organization that is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest in or responsibility by the participating governments. This organization is described in Note 21 of the general-purpose financial statements. The residents of the City support this organization through a tax levy. This levy is further described in Note 6A.

The City is also associated with the Ohio Municipal League Worker's Compensation Group Rating Program as a group purchasing pool. This organization is discussed in Note 22 to the general purpose financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the provisions of GASB Statement No. 20 the City has elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989, to its proprietary activities. Election of this approach to accounting for proprietary activities by the City has required no change from prior years. The more significant of the City's accounting policies are described below.

A. 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 generic fund types under the broad fund and categories of governmental, proprietary and fiduciary.

1. Governmental Fund Types

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

General Fund - This fund 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 Ordinances of The City of Kenton and/or the general laws of Ohio.

Special Revenue Funds - These funds are limited by state and/or federal law for the financing of certain governmental functions (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis (water and sewer) are to be financed or recovered primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - This fund is used to account for the financing, on a cost-reimbursement basis, of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations.

4. Account Groups

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

General Fixed Assets Account Group - This account group is established to account for fixed assets, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the City, except those accounted for in proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and similar fiduciary 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.

All proprietary and similar fiduciary fund types are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and similar fiduciary fund types and agency funds. The full accrual basis of accounting is followed for the proprietary and similar fiduciary fund types.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of fiscal 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, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal 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.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, grants, and interest.

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded 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.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinances, all of which are prepared on the cash basis as required by the County Budget Commission. All funds, other than Agency Funds, are legally required to be budgeted and appropriated. The certificate of estimated resources and the appropriation ordinances are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified. All changes in appropriated amounts require action by City Council.

1. Tax Budget

The Hardin County Budget Commission has adopted a resolution waiving required adoption of the annual tax budget for subdivisions that file their prior year financial statement with the Commission by June 30th and which either have no public debt or which have public debt and file additional debt-related information with the Commission.

2. Estimated Resources

Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures/expenses from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about January 1, the certificate is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during 2002.

3. Appropriations

By March 31, the annual appropriation ordinance must be legally enacted by the City at the fund, department, and major object level which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the City may pass a temporary appropriation measure to meet the ordinary expenses of the City. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. Any revisions that alter the total of any fund appropriation or alter total appropriations within an object of a department must be approved by City Council. Council may pass supplemental fund appropriations so long as the total appropriation by fund does not exceed the amounts set forth in the most recent amended certificate of estimated resources. During the year, several supplemental appropriations were adopted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Budgeted Level of Expenditure/Expense

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/expenses plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and object levels, which include personal services, materials and supplies, contractual services, other expenditures/expenses, capital outlay and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

5. Lapsing of Appropriations

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

6. Encumbrances

Encumbrance accounting is utilized by City funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. Encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis for governmental funds in order to demonstrate legal compliance. Proprietary fund encumbrances are reported in the notes to the financial statements. This encumbrance authority is carried forward to the next fiscal year and is reported in the "Revised Budget" amount for budgetary comparisons. If the actual expenditures are less than the amount encumbered, the excess reserve is closed to the unreserved fund balance.

D. 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 combined balance sheet.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes.

STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Under these provisions, City funds required to receive interest allocations are the General Fund, Street Fund, State Highway Fund, and Revolving Loan Fund. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$63,982.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents held by the City but outside of the City treasury for the Municipal Court is presented on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

For purposes of the Combined Statement of Cash Flows and for presentation of the Combined Balance Sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

F. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported material and supplies inventory in governmental funds 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. At December 31, 2002, the Street Fund, Water Fund and Sewer Fund maintained significant inventories.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as expenditures in the governmental fund type when paid and as expenses in the proprietary fund types when used. Reported prepaid items in governmental funds are 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.

H. Fixed Assets and Depreciation

The fixed asset values were initially determined at December 31, 1988, assigning original acquisition costs for the majority of assets. For certain assets where the original costs were not practicably determinable, other methods were used to assign costs. For certain fixed assets estimates were determined by indexing cost back to the estimated year of acquisition. Interest costs are not included in capitalized amounts. Donated fixed assets are stated at their fair market value on the date donated. 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 which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized.

Public domain ("infrastructure") general fixed assets consisting of streets, sidewalks and storm sewers are not capitalized by the City since they are immovable and of value only to the City.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets used in governmental type operations are not capitalized in the funds used to acquire or construct them. They are reflected as expenditures in the governmental funds and are reported in a General Fixed Assets Account Group. The City has elected to report the General Fixed Assets Account Group net of depreciation using the straight-line method in accordance with generally accepted accounting principles for governmental entities. Fixed assets associated with proprietary fund activity are accounted for in those funds. Depreciation is recorded in the proprietary fund types using the straight-line basis over the estimated useful lives of the related assets.

Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Life</u>
Buildings	40 Years
Utility Plant in Service	40 - 80 Years
Improvements Other than Buildings	20 - 50 Years
Machinery, Equipment and Vehicles	3 - 20 Years

I. Contributed Capital

Contributed capital represents donations by developers, grants restricted for capital construction, contributions made by the City, and assets whose construction were financed by special assessments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. It has been the policy of the City to construct and acquire capital assets used in operations of the enterprise funds with resources of the capital projects funds or by transferring assets to the enterprise funds from the general fixed assets account group. These assets are recorded as contributed capital in the accompanying combined financial statements. Beginning in the year 2001, increases to contributed capital were recorded as revenue versus equity.

J. Compensated Absences

Vested or accumulated sick leave that is expected to be liquidated with expendable financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested accumulated sick leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Vested sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Accounting Standard No. 16, Accounting for Compensated Absences, the liability for compensated absences includes benefit payments that are probable, not just those that are vested.

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. Any accrued vacation time exceeding vacation earned in one year, six months is lost. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources.

Payments made more than one month after year end are generally considered not to have been paid with current available financial resources. Bonds, capital leases and long-term loans are recognized as a liability of the general long-term obligations account group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds. Under Ohio law, a debt retirement fund must be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the activity of the City's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Reserves and Designations of Fund Equity

Reserves of fund equity indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. Governmental fund balances are reserved for encumbrances, property taxes, materials and supplies, prepaid items and loans receivable (community development block grant moneys loaned to local businesses).

M. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receivables and revenues when the entitlement occurs. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in Proprietary funds are recorded as receivables and contributed capital when the related expenses are incurred. All other Federal and State reimbursement type grants are recorded as receivables and revenues when the related expenditures/expenses are incurred.

N. Interfund Transactions

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

O. Estimates

The preparation of financial statements in conformity with 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 KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

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

3. DEPOSITS AND INVESTMENTS

The City Treasurer is responsible for selecting depositories and investing funds. 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 two 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 moneys. Interim moneys are those moneys 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 pass book accounts. Interim moneys may be 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 or 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 services 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 (STAR Ohio).

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. 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:

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

At year end, the City had \$1,000 in cash on hand which is included on the balance sheet as part of "Equity in Pooled Cash and Cash Equivalents".

GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that governments disclose the carrying amounts and market value of investments classified by risk.

The carrying amount of the City's deposits was \$641,364 and the bank balance was \$670,466. Of the bank balance \$163,325 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the collateral was held by the pledging financial institutions trust departments and all state statutory requirements for the investment of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments may be 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. Star Ohio, 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.

			Fair Value
STAR Ohio			\$2,709,283

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents 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 in Governmental Entities that use Proprietary Fund Accounting". Funds included within the city-wide cash management pool, which are used essentially as demand deposit accounts for the various City funds, and investments with an original maturity of three months or less are treated as cash and cash equivalents. A reconciliation between the classifications of deposits and investments on the combined balance sheet and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$ 3,351,647	
Cash on Hand	(1,000)	
Investments:		
STAR Ohio	(2,709,283)	2,709,283
GASB Statement 3	\$ 641,364	\$2,709,283

4. DUE TO/DUE FROM OTHER FUNDS RECEIVABLES AND PAYABLES

At year end the Due to Other Funds and Due from Other Funds receivable and payable balances consisted of Municipal Court fines and costs that had not been distributed at December 31, 2001. The Agency fund had a balance of \$17,276 due to other funds.

General Fund	\$ 19,719
Indigent Drivers Alcohol Fund	252
Police Dept. Arresting Fund	160
Court Special Projects Fund	1,415
Court Computerization Fund	1,433
Waterworks Fund	15
 Total	 \$22,994

5. BUDGETARY BASIS OF ACCOUNTING

The City is reporting its financial position, results of operations, and changes in fund balances 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget (Non-GAAP Budgetary Basis) and Actual-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:

1. Revenues are recorded when received in cash (budget basis) rather than when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures/expenses (budget basis rather than as a reservation of fund balance for governmental funds).
4. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
5. The City repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following tables summarize the adjustments to reconcile GAAP and the budgetary basis statements by fund type:

**Excess (Deficiency) of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General Fund	Special Revenue Funds
Budget Basis	(\$502,645)	(\$4,424)
Increase (decrease) due to:		
Change in accrued receivables not recognized in budget	(2,498)	(62,209)
Change in accrued liabilities not recognized in budget	(12,330)	35,580
Adjustment for encumbrances	<u>70,104</u>	<u>58,422</u>
GAAP Basis	<u>(\$447,369)</u>	<u>\$27,369</u>

6. TAXES

A. Property Tax

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received during 2002 represent the collection of 2001 taxes. Real property taxes for 2002 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semiannually. 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.

Public utility, real and tangible personal property taxes for 2002 were levied after October 1, 2002, on the assessed values as of December 31, 2001, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

6. TAXES (Continued)

Tangible personal property tax revenues received in 2002 (other than public utility property) represent the collection of 2002 taxes. Tangible personal property taxes received during 2002 were levied after October 1, 2001, on the true value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or 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 within the County, including the City of Kenton. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2002, and for which there was 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 and are not intended to finance 2002 operations.

The full tax rate for all City operations for the year ended December 31, 2002, was \$3.75 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$46,677,050
Commercial/Industrial	26,023,400
Public Utilities	31,660
Tangible Personal	29,550,034
Public Utility	3,498,230
Total	\$105,780,374

The residents of the City support Grove Cemetery Association (the "Cemetery") through a tax levy. The levy for the Cemetery is voted millage. During 2002, the Cemetery received \$72,684 in tax revenue from the residents of the City. This money is reported as "Memo" only tax revenue and intergovernmental expenditures in the Special Revenue fund type since it is distributed directly to the Cemetery by the Hardin County Auditor.

B. City Income Tax

The City levies an income tax of 1.5% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Residents of the City are granted a full credit for taxes paid other Ohio municipalities. The receipts of the City income tax and the administrative costs associated with their collection are accounted for in the General Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

7. RECEIVABLES

The City's significant receivables at December 31, 2002, by fund type consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total</u>
City Income Tax				
Withholding	\$ 29,356			\$ 29,356
Estimates	<u>182,846</u>			<u>182,846</u>
Total Income Taxes Receivable	212,202			212,202
Property Taxes				
Current	246,261	142,729		388,990
Delinquent	<u>15,620</u>	<u>3,606</u>		<u>19,226</u>
Total Property Taxes Receivable	261,881	146,335		408,216
Accounts Receivable				
General	19,591			19,591
Utilities (Water/Sewer)			<u>361,043</u>	<u>361,043</u>
Total Accounts Receivable	19,591		361,043	380,634
Special Assessments				
Street - Curbs/Gutters		7,525		7,525
Sewer			<u>15,351</u>	<u>15,351</u>
Total Special Assessments		7,525	15,351	22,876
Loans Receivable		<u>204,442</u>		<u>204,442</u>
TOTAL	<u>\$ 493,674</u>	<u>\$358,302</u>	<u>\$376,394</u>	<u>\$ 1,228,370</u>

The above receivable amounts are net of the applicable allowance for uncollectibles which are not material in relation to the respective receivable balances.

City income taxes are accrued at December 31, 2002, to the extent of individual estimates and employee withholdings paid in the first month of 2003, which are due by April 30, 2003.

Property tax and special assessment receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes. The ability to collect the amounts due on the remaining receivables may be effected by economic fluctuations in the local economy.

Residents are billed on a monthly basis for water and sewer service based upon the actual cycle billings, prorated by the various reading dates at the end of the year.

8. TRANSFER TO/FROM OTHER FUNDS

The transfers indicated below include transfers from the General Fund to the Street and Park Funds for operating expenses, from the General Fund, Street Fund, and R.S.P.O. Fund to the Debt Service Fund for bond and note payments and from the Fire Pension Fund to the General Fund for severance payments.

		<u>Transfers From Other Funds</u>	<u>Transfers To Other Funds</u>
General Fund		\$22,000	\$820,643
Special Revenue Funds	Street Fund	450,000	14,991
	Park and Recreation Fund	220,500	95,522
	Fire Pension		22,000
Debt Service Fund	Bond Retirement Fund	<u>260,656</u>	
TOTAL		<u>\$ 953,156</u>	<u>\$ 953,156</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

9. PROPERTY, PLANT AND EQUIPMENT

All costs associated with the construction and acquisition of general fixed assets are included within various expenditure line items within the accompanying financial statements. Costs associated with the construction of infrastructure fixed assets are not capitalized in the General Fixed Assets Account Group in accordance with the City's accounting policy and, accordingly, are not reflected as additions in the General Fixed Assets Account Group. A summary of general fixed assets at December 31, 2002, by class and the changes therein during 2002, is as follows:

	Balance 1/1/02	Additions	Retirements	Balance 12/31/02
Land	\$1,194,293			\$1,194,293
Buildings	2,169,785			2,169,785
Land Improvements	2,183,470	38,158		2,221,628
Construction In Progress	8,222	1,146		9,368
Mach./Equip./Vehicles	2,665,422	129,942	10,302	2,785,062
TOTAL	\$8,221,192	\$169,246	\$10,302	\$8,380,136
Less Accumulated Depreciation				<u>(2,560,229)</u>
Net General Fixed Assets				<u>\$5,819,907</u>

A summary of proprietary fund property, plant and equipment at December 31, 2002, by class and by individual fund is as follows:

	Water	Sewer	Total
Land	\$89,814	\$4,600	\$94,414
Buildings	3,707,179	16,651,907	20,359,086
Utility Plant in Service	2,435,498	6,295,729	8,731,227
Mach./Equip./Vehicles	495,949	473,866	969,815
	6,728,440	23,426,102	30,154,542
Less Accumulated Depreciation	<u>(3,308,307)</u>	<u>(3,253,588)</u>	<u>(6,561,895)</u>
Net Property, Plant, and Equipment	<u>\$3,420,133</u>	<u>\$20,172,514</u>	<u>\$23,592,647</u>

10. LEASES

During calendar year 2000, the City entered into three equipment leases. A fire truck was leased for ten years, and a backhoe and a skid loader were leased for five years. The debt associated with these leases will be paid back out of the General Fund for the fire truck and the Special Revenue Fund type for the back hoe and skid loader. The City made an initial down payment of \$150,000 for the fire truck.

Each lease meets 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. New capital leases, net of down payments, are reflected in the accounts "Capital Outlay" and "Inception of Capital Leases" for governmental funds.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$652,271, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2002.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

10. LEASES (Continued)

<u>Fiscal Year Ending December 31,</u>	<u>General Long-Term Obligations</u>
2003	\$ 72,477
2004	72,477
2005	57,287
2006	57,287
2007	57,287
2008-2010	<u>171,428</u>
Total Minimum Lease Payments	488,243
Less: amount representing interest	<u>(95,456)</u>
Present Value of minimum lease payments	<u>\$392,787</u>

The City leases land under a noncancellable operating lease. Total cost for such lease was \$6,000 for the year ended December 31, 2002. The lease is for a term of ninety-nine years commencing on August 1, 2000, and ending on July 31, 2099, with lease payments being renegotiable after fifty (50) years. The future minimum lease payments for the lease through 2051 are as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2003	\$ 6,000
2004	6,000
2005	6,300
2006	6,300
2007	6,300
2008-2051	<u>340,436</u>
Total minimum lease payments	\$371,336

11. DEBT OBLIGATIONS

A listing of the changes in the debt of the City for the year ended December 31, 2002 follows:

	<u>Balance 1/1/02</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance 12/31/02</u>
General Obligation Issues:				
1994 Street Improvement Bond	\$16,500		\$5,500	\$11,000
1999 Municipal Building Bond	530,000		125,000	405,000
1999 Swimming Pool Const. Bond	1,065,000		45,000	1,020,000
1999 OPWC Note - Street	68,800		8,600	60,200
Capital Leases	441,235		48,448	392,787
Other:				
Accrued Wages and Benefits	96,955	75,469		172,424
Compensated Absences	229,685		49,608	180,077
Total General Long Term Debt Account Group	<u>\$2,448,175</u>	<u>\$75,469</u>	<u>\$282,156</u>	<u>\$2,241,488</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

11. DEBT OBLIGATIONS (Continued)

	<u>Balance 1/1/02</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance 12/31/02</u>
Enterprise Issues:				
1987 Sewer Bonds	\$240,000		\$40,000	\$200,000
1994 OPWC Loan	38,423		12,807	25,616
1996 OWDA Loans (WWI)	14,235,530		675,050	13,560,480
1999 OWDA (DWAF) Loan (WWI)	53,672		20,959	32,713
1999 Franklin St. Waterline Notes	120,000	120,000	120,000	120,000
1999 WTP Improvement Notes	500,000	500,000	500,000	500,000
2001 WTP/Syst Dist. Improv. Note	150,000	150,000	150,000	150,000
Total Enterprise Debt	<u>15,337,625</u>	<u>770,000</u>	<u>1,518,816</u>	<u>14,588,809</u>
TOTAL DEBT	<u>\$17,785,800</u>	<u>\$845,469</u>	<u>\$1,800,972</u>	<u>\$16,830,297</u>

Outstanding general obligation bonds and notes consist of municipal building, street improvements, water and sewer system improvement issues and swimming pool construction. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

General obligation sewer bonds with an interest rate of 6 3/8% were obtained in 1987 and mature in 2007 as a general obligation of the City.

Special assessments are in place against the 1994 OPWC Loan in the Sewer Fund and the 1994 Street Improvement Bonds in the Street Fund. These debts are general obligations of the City and the City is ultimately responsible for repayment of the debt. The Sewer Fund assessments amount to only 10 percent of the total cost of the project and 20 percent of the debt incurred. The Street Fund assessments amount to less than 50 percent of both the total cost of the project and debt incurred. Other assessments being received by the City are for projects where no debt was incurred. No reserve or sinking fund has been established for default of the property owners as the possibility of default is considered remote.

The City began the first phase towards meeting the requirements of the Ohio Environmental Protection Agency regarding improvements needed at the Wastewater Treatment Plant when they began the design for the North Interceptor Sewer during 1996. Funding for the design and construction phase of this project came from loans granted by the Ohio Water Development Authority (OWDA) during 1998. The City began the construction phase of the Wastewater Treatment Plant Expansion Project during 1998. Again, funding for the design and construction phase of this project is coming from loans granted by the OWDA. Additional principal was received by the City during 2001. These obligations will be repaid solely by user charges. These loans mature over a period from 2004 through 2019 and have interest rates of 2.2% to 3.2%.

During 1999, the City issued various purpose bonds to pay off bond anticipation notes used for the construction of a municipal swimming pool, and to pay off outstanding debt on the municipal building. The total amount of these various purpose bonds was \$2,090,000. The bonds for the municipal building have an interest rate of 5.4% and mature in 2005. The municipal swimming pool bonds have an interest rate of 5.4% and mature during 2018.

Also in 1999, the City obtained a 0% interest loan from the Ohio Public Works Commission for the West Franklin Street Reconstruction project. This loan matures in 2010 and is a general obligation of the City.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

11. DEBT OBLIGATIONS (Continued)

General obligation bond anticipation notes for water treatment plant improvement and waterline improvements with interest at the rate of 5.36% and 4.29%, respectively, were issued by the City in 1999 and are being rolled over annually.

General obligation bond anticipation notes for water system improvements with interest at the rate of 2.85% were issued by the City in 2001 and are being rolled over annually.

Compensated Absences and Wages and Benefits will be paid from the funds where the wages were generated. The City has the ability to issue \$5,389,991 of additional debt without obtaining voter approval.

A summary of the City's future debt service requirements, excluding accrued wages, compensated absences, and capital leases as of December 31, 2001, follows:

<u>Future Payment Due In</u>	<u>General Obligation Bonds/Notes</u>		<u>Enterprise Fund Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	189,100	68,907	1,534,423	332,335
2004	194,100	61,409	769,128	296,884
2005	198,600	53,520	760,844	278,556
2006	58,600	45,160	776,790	260,060
2007	63,600	42,910	793,089	241,212
2008-2012	317,200	174,510	4,022,820	935,929
2013-2020	475,000	93,420	5,931,714	519,773
TOTAL	\$1,496,200	\$539,836	\$14,588,808	\$2,864,749

The 1999 Various Purpose Bonds due December 1, 2018 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2013, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year</u>	<u>Principal Amount</u>
2013	\$70,000
2014	75,000
2015	75,000
2016	80,000
2017	85,000

Unless otherwise called for redemption, the remaining \$90,000 principal amount of the Bonds due December 1, 2018, is to be paid at stated maturity.

The Bonds maturing on December 1, 2009 and thereafter are subject to optional redemption, in whole or in part, on any date in inverse order of maturity and by lot within a maturity, at the option of the City on or after December 1, 2009, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
December 1, 2009 through November 30, 2010	102%
December 1, 2010 through November 30, 2011	101
December 1, 2011 and thereafter	100

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

11. DEBT OBLIGATIONS (Continued)

Defeased Debt

On April 1, 1999, the City of Kenton issued serial bonds of \$890,000 (par value) with an interest rate of 5.40% to advance refund serial bonds previously issued June 1, 1990, with an interest rate of 7% and a par value of \$1,400,000. The refunded bonds were paid off December 1, 2000.

12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City operates a water fund and a sewer fund. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges. Segment information for the year ended December 31, 2002, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$1,464,020	\$1,928,552	\$3,392,572
Operating Expenses - Before Depreciation	913,517	856,546	1,770,063
Depreciation Expense	152,309	516,265	668,574
Operating Income (Loss)	398,194	555,741	953,935
Nonoperating Revenues	292,637	18	292,655
Nonoperating (Expenses)	(21,030)	(332,151)	(353,181)
Net Income (Loss)	669,801	223,608	893,409
Fixed Asset Additions	687,405	7,276	694,681
Total Assets	4,712,803	21,014,549	25,727,352
Bonds and Other Long-term Liabilities	802,713	13,786,096	14,588,809
Total Equity	3,688,983	6,979,253	10,668,236
Net Working Capital	1,071,563	592,835	1,664,398

13. ACCUMULATED UNPAID EMPLOYEE BENEFITS

In November, 1992, the Governmental Accounting Standards Board issued Statement No. 16, "Accounting for Compensated Absences" which is effective for fiscal years beginning after June 15, 1993. The City has recorded a liability for compensated absences that include benefit payments that are probable, not just those that are vested.

Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Sick leave is accumulated and may be converted into cash upon retirement in accordance with the following schedule:

<u>Employee Service</u>	<u>Severed Sick Leave</u>	<u>Firefighter's Sick Leave</u>
10 thru 15 years	336 hours maximum	335 hours maximum
15 thru 20 years	532 hours maximum	530 hours maximum
Over 20 years	700 hours maximum	700 hours maximum

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

13. ACCUMULATED UNPAID EMPLOYEE BENEFITS (Continued)

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Employee Hours Earned/Bi-weekly</u>
1 thru 8 years	3.1 hours
8 thru 15 years	4.6 hours
15 thru 25 years	6.2 hours
Over 25 years	7.7 hours

Unpaid compensated absences of \$237,051 were reported as an accrued liability in the General Long-Term Debt Fund. Unpaid compensated absences of \$46,458 and \$38,149 were reported as an accrued liability in the Water Fund and Sewer Fund, respectively.

14. FEDERAL FINANCIAL ASSISTANCE

For the period January 1, 2002 through December 31, 2002, the City received Federal financial assistance in the amount of \$13,525. This amount was posted to the Community Development Block Grant Fund for grants to homeowners for home repairs and for repairs to sewer manholes.

Also, the City continues to collect on economic development loans made in prior years with federally provided money. As of December 31, 2002, the outstanding Revolving Loan Fund cash balance is \$61,556 and the amount of loans outstanding is \$204,442.

15. CONTRIBUTED CAPITAL

During the year, contributed capital changed by the following amounts:

<u>Source</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Contributed Capital, January 1	\$ 270,078	\$3,255,591
Depreciation on Fixed Assets Acquired by Contributed Capital	_(12,381)	_(78,345)
Contributed Capital, December 31	\$ <u>257,697</u>	\$ <u>3,177,246</u>

16. RISK MANAGEMENT

Risk Pool Membership

The City belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

16. RISK MANAGEMENT (Continued)

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$20,174,977	\$19,358,458
Liabilities	(8,550,749)	(8,827,588)
Retained earnings	<u>\$11,624,228</u>	<u>\$10,530,870</u>
<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$2,565,408	\$1,890,323
Liabilities	(655,318)	(469,100)
Retained earnings	<u>\$1,910,090</u>	<u>\$1,421,223</u>

For the year 2001, the City participated in the Ohio Municipal League Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 22). The intent of the GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating municipalities is calculated as one experience and a common premium rate is applied to all municipalities in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

16. RISK MANAGEMENT (Continued)

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to municipalities that can meet the GRP's selection criteria. The firm of Gates-McDonald and Company provides administrative, cost control and actuarial services to the GRP.

The City of Kenton began providing medical/surgical benefits to employees through a partially self-funded insurance internal service fund on April 1, 1997. All funds of the City participate in the program and make payments to the self-insurance internal service fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. The medical self-insurance fund provides coverage for up to a maximum of \$15,000 for each individual.

The City utilizes a third party administrator to review all claims which are then paid by the City to the administrator, who in turn, pays the claimant. The City purchases stop-loss coverage which provides a maximum of \$2,000,000 per individual for claims in excess of coverage provided by the Fund. The claims liability of \$73,725 reported in the internal service fund at December 31, 2001, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board No. 10 which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The City discontinued this self-insurance plan in April 2002.

Claims activity for fiscal years 1997, 1998, 1999, 2000 and 2001 are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
1997	\$0	\$148,303	\$129,144	\$19,159
1998	\$19,159	\$175,524	\$154,238	\$40,445
1999	\$40,445	\$151,746	\$190,870	\$1,321
2000	\$1,321	\$239,416	\$202,657	\$38,080
2001	\$38,080	\$408,052	\$372,407	\$73,725
2002	\$73,725	\$50,653	\$124,378	\$0

17. COMPENSATED ABSENCES

Governmental fund type employee's leave for sick, vacation, and personal, has been recorded in the General Long-Term Obligation Account Group, while overtime earned (compensatory leave) has been recorded as individual fund liabilities. Vacation, personal, sick leave, and overtime in the proprietary funds is expressed when earned.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

18. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees' Retirement System (OPERS)

The City contributes to the Ohio Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 8.55 percent was the portion used to fund pension obligations for 2002. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the years ended December 31, 2002, 2001, and 2000, were \$127,137, \$131,814, and \$89,932, respectively; 74 percent has been contributed for 2002 and 100 percent has been contributed for 2001 and 2000. The unpaid contribution for 2002 is recorded as a liability within the general long-term obligations account group for governmental funds and in the water and sewer funds for the portion related to the enterprise funds.

B. Police and Firemen's Disability and Pension Fund

The City of Kenton 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 statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F were \$63,214 and \$75,625 for the year ended December 31, 2002, \$63,739 and \$75,520, for the year ended December 31, 2001, and \$61,706 and \$72,399, for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. Seventy-two percent has been contributed for 2002 with the unpaid portion being reported as a liability within the respective funds and the general long-term obligations account group.

**CITY OF KENTON
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

19. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (the "System") provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion that was used to fund health care for 2002.

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2001, the total number of benefit recipients eligible for OPB through the System was 402,041. As of December 31, 2002, the actuarial value of net assets available for future OPB payments was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial liability were \$16.4 billion and \$4.8 billion, respectively. The City's actual contributions for 2002 which were used to fund OPB were \$74,349.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad 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.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post retirement health care coverage to any person who receives or is eligible to receive a monthly 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 Post Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage and states that health care cost paid from the Fund 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 is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 % and 7.5% percent was the portion used to fund health care for 2002 and 2001, respectively. 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

19. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The number of participants eligible to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation available, was 13,174 for police and 10,239 for firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits were \$41,649 for police and \$35,530 for firefighters. OP&F's total health care expenses for the year ended December 31, 2001, (the latest information available), were \$122,298,771, which was net of member contributions of \$6,874,699.

20. EMPLOYEE BENEFITS

The City provides major medical insurance, life insurance and a drug card for prescription drugs to all full-time employees once they have completed a 90-day probationary period. Beginning April 1, 2002, all employees carrying the City's major medical insurance will contribute 10 percent of the employee's monthly premium by payroll deduction.

21. JOINTLY-GOVERNED ORGANIZATION

The Grove Cemetery Association (the "Association") is a jointly-governed organization consisting of three townships (Buck, Pleasant and Goshen) and the City of Kenton, Hardin County, Ohio. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board. Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk/Treasurer, Joe Cook, at P.O. Box 153, Kenton, Ohio 43326.

22. INSURANCE PURCHASING POOL

The City participates in the Ohio Municipal League Worker's Compensation Group Rating Program, an insurance purchasing pool. The Ohio Municipal League has retained Gates McDonald and Company as its Plan Administrator. Each year the participating municipalities pay an enrollment fee to the GRP to cover the costs of administering the program.

23. CONTINGENT LIABILITIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

**CITY OF KENTON
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

24. SUBSEQUENT EVENT

On February 12, 2003, the City commenced a declaratory judgment action in the Hardin County Common Pleas Court, Case No. 30021029 CVH, against Thomas & Marker Construction Co. Thomas & Marker was the general contractor employed to construct the City's new wastewater treatment plant, which was substantially completed in March, 2000. Thomas & Marker claims that it was damaged in the amount of \$2,140,837.01 because the City allegedly required it to accelerate construction of the plant to meet EPA-mandated deadlines, and has counterclaimed for that amount. The City denies that it owes any amount to Thomas & Marker, and specifically alleges that Thomas & Marker failed to timely assert its claim. Thomas & Marker has impleaded the City's design/construction manager, R.D. Zande & Associates, Inc, and has asserted the same claim against it.

The litigation is still in the initial discovery states, and the outcome and amount of the City's exposure, if any, is uncertain.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Kenton
Hardin County
P.O. Box 220
Kenton, Ohio 43326

To the Members of Council:

We have audited the financial statements of the City of Kenton, Hardin County, (the "City"), as of and for the year ended December 31, 2002, and have issued our report thereon dated August 18, 2003. 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.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-20233-003. We also noted a certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated August 18, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 18, 2003.

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City of Kenton
Hardin County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 18, 2003

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2002-001

Finding for Recovery

Section 4.2, "Sick Leave Conversion", of the City of Kenton Personnel Policy and Procedure Manual states that each employee who retires from employment with the City shall be paid for accumulated but unused sick leave up to a maximum of seven hundred (700) hours. During 2002, Kathy Healy, Safety Service Director, approved a severance payment to Arnold Downey for nine hundred (900) accumulated but unused sick leave hours, two hundred (200) hours more than the City of Kenton's severance policy allows. As a result, Arnold Downey was overpaid in the amount of \$3,866 (200 hours @ \$19.33 per hour) during 2002.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Safety Service Director, Kathy Healy, and Arnold Downey, jointly and severally, in the amount of \$3,866 and in favor of the City's General Fund.

In response to this finding, the City has prepared Ordinance No. 03-017. The purpose of this Ordinance, if passed by the requisite majority and after approval by the Mayor, is to approve the excess payment made to Arnold Downey.

FINDING NUMBER 2002-002

Finding for Recovery

The negotiated agreement between the City of Kenton, Ohio, and Firefighters Local Union #2648, International Association of Firefighters (IAFF), allows employees covered under the agreement to cash in up to three hundred (300) hours of accumulated but unused sick leave annually. Article 2, "Union Recognition", of this same agreement, however, does not recognize the fire chief as a member of the local union, and thus he is not covered under the agreement. Accordingly, the fire chief is permitted to cash in only one hundred (100) hours of sick leave per year in accordance with **Section 4.2, "Sick Leave Conversion", of the City of Kenton Personnel Policy and Procedure Manual**. Nevertheless, after Russell Blue became Fire chief during January 2002, Kathy Healy, the safety service director, permitted him to cash in 300 hours of sick leave based upon the IAFF agreement. As a result, Russell Blue was overpaid in the amount of \$3,899 (resulting from 200 extra sick leave hours -- 100 hours @ \$19.11 per hour and 100 hours @ \$19.88 per hour) during 2002.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Safety Service Director, Kathy Healy, and Russell Blue, jointly and severally, in the amount of \$3,899 and in favor of the City's General Fund.

In response to this finding, the City has prepared Ordinance No. 03-017. The purpose of this Ordinance, if passed by the requisite majority and after approval by the Mayor, is to approve the excess payment made to Russell Blue.

FINDING NUMBER 2002-003

Noncompliance

Ohio Rev. Code Section 735.05 states that generally, all contracts made by the legislative authority of a municipal government for material and labor which exceed \$15,000 are subject to competitive bidding procedures. Competitive bidding procedures require that a contract be entered into in writing with the lowest and best bidder after advertisement of the proposal for bids for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the municipality.

The City did not competitively bid the street grinding and paving project in the amount \$121,190 or the street salt storage project in the amount of \$21,236.

The City should implement internal control procedures to help ensure that it follows the Ohio Revised Code bidding requirements.

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2001-20233-001	Ohio Revised Code Section 5705.14 – Illegal Transfers	No	Repeat as management letter comment due to materiality
2001-20233-002	Various errors with GAAP Financial Statement Reporting	Yes	
2001-20233-003	24 CFR 92.502(c)(2) and 24 CFR 85.21(h)(2)(i) – Federal questioned costs and cash management comments	Yes	Questioned Costs Repaid to Ohio Department of Development. No further action required by grantor agency.



**Auditor of State
Betty Montgomery**

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CITY OF KENTON

HARDIN 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
OCTOBER 16, 2003**