



Dave Yost • Auditor of State



**CITY OF KENTON  
HARDIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, Ohio, as of December 31, 2011, and the respective changes in cash financial position, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

As described in Note 14, during 2011 the City of Kenton adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the City's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The budgetary comparison schedules for the General Fund and the Community Development Block Grant Fund provide additional analysis and are not a required part of the basic financial statements. These tables and schedules provide additional information, but are not part of the basic financial statements. However these tables and schedules are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



**Dave Yost**  
Auditor of State

July 12, 2012

**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

This discussion and analysis of the City of Kenton's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011, within the limitations of the City's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

**Highlights**

Key highlights for 2011 are as follows:

- The net assets of governmental activities increased \$354,230 or 33 percent. The General Fund actually increased by \$412,313 while the other governmental funds decreased \$58,083. The City's general receipts for the governmental funds are primarily property and income taxes. These receipts represent respectively 6.3 and 43.1 percent of the total cash received for governmental activities during the year. Income tax receipts for 2011 were 13% more than 2010 due to increased individual tax collection, a direct result of the reciprocity tax rescinded in 2009.
- Net assets of the City's business-type activities decreased \$43,236. The water and sewer funds realized cash losses this year.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's cash basis of accounting.

**Report Components**

The statement of net assets and activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED  
(Continued)**

**Reporting the City as a Whole**

The statement of net assets and activities reflect how the City did financially during 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind limitations of the cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial position, you should also consider other nonfinancial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and activities, we divide the City into two types of activities:

**Governmental activities** – Most of the City's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**Business-type activities** – The City has two business-type activities, the provision of water and sewerage treatment. Business-type activities are financed by a fee charged to the customers receiving the service.

**Reporting the City's Most Significant Funds**

Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

**Governmental Funds** – Most of the City's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The City's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column.

**Proprietary Funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has two enterprise funds – the water fund and sewer fund.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's programs.



**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED  
(Continued)**

**The City as a Whole**

The table below provides a summary of the City's net assets for 2011 compared to 2010 on a cash basis.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Assets:</b>						
Cash	\$1,430,484	\$1,063,403	\$1,619,305	\$1,662,541	\$3,049,789	\$2,725,944
Total Assets	<u>1,430,484</u>	<u>1,063,403</u>	<u>1,619,305</u>	<u>1,662,541</u>	<u>3,049,789</u>	<u>2,725,944</u>
<b>Net Assets:</b>						
<b>Restricted:</b>						
Pension Obligations	7,812	12,571			7,812	12,571
Revolving Loans	102,608	137,161			102,608	137,161
Customer Deposits			101,740	100,390	101,740	100,390
Other Purposes	477,838	483,314			477,838	483,314
Unrestricted	842,226	430,357	1,517,565	1,562,151	2,359,791	1,992,508
Total Net Assets	<u>\$1,430,484</u>	<u>\$1,063,403</u>	<u>\$1,619,305</u>	<u>\$1,662,541</u>	<u>\$3,049,789</u>	<u>\$2,725,944</u>

As mentioned previously, net assets of governmental activities increased \$354,230 or 33 percent during 2011. The primary reasons contributing to the increases in cash balances are as follows:

- Income tax collections were 13.0% more in 2011 compared to 2010 as a result of increased individual tax collections.

The next table reflects the changes in net assets on cash basis in 2011 and 2010 for governmental activities, business-type activities and total primary government.

	<b>Changes in Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Receipts:</b>						
<b>Program Receipts:</b>						
Charges for Services	\$1,425,548	\$ 569,737	\$3,049,680	\$3,160,385	\$4,475,228	\$3,730,122
Operating Grants & Contributions	411,574	361,375			411,574	361,375
Capital Grants & Contributions	387,275	659,610			387,275	659,610
Total Program Receipts	<u>2,224,397</u>	<u>1,590,722</u>	<u>3,049,680</u>	<u>3,160,385</u>	<u>5,274,077</u>	<u>4,751,107</u>
<b>General Receipts:</b>						
Property Taxes	399,731	362,846			399,731	362,846
Income Taxes	2,753,279	2,436,571			2,753,279	2,436,571
Hotel/Motel Taxes	11,118	8,593			11,118	8,593
Grants or Contributions Net						
Restricted to Specific Programs	354,632	421,706			354,632	421,706
Interest Income	12,626	12,829			12,626	12,829
Miscellaneous	63,889	26,786	169,011	127,687	232,900	154,473
Debt Proceeds	570,000				570,000	
Total General Receipts	<u>4,165,275</u>	<u>3,269,331</u>	<u>169,011</u>	<u>127,687</u>	<u>4,334,286</u>	<u>3,397,018</u>
Total Receipts	<u>6,389,672</u>	<u>4,860,053</u>	<u>3,218,691</u>	<u>3,288,072</u>	<u>9,608,363</u>	<u>8,148,125</u>

**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED  
(Continued)**

**Changes in Net Assets  
(Continued)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Disbursements:</b>						
General Government	1,021,682	1,174,127			1,021,682	1,174,127
Public Safety	2,188,425	2,175,876			2,188,425	2,175,876
Streets and Public Works	585,957	514,986			585,957	514,986
Health Services	81,500	81,500			81,500	81,500
Economic Development	877,949	638,561			877,949	638,561
Leisure-time Activities	40,945	40,848			40,945	40,848
Intergovernmental Expenditures	86,832	101,437			86,832	101,437
Capital Outlay	430,307				430,307	
Debt Service	721,845				721,845	
Water			1,193,325	1,239,129	1,193,325	1,239,129
Sewer			2,068,602	1,941,672	2,068,602	1,941,672
Total Disbursements	<u>6,035,442</u>	<u>4,727,335</u>	<u>3,261,927</u>	<u>3,180,801</u>	<u>9,297,369</u>	<u>7,908,136</u>
Increase/(Decrease) in Net Assets	<u>354,230</u>	<u>132,718</u>	<u>(43,236)</u>	<u>107,271</u>	<u>310,994</u>	<u>239,989</u>
Net Assets, January 1, Restated	<u>1,076,254</u>	<u>930,685</u>	<u>1,662,541</u>	<u>1,555,270</u>	<u>2,738,795</u>	<u>2,485,955</u>
Net Assets, December 31	<u>\$1,430,484</u>	<u>\$1,063,403</u>	<u>\$1,619,305</u>	<u>\$1,662,541</u>	<u>\$3,049,789</u>	<u>\$2,725,944</u>

Program receipts for Governmental and Business activities represent 55 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and charges for services to water and sewer customers.

General receipts of the Governmental and Business type activities represent 44 percent of the City's total receipts, and of this amount 75 percent are local taxes. State and federal grants and entitlements make up the balance of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the City and the support services provided for the other City activities. These include the costs of council, and the auditor, treasurer, law director, municipal court and the income tax departments, as well as internal services such as payroll and purchasing.

Public Safety is the costs of police and fire protection; Health Services is the health department; Leisure-time Activities are the costs of maintaining the parks and municipal pool; economic development promotes the City to industry and commerce as well as working with other governments in the area to attract new business, Streets and Public Works is the cost of maintaining the roads, and Intergovernmental represents property tax support for Grove Cemetery.

**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED  
(Continued)**

**Governmental Activities**

If you look at the Statement of Net Assets and Activities on page 9, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for streets and public safety, which account for 9.7 and 36.3 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 16.9 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The Net (Disbursements) Receipts column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in the following table.

<b>Governmental Activities</b>				
	<b>2011</b>		<b>2010</b>	
	<b>Total Cost Of Services</b>	<b>Net Cost Of Services</b>	<b>Total Cost Of Services</b>	<b>Net Cost Of Services</b>
General Government	\$1,021,682	\$ 621,289	\$1,174,127	\$ 624,422
Public Safety	2,188,425	2,122,315	2,175,876	2,175,516
Public Works (Street)	585,957	124,759	514,986	117,322
Health Services	81,500	81,500	81,500	81,500
Economic Development	877,949	(15,406)	638,561	14,925
Leisure Time Activities	40,945	24,879	40,848	21,491
Intergovernmental	86,832	86,832	101,437	101,437
Capital Outlay	430,307	43,032		
Debt Service	689,436	689,241		
Interest Expense	32,409	32,604		
<b>Totals</b>	<b>\$6,035,442</b>	<b>\$3,811,045</b>	<b>\$4,727,335</b>	<b>\$3,136,613</b>

The dependence upon property and income tax receipts is apparent as these receipts provide support for 52.2 percent of governmental activities.

**Business-Type Activities**

The operation of the City's water and sewer treatment plants along with maintaining the infrastructure is a significant part of the City's activities. These business-type activities routinely report receipts and cash disbursements that are relatively equal. The infrastructure is aging and the City has begun discussing the need for major repairs (such as valve replacements and a new water tower) and how these will be funded.

**The City's Funds**

Total governmental funds had receipts of \$6,715,017 and disbursements of \$6,360,787. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$412,313 as a result of the increased collections in income tax receipts and interest income. Administration and department heads were very careful with their spending in 2011.

**CITY OF KENTON  
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
UNAUDITED  
(Continued)**

**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

Final disbursements were budgeted at \$3,767,636 while actual disbursements were \$3,440,293, a difference of \$327,344 and a reflection of the careful spending by administration and department heads.

**Capital Assets**

The City maintains records on its capital assets; however, they are not reported in the financial statements or notes to the financial statements.

**Long-Term Debt**

At year-end the City had \$8,345,924 in long-term debt outstanding – a decrease of 11.4 percent from last year. Governmental activities accounted for \$987,266 and business-type activities accounted for the remaining \$7,358,658 of long-term debt. For further information regarding the City's debt, refer to Note 12 to the basic financial statements.

**City of Kenton Long-Term Debt**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Capital Leases	\$ 20,007	\$ 18,999			\$ 20,007	\$ 18,999
Bond Obligations	570,000	614,000	\$ 194,250	\$ 231,000	764,250	845,000
OPWC Loans	397,259	442,695	64,802	70,693	462,061	513,388
OWDA Loans			7,099,606	7,921,566	7,099,606	7,921,566
<b>Totals</b>	<b>\$987,266</b>	<b>\$1,075,694</b>	<b>\$7,358,658</b>	<b>\$8,223,259</b>	<b>\$8,345,924</b>	<b>\$9,298,953</b>

**Current Issues**

The City is just meeting its obligations. As the preceding information shows, the City heavily depends on its taxpayers. However, financially the future is not without challenges.

In conclusion, the City has committed itself to financial excellence for many years. In addition, the City's system of budgeting and internal controls is well regarded. All of the City's financial abilities will be needed to meet the challenges of the future.

**Contacting the City's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to John W. Moore, City Auditor, 111 W. Franklin Street, Kenton, Ohio 43326 or telephone at (419) 673-1310.

**CITY OF KENTON  
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - CASH BASIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

	Cash Disbursements	Charges for Services	Operating Grants And Contributions	Capital Grants and Contributions	Governmental Funds	Business Type Funds	Total Funds
<b>Governmental Activities:</b>							
General Government	(\$1,021,682)	\$ 400,393			(\$ 621,289)		(\$ 621,289)
Public Safety	(2,188,425)	66,110			(2,122,315)		(2,122,315)
Public Works	(585,957)	49,624	\$411,574		(124,759)		(124,759)
Health	(81,500)				(81,500)		(81,500)
Economic Development	(877,949)	893,355			15,406		15,406
Leisure Time Activities	(40,945)	16,066			(24,879)		(24,879)
Capital Outlay	(430,307)			\$387,275	(43,032)		(43,032)
Intergovernmental	(86,832)				(86,832)		(86,832)
Principal	(119,436)				(119,436)		(119,436)
Interest	(32,409)				(32,409)		(32,409)
Issuance Costs	(30,000)				(30,000)		(30,000)
Payment to Refunded Bond Escrow Agent	(540,000)				(540,000)		(540,000)
Total Government Activities	<u>(6,035,442)</u>	<u>1,425,548</u>	<u>411,574</u>	<u>387,275</u>	<u>(3,811,045)</u>		<u>(3,811,045)</u>
<b>Business-Type Activities:</b>							
Waterworks	(1,193,325)	1,131,888				(\$ 61,437)	(61,437)
Sewer	(2,068,602)	1,917,792				(150,810)	(150,810)
Total Business-Type Activities	<u>(3,261,927)</u>	<u>3,049,680</u>				<u>(212,247)</u>	<u>(212,247)</u>
Total Activity	<u>(\$9,297,369)</u>	<u>\$4,475,228</u>	<u>\$411,574</u>	<u>\$387,275</u>	<u>(3,811,045)</u>	<u>(212,247)</u>	<u>(4,023,292)</u>
<b>General Receipts:</b>							
<b>Property Taxes For:</b>							
General Purposes					238,947		238,947
Police Pension					36,976		36,976
Fire Pension					36,976		36,976
Grove Cemetery					86,832		86,832
Income					2,753,279		2,753,279
Hotel/Motel					11,118		11,118
Grants or Contributions Not Restricted to Specific Programs					354,632		354,632
Investment Income					12,626		12,626
Debt Proceeds					570,000		570,000
Miscellaneous					63,889	169,011	232,900
Total General Receipts					<u>4,165,275</u>	<u>169,011</u>	<u>4,334,286</u>
Increase/(Decrease) in Net Assets					354,230	(43,236)	310,994
Net Assets – Beginning of Year – Restated Note 14					<u>1,076,254</u>	<u>1,662,541</u>	<u>2,738,795</u>
Net Assets – End of Year					<u>\$1,430,484</u>	<u>\$1,619,305</u>	<u>\$3,049,789</u>
<b>Assets:</b>							
Equity in Pooled Cash and Cash Equivalents					\$1,430,484	\$1,619,305	\$3,049,789
<b>Net Assets:</b>							
<b>Restricted For:</b>							
Pension Obligations					7,812		7,812
Revolving Loan					102,608		102,608
Customer Water Deposits						101,740	101,740
Other Purposes					477,838		477,838
Unrestricted					842,226	1,517,565	2,359,791
Total Net Assets					<u>\$1,430,484</u>	<u>\$1,619,305</u>	<u>\$3,049,789</u>

**CITY OF KENTON  
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Community Dev. Block Grant Fund</b>	<b>Bond Retirement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Government Funds</b>
<b>Cash Receipts:</b>					
Property and Other Taxes	\$ 250,065			\$ 160,784	\$ 410,849
Income Taxes	2,753,279				2,753,279
Charges for Services	66,297			5,590	71,887
Licenses and Permits	50,083			15,958	66,041
Fines and Forfeitures	315,798			80,901	396,699
Intergovernmental	354,632	\$890,921		799,229	2,044,782
Interest on Investments	11,066	105		1,455	12,626
Miscellaneous Receipts	20,758			42,751	63,509
<b>Total Cash Receipts</b>	<b>3,821,978</b>	<b>891,026</b>		<b>1,106,668</b>	<b>5,819,672</b>
<b>Cash Disbursements:</b>					
General Government					
Legislative and Executive	652,339				652,339
Judicial	283,197			86,146	369,343
Public Safety	2,092,159			96,266	2,188,425
Public Works		42,051		543,906	585,957
Health	81,500				81,500
Economic Development	23,625	852,437		1,887	877,949
Leisure Time Activities				40,945	40,945
Intergovernmental				86,832	86,832
Capital Outlay				430,307	430,307
<b>Debt Service:</b>					
Bond Principal Payment			\$74,000		74,000
Note Principal Payment				45,436	45,436
Interest and Fiscal Charges			32,409		32,409
Issuance Costs			30,000		30,000
<b>Total Cash Disbursements</b>	<b>3,132,820</b>	<b>894,488</b>	<b>136,409</b>	<b>1,331,725</b>	<b>5,495,442</b>
Receipts Over/(Under) Disbursements	689,158	(3,462)	(136,409)	(225,057)	324,230
<b>Other Financing Sources/(Uses):</b>					
Operating Transfers – In			106,409	218,936	325,345
Operating Transfers - (Out)	(276,845)			(48,500)	(325,345)
Proceeds of Bonds			570,000		570,000
Payment to Refunded Bond Escrow Agent			(540,000)		(540,000)
<b>Total Other Financing Sources/(Uses)</b>	<b>(276,845)</b>		<b>136,409</b>	<b>170,436</b>	<b>30,000</b>
Over/(Under) Cash Disbursements and Other Financing (Uses)	412,313	(3,462)		(54,621)	354,230
Fund Balances - Beginning of Year, Restated – Note 14	443,207	28,184		604,863	1,076,254
Fund Balances - End of Year	<b>\$855,520</b>	<b>\$ 24,722</b>	<b>\$ 0</b>	<b>\$550,242</b>	<b>\$1,430,484</b>

(Continued)

**CITY OF KENTON  
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

	<b>General Fund</b>	<b>Community Dev. Block Grant Fund</b>	<b>Bond Retirement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Government Funds</b>
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$855,520	\$24,722	\$0	\$550,242	\$1,430,484
<b>Fund Balances:</b>					
Non-spendable	13,294				13,294
Restricted		24,722		550,242	574,964
Assigned	30,741				30,741
Unassigned	811,485				811,485
Total Fund Balances	\$855,520	\$24,722	\$0	\$550,242	\$1,430,484

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

**CITY OF KENTON  
HARDIN COUNTY  
STATEMENT OF CASH BASIS FUND NET ASSETS AND CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND NET ASSETS  
ENTERPRISE FUNDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals (Memorandum Only)</u>
<b>Operating Receipts:</b>			
Charges for Services	\$1,131,888	\$1,917,792	\$3,049,680
Other Operating Receipts	1,100	119,011	120,111
Total Operating Receipts	<u>1,132,988</u>	<u>2,036,803</u>	<u>3,169,791</u>
<b>Operating Disbursements:</b>			
Personnel Services	694,592	565,680	1,260,272
Contract Services	183,932	383,456	567,388
Materials and Supplies	249,843	82,424	332,267
Capital Outlay	11,474		11,474
Total Operating Disbursements	<u>1,139,841</u>	<u>1,031,560</u>	<u>2,171,401</u>
Operating Income	(6,853)	1,005,243	998,390
<b>Non-Operating Receipts/(Disbursements):</b>			
Bond Retirement		(36,750)	(36,750)
Loan Retirement	(5,891)	(821,960)	(827,851)
Interest Expense		(178,190)	(178,190)
Other Non-Operating Receipts	48,900		48,900
Other Non-Operating (Disburse)	(47,593)	(142)	(47,735)
Total Non-Operating Rec./(Disb.)	<u>(4,584)</u>	<u>(1,037,042)</u>	<u>(1,041,626)</u>
Receipts (Under) Disbursements	(11,437)	(31,799)	(43,236)
Total Net Assets - Beginning of Yr	<u>1,464,116</u>	<u>198,425</u>	<u>1,662,541</u>
Total Net Assets - End of Year	<u>\$1,452,679</u>	<u>\$ 166,626</u>	<u>\$1,619,305</u>
<b>Assets:</b>			
Equity in Pooled Cash & Cash Eq.	\$1,452,679	\$ 166,626	\$1,619,305
<b>Net Assets;</b>			
Unreserved	<u>1,452,679</u>	<u>166,626</u>	<u>1,619,305</u>
Total Net Assets	<u>\$1,452,679</u>	<u>\$ 166,626</u>	<u>\$1,619,305</u>

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



**CITY OF KENTON  
HARDIN COUNTY**

**STATEMENT OF CASH BASIS NET ASSETS AND CASH RECEIPTS  
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND NET ASSETS  
AGENCY FUNDS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Agency Funds</u>
Cash Receipts	\$1,142,541
Cash Disbursements	<u>1,132,677</u>
Changes in Net Assets	9,864
Net Assets - Beginning of Year	<u>82,403</u>
Net Assets - End of Year	<u><u>\$ 92,267</u></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 92,267</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 92,267</u></u>

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

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**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**1. REPORTING ENTITY**

The City of Kenton (the City) is a home rule municipal corporation established under the laws of the State of Ohio. The City operates under the council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four year term. He is responsible for carrying out the policies and ordinances of council, for overseeing the day-to-day operations of the City and for appointing the Safety/Service Director, Income Tax Administrator and various boards and commissions. The legislative authority is vested in a seven-member Council with a presiding President of Council, who are elected to two-year terms. In addition to establishing City policies, Council is responsible for passing ordinances and adopting the budget. Other elected officials consist of the auditor, treasurer and law director, who are elected to four-year terms.

The reporting entity is composed of the primary government and other organizations that are included to ensure the financial statements of the City are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. The primary government of the City provides the following services to its citizens: police and fire protection, parks and recreation, street maintenance and repairs, water and sewer utilities and a staff to provide essential support to these services.

**B. Jointly Governed Organizations and Public Entity Risk Pools**

The City participates in three jointly governed organizations and one public entity risk pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, BKP Ambulance District and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 9 and 19 to the financial statements.

The City's management believes these financial statements present all activities for which the City is financially accountable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989 to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and activities and fund financial statements which provide a more detailed level of financial information.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

**1. Government-Wide Financial Statements**

The statement of net assets and activities displays information about the City as a whole. This statement includes the financial activities of the primary government, except for fiduciary funds. The statement distinguishes between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

**2. Fund Financial Statements**

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

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are presented in three categories: governmental, proprietary, and fiduciary.

**1. Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds:

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

**General** - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Community Development Block Grant Fund** – The C.D.B.G. Fund accounts for grant monies received through the State of Ohio for community improvement projects such as street paving, the Community Housing Improvement Program and “Brownfield” cleanup projects.

**Bond Retirement Fund** – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the Bond Retirement Fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the Bond Retirement Fund might also be used to account for the payment of the short-term debt of the governmental funds.

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

**2. Proprietary Funds**

The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City’s major enterprise funds:

**Water Fund** - The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the City.

**Sewer Fund** - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the City.

**3. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City’s fiduciary funds are agency funds. Agency funds are purely custodial in nature and are used to account for assets held by the City for individuals and other governments and organizations – unclaimed money, fire loss claims and the activity of the Municipal Court. These funds are not included in the City’s government-wide financial statements.

**C. Basis of Accounting**

The City’s financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in this note.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the fund, department, and object level for all funds

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the City Council during the year.

**E. Cash and Investments**

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2011, the City invested in nonnegotiable certificates of deposit and money market funds. Investments are reported at cost. The City's money market fund investments are recorded at the amount reported by Liberty National Bank, Community First Bank, N.A., Home Savings and Loan Company and Huntington National Bank on December 31, 2011.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest receipts credited to the General Fund during 2011 was \$11,066 which includes \$8,733 assigned from other City funds.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

**G. Inventory and Prepaid Items**

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as a liability under the City's cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Lease payments are reported when paid. Long-term obligations of the governmental funds and business-type funds are identified in Note 12.

**L. Net Assets**

Net cash assets consist of cash receipts and balances reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The City has restricted net assets for pension obligations, revolving loan balances and customer water deposits. Restricted for Other Purposes is comprised of net assets restricted for grants. The City did not have any net assets restricted by enabling legislation.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

**M. Fund Balance**

Fund Balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Non-spendable:** The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

**Restricted:** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purpose with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by ordinance.

**Unassigned:** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.



**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**N. Inter-fund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statement. During the course of normal operations, the City has numerous transactions between funds. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.

**O. Health Care**

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator.

**P. Intergovernmental Revenues**

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as revenues when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in Proprietary funds are recorded as revenue when the grant is received.

**3. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

**4. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for the General fund, Community Development Block Grant fund and Revolving Loan fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$30,741 for the General Fund and \$161,824 for the Community Development Block Grant.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the City can be deposited or invested in the following securities:

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

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.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

**A. Deposits**

At year end, the carrying amount of the City's deposits was \$3,142,056 and the bank balance was \$3,265,496. Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$397,700 of the City's bank balance of \$3,265,496 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**6. INCOME TAXES**

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. The receipts of the City Income Tax and the administrative costs associated with their collections are accounted for in the General Fund.

**7. CHANGE IN ACCOUNTING PRINCIPLE**

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

**8. PROPERTY TAXES**

Property taxes include amounts levied against all real property and public utility property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. Public utility property tax revenues received in 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2009, were levied after October 1, 2010, and are collected with real property taxes. Public utility tangible personal property is currently assessed at varying percentages of true value.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2011 was \$4.00 per \$1,000 of assessed valuation for all real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback deductions is reimbursed to the City through the County by the State of Ohio.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**8. PROPERTY TAXES (Continued)**

The assessed values of real property, public utility property, and tangible personal property upon which 2011 property tax receipts were based are as follows:

Residential	\$ 67,096,160
Agriculture	254,890
Commercial	24,229,560
Industrial	9,157,490
Utility Real Estate	28,640
Utility Personal Prop	4,096,420
Total	<u>\$104,863,160</u>

Real property taxes for tax year 2011 are payable annually or semi-annually. If paid annually, payment is due February 8, 2012. If paid semi-annually, the first payment is due February 8, 2012 with the remainder payable by July, 2012. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The residents of the City support Grove Cemetery Association (the Cemetery), a jointly governed organization described further in Note 19, through a tax levy. The levy for the Cemetery is voted millage. During 2011, the Cemetery received \$86,832 in tax revenue and related homestead and rollback revenue, from the residents of the City. This money is reported as tax receipts and intergovernmental expenditures on the financial statements.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

**9. RISK MANAGEMENT**

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**A. Casualty and Property Coverage**

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**9. RISK MANAGEMENT (Continued)**

**B. 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, 2010 and 2009 (the latest information available):

	<b>2010</b>	<b>2009</b>
Assets	\$34,952,010	\$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	\$20,631,198	\$21,118,036

The Casualty Coverage assets and retained earnings above include approximately \$12.4 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010. PEP will collect these amounts in future annual premium billings when PEP'S related liabilities are due for payment. The District's share of these unpaid claims is approximately \$111,000.

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool ("APEEP"), which is also administered by ARPCO. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains insured risks up to an amount specified in the contracts. (At December 31, 2010 the Pool retained \$350,000 for casualty claims and \$150,000 for property claims). The Board of Directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

<b>Contributions to PEP</b>	
2009	\$138,143
2010	121,504
2011	118,844

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**Funding Policy** – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan. The 2011 member contribution rates were 10.0% for members in state and local classifications. The 2011 employer contribution rate for state and local employers was 14.0% of covered payroll. For 2011, a portion of the City's contribution equal to 5.5 percent of covered payroll was allocated to fund the postemployment health care plan. The City's contributions for pension obligations to OPERS for the years ended December 31, 2011, 2010 and 2009 were \$123,806, \$133,120 and \$133,666, respectively; 100% has been contributed for all three years.

**B. Ohio Police and Fire Pension Fund**

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

**Funding Policy** - Plan members are required to contribute 10.0 percent of their annual covered salary, employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters, 12.75% and 17.25% respectively for pension obligations. The City's contributions to OP&F were \$71,114 and \$95,331 for the year ended December 31, 2011, \$77,060 and \$95,319 for the year ended December 31, 2010 and \$90,075 and \$104,246 for the year ended December 31, 2009. The full amount has been contributed for all three years.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**11. POST EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

**Plan Description** – OPERS administers three separate pension plans: The Traditional Pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including the postemployment healthcare.

To qualify for postemployment healthcare coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**Funding Policy** – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

The post employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 5.5% for the year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2011, 2010, and 2009 were \$48,638, \$75,953, and \$97,478 respectively. The full amount has been contributed for all three years.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**11. POST EMPLOYMENT BENEFITS (Continued)**

**B. Ohio Police and Fire Pension Fund**

**Plan Description** – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**Funding Policy** – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment mounts vary depending on the number of covered dependents and the coverage selected.



**CITY OF KENTON  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**11. POST EMPLOYMENT BENEFITS (Continued)**

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits of police and firefighters were \$37,648 and \$37,303 for the year ended December 31, 2011, \$40,805 and \$37,609 for the year ended December 31, 2010, and \$47,696 and \$40,782 for the year ended December 31, 2009. The full amount has been contributed for all three years.

**12. DEBT**

The City's debt transactions for the year ended December 31, 2011, are summarized below:

	<b>Debt Principal Outstanding 1/1/11</b>	<b>Debt Issued in 2011</b>	<b>Debt Principal Retired in 2011</b>	<b>Debt Principal Outstanding 12/31/11</b>
<b>Governmental Activities:</b>				
<b>General Obligations Issues:</b>				
1999 SW Pool Const Bond	\$ 605,000		\$ 605,000	
2006 Street Sweeper Bond	9,000		9,000	
2011 Swimming Pool Improvement Refunding Bonds		<u>\$570,000</u>		<u>\$ 570,000</u>
Total General Obligation Bonds	<u>614,000</u>	<u>570,000</u>	<u>614,000</u>	<u>570,000</u>
2003 OPWC Loan-Street	4,337		1,735	2,602
2006 OPWC Loan-Street	107,415		6,930	100,485
2010 OPWC Loan-Street	330,943		36,771	294,172
Total General Obligation Loans	<u>442,695</u>		<u>45,436</u>	<u>397,259</u>
Total Governmental Activity	<u>1,056,695</u>	<u>570,000</u>	<u>659,436</u>	<u>967,259</u>
<b>Business Type Activities:</b>				
<b>Sewer Fund:</b>				
2006 Street Sweeper Bonds	9,000		9,000	
2008 WWTP/System Imp Bonds	222,000		27,750	194,250
Total Bonds	<u>231,000</u>		<u>36,750</u>	<u>194,250</u>
1996 OWDA Wastewater Improvement Loan (NIS)	525,650		70,255	455,395
1998 OWDA Wastewater Improvement Loan (WWTP Exp)	7,395,916		751,705	6,644,211
Total Loans	<u>7,921,566</u>		<u>821,960</u>	<u>7,099,606</u>
Total Sewer Fund	<u>8,152,566</u>		<u>858,710</u>	<u>7,293,856</u>
<b>Waterworks Fund:</b>				
2003 OPWC Waterworks Loan	70,693		5,891	64,802
Total Business Type Activity:	<u>8,223,259</u>		<u>864,601</u>	<u>7,358,658</u>
<b>TOTAL DEBT</b>	<u><u>\$9,279,954</u></u>	<u><u>\$570,000</u></u>	<u><u>\$1,524,037</u></u>	<u><u>\$8,325,917</u></u>

Outstanding general obligation bonds and loans consist of street improvements, water and sewer system improvements 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.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**12. DEBT (Continued)**

**1999 Various Purpose Bonds**

During 1999, the City issued various purpose bonds in the total amount of \$2,090,000 of which \$1,200,000 was used to retire bond anticipation notes issued for the construction of a municipal swimming pool and \$890,000 to retire outstanding bonds for the municipal building. The bonds have stated interest rates between 3.3 and 5.4 percent. The \$890,000 refunding portion of the bonds matured in 2005 and the municipal swimming pool portion were to mature in 2018 but were refinanced in 2011. The 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	\$80,000
2014	\$80,000
2015	\$80,000
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 were recalled in 2011 and re-issued at coupon rates varying from 1% to 2.125%. This will reduce our interest payments by \$48,709 over the remaining life of the loan.

**2011 Swimming Pool Improvement Refunding Bonds**

In October 2011, the City issued \$570,000 in voted general obligation bonds for the purpose of refunding a portion of the 1999 Swimming Pool Construction Bonds originally issued in the aggregate principal amount of \$1,200,000 for the purpose of constructing the swimming pool. The bonds have interest rates ranging from 1.0% to 2.125%, with final maturity on December 1, 2018.

The refunding bond issue provides resources to purchase US Government securities that were placed in trust with an escrow agent, for the purpose of future debt service payments of \$540,000 of the 1999 bond issue. As a result, the refunded bonds are considered to be defeased and the City no longer has liabilities associated with those bonds.

The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete refunding was \$48,709. The economic gain resulting from the refunding was \$43,474.

**2006 Street Sweeper Bonds**

The City issued \$90,000 general obligation bonds at 4.31 percent interest in 2006 which were used to purchase a new street sweeper. These bonds matured in 2011 and were retired from both the Governmental Debt Retirement Funds and from the Sewer fund.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**12. DEBT (Continued)**

**2003 Ohio Public Works Commission Loan (OPWC)**

During 2003, the City obtained a zero percent interest 8 year loan from the OPWC for the Pattison Avenue Storm Sewer Collections System project – a joint ditch maintenance project between the City and Hardin County. Initially this loan was approved in the amount of \$95,506, however the actual project cost was less than originally anticipated, so the final loan amount was \$13,880. This debt is a general obligation of the City and matures on July 1, 2013. This loan is being paid from Governmental Debt Retirement Funds.

**2010 Ohio Public Works Commission Loan (OPWC)**

During 2010, the City obtained a zero percent interest 10 year loan from the OPWC for the City's matching funds for the joint highway improvement project with the Ohio Department of Transportation involving the five state routes that converge inside the City limits. This loan is in the amount of \$367,714 and will mature in 2020. Loan payments will come from the Governmental Debt Retirement Fund.

**2006 Ohio Public Works Commission Loan (OPWC)**

The City obtained a zero percent interest 20 year loan from the OPWC for the Storm Water Collection System Improvement Project during 2006. This loan is in the amount of \$138,600 and will mature in 2026. Loan payments will come from the Governmental Debt Retirement Fund.

**1996 Ohio Water Development Authority Loan (OWDA)**

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 a loan in the amount of \$1,307,587 at 2.2 percent interest for 20 years granted by the Ohio Water Development Authority (OWDA). This loan will be repaid from user charges.

**1998 Ohio Water Development Authority Loan (OWDA)**

The City began the construction phase of the Wastewater Treatment Plant Expansion Project during 1998 with funding for this project provided by an estimated \$14,665,000 loan at 2.2 percent interest for 20 years granted by the OWDA. The final disbursement was made during 2007 in the amount of \$72,702 to complete funding of the litigation settlement regarding the plant. This loan will be repaid from user charges.

**2003 Ohio Public Works Commission Loan (OPWC)**

During 2003, the City obtained a zero percent interest 20 year loan in the amount of \$117,821 from the OPWC for the water treatment plant and water system Improvements project. This loan will mature in 2023 and will be retired utilizing utility charges.

**2008 WWTP/System Improvement Bonds**

The City issued \$277,500 general obligation bonds on April 4, 2008 at 3.95% interest to refinance the bond anticipation notes issued for the Sewer Fund's share of the radio-read water meter project and partial funding for the litigation settlement regarding the sewer plant. These bonds will be repaid from user charges.

**CITY OF KENTON  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**12. DEBT (Continued)**

The annual requirements to amortize all long term debt outstanding as of December 31, 2011, including interest payments of \$806,079 are listed in the table below:

	<b>G.O. Bonds</b>	<b>OWDS Loans</b>	<b>OPWC Loans</b>	<b>Total</b>
2012	\$120,472	\$ 991,738	\$ 51,328	\$1,163,538
2013	122,356	991,738	50,460	1,164,554
2014	125,460	991,738	49,592	1,166,790
2015	117,919	991,738	49,592	1,159,249
2016	115,464	991,738	49,592	1,156,794
2017-2021	233,110	2,812,346	174,420	3,219,876
2022-2026			37,077	37,077
Total	834,782	7,771,036	462,061	9,067,879
Less Interest	(70,532)	(671,430)		(741,962)
Principal	\$764,250	\$7,099,606	\$462,061	\$8,325,917

**13. LEASES**

**A. Capital Leases**

During 2011, the city entered into an equipment lease for a new Police Cruiser for a period of 3 years. The debt associated with the cruiser will be paid out of the General Fund. The city made an initial payment in 2011 for \$10,929.

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.

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, 2011.

<b>Ending December 31:</b>	<b>Cruiser</b>
2011	\$10,989
2012	10,989
	\$21,978
Less Amount Representing Interest	(1,971)
Present Value of minimum lease payments	\$20,007

**B. Operating Lease**

The City leases land under a non-cancelable operating lease. 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. Lease payments for the first five years were \$6,000 per year and increase five percent for each subsequent five year period for the first 50 years. The lease payments are being paid from the Water Fund.

The future minimum lease payments for the lease through 2049 are as follows:

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**13. LEASES (Continued)**

<u>Fiscal Year</u> <u>Ending December 31:</u>	<u>Amount</u>
2012	\$ 6,615
2013	6,615
2014	6,615
2015	6,946
2016	6,946
2017-2021	35,422
2022-2026	37,193
2027-2031	39,051
2032-2036	41,004
2037-2041	43,055
2042-2046	45,208
2047-2049	18,616
	<u>\$293,286</u>

**14. RESTATEMENT OF FUND BALANCE/NET ASSETS**

For 2011, the City modified its financial statements to reflect the modifications outlined in GASB statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The restatement had the following effect on fund balances as of January 1, 2011:

	<u>General Fund</u>	<u>Community Dev. Block Grant Fund</u>	<u>Bond Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds/Net Assets</u>	<u>Unclaimed Money Agency Fund</u>
Fund Balance at December 31, 2010	\$430,357	\$28,184	\$0	\$604,863	\$1,063,404	\$95,253
Change in Fund Structure	12,850				12,850	(12,850)
Adjusted Fund Balance at December 31, 2010	<u>\$443,207</u>	<u>\$28,184</u>	<u>\$0</u>	<u>\$604,863</u>	<u>\$1,076,254</u>	<u>\$82,403</u>

The restatement had no effect on Business Type Activities / Enterprise Funds.

**15. FUND BALANCES**

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

**CITY OF KENTON  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**15. FUND BALANCES (Continued)**

<u>Fund Balances</u>	<u>General</u>	<u>Community Development Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
<b>Non-spendable:</b>				
Unclaimed Funds	\$ 13,294			\$ 13,294
Total Non-spendable	13,294			13,294
<b>Restricted for:</b>				
Street Maintenance			\$ 119,357	\$ 119,357
Park and Recreational Operations			6,964	6,964
Home Repair		\$24,722		24,722
Economic Development			102,608	102,608
Court Improvements			159,399	159,399
Police Pension			5,280	5,280
Fire Pension			2,532	2,532
Police Improvements			21,280	21,280
Indigent Drivers			73,510	73,510
Emergency Medical Services			39,233	39,233
Probation Services			14,610	14,610
Capital Improvements			5,469	5,469
Total Restricted		24,722	550,242	574,964
<b>Assigned for:</b>				
Unpaid Obligations	30,741			30,741
Total Assigned	30,741			30,741
Unassigned (Deficit)	811,485			811,485
Total Fund Balances	\$855,520	\$24,722	\$550,242	\$1,430,484

**16. INTER-FUND TRANSFERS**

During 2011, the General Fund made transfers to other governmental funds, in the amount of \$276,845, including the Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund and the Note Retirement Fund. Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

**17. COMMITMENTS**

The City's encumbrance policy for yearend December 31, 2011 is that individual encumbrances can be issued for any amount to be considered significant encumbrances. All encumbrances are classified as Assigned Fund Balance in the General Fund, or as Restricted Fund Balance in the non-general funds.

Encumbrances as of December 31, 2011 were:

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**17. COMMITMENTS (Continued)**

<u>Fund</u>	<u>Assigned</u>	<u>Restricted</u>	<u>Total</u>
<b>Major Governmental Funds:</b>			
General	\$30,741		\$ 30,741
Community Development Block Grant		\$161,824	161,824
Non-Major Governmental Funds		12,437	12,437
Totals	<u>\$30,741</u>	<u>\$174,261</u>	<u>\$205,002</u>

**18. 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. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**19. JOINTLY GOVERNED ORGANIZATIONS**

**A. Grove Cemetery Association**

The Grove Cemetery Association (the "Association") is a jointly-governed organization consisting of Buck, Pleasant and Goshen Townships and the City of Kenton. 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, Roger Crowe at 15443 St. Rt. 309, Kenton, OH 43326.

**B. Hardin County Regional Planning Commission**

The Hardin County Regional Planning Commission (the Commission) is a jointly-governed organization between the County, the Municipalities, and the Townships within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of twenty seven members, any of which may hold any other public office. The City is represented by one member.

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed. Financial information can be obtained from Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326.

**C. BKP Ambulance District**

The constitution and laws of the State of Ohio establish the rights and privileges of the BKP Ambulance District, Hardin County, (the "District") as a body corporate and politic. A seven-member Board of Trustees governs the District. Each political subdivision within the District appoints one member. Those subdivisions are Buck, Cessna, Dudley, Goshen, Lynn and Pleasant Townships in Hardin County, and the City of Kenton. Financial information can be obtained from Vicki Collins, Clerk, 439 South Main Street, Kenton, Ohio 43326.

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**CITY OF KENTON  
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
Beginning Budgetary Fund Balance	\$401,292	\$401,292	\$401,292	
<b>Resources (Inflows):</b>				
Taxes	2,769,906	2,769,906	3,003,344	\$233,438
Charges for Services	66,200	66,200	66,297	97
Licenses and Permits	45,000	45,000	50,083	5,083
Fines and Forfeitures	331,200	331,200	315,798	(15,402)
Intergovernmental	208,076	256,849	354,632	97,783
Interest on Investments	7,500	7,500	11,066	3,566
Miscellaneous Receipts	4,000	19,853	20,201	348
Total Resources (Inflows):	<u>3,431,882</u>	<u>3,496,508</u>	<u>3,821,421</u>	<u>324,913</u>
<b>Charges to Appropriations (Outflows):</b>				
<b>General Government:</b>				
Legislative and Executive	570,216	634,914	561,358	73,556
Judicial	429,670	431,065	390,800	40,265
Public Safety	2,250,731	2,260,001	2,105,965	154,036
Health	81,500	81,500	81,500	
Economic Development	14,585	28,310	23,825	4,485
Other Financing Uses Transfers Out	331,847	331,847	276,845	55,002
Total Charges to Appropriations:	<u>3,678,549</u>	<u>3,767,637</u>	<u>3,440,293</u>	<u>327,344</u>
Net Change to Fund Balance	(246,667)	(271,129)	381,128	652,257
Prior Year Encumbrances Appropriated	<u>29,065</u>	<u>29,065</u>	<u>29,065</u>	
Ending Budgetary Balance	<u><u>\$183,690</u></u>	<u><u>\$159,228</u></u>	<u><u>\$811,485</u></u>	<u><u>\$652,257</u></u>

*See accompanying notes to Supplementary Information.*

**CITY OF KENTON  
HARDIN COUNTY  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
COMMUNITY DEVELOPMENT BLOCK GRANT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive(Negative)</b>
Beginning Budgetary Fund Balance	\$ 28,184	\$ 28,184	\$ 28,184	
<b>Resources (Inflows):</b>				
Intergovernmental	1,512,826	1,512,826	890,921	(\$621,905)
Interest on Investments			105	105
Total Resources (Inflows):	<u>1,512,826</u>	<u>1,512,826</u>	<u>891,026</u>	<u>(621,800)</u>
<b>Charges to Appropriations (Outflows):</b>				
Public Works	43,000	43,000	42,051	462,068
Economic Development	506,503	1,476,329	1,014,261	949
Total Charges to Appropriations:	<u>549,503</u>	<u>1,519,329</u>	<u>1,056,312</u>	<u>463,017</u>
Net Change to Fund Balance	<u>963,323</u>	<u>(6,503)</u>	<u>(165,286)</u>	<u>(158,783)</u>
Ending Budgetary Balance:	<u>\$ 991,507</u>	<u>\$ 21,681</u>	<u>(\$ 137,102)</u>	<u>(\$158,783)</u>

*See accompanying notes to Supplementary Information.*

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Basis of Accounting**

The budget is prepared on the same cash basis as applied to the funds in the basic financial statements.

**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.

**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 30<sup>th</sup> and which either have no public debt or which have public debt and file additional debt-related information with the Commission.

**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 2010.

**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.

**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.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

**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 and as the equivalent of expenditures on the budgetary comparison in order to demonstrate legal compliance. 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.

**Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedules presented for the General and Community Development Block Grant Funds are prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as an assigned fund balance (cash basis).

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

**Net Change in Fund Balance**

	<b>General Fund</b>	<b>Community Development Block Grant Fund</b>
Budget Basis	\$811,485	(\$137,102)
Adjustments for encumbrances	30,741	161,824
Funds Budgeted Elsewhere**	13,294	
Cash Basis	\$855,520	\$24,722

\*\* As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds that are legally budgeted in separate funds are considered part of the General Fund on a cash basis. For the City this includes the Unclaimed Monies Fund.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 12, 2012, wherein we noted the City uses a comprehensive accounting basis other than generally accepted accounting principles and adopted the provisions of Government Accounting Standards Board Statement No 54, *Fund Balance and Governmental Fund Type Definitions*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 12, 2012.

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

We intend this report solely for the information and use of the audit committee, management, Members of Council, and others within the City. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

July 12, 2012

**CITY OF KENTON  
HARDIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2011-01**

**Accuracy of Financial Reporting - Material Weakness**

The City should have procedures in place to help assure that the annual financial statements are complete and accurate. The following errors and omissions were identified in the financial statements:

- General Fund Fines and Forfeitures revenue was understated by \$5,553 and Legislative and Executive disbursements were overstated by \$24,914 as a result of adjusting entries not being made to remove the December 2010 Municipal Court activity recorded in January 2011 and add the December 2011 Municipal Court activity recorded in January 2012 to the 2011 financial statements. This also caused Agency Fund Cash Disbursements to be overstated by \$5,553.
- General Fund Legislative and Executive disbursements were understated by \$113, Miscellaneous Revenue was understated by \$557 and the beginning fund balance was understated by \$12,850 due to the failure to include the unclaimed money fund activity within the General Fund as required by GASB 54. This also caused Agency Fund Cash Receipts, Cash Disbursements and Beginning Fund Balance to be overstated by \$557, \$113, and \$12,850, respectively.
- General Fund Judicial disbursements were understated by \$99,043 and Legislative and Executive disbursements were overstated by \$99,043 as a result of the Law Director disbursements being reported in the improper function on the financial statements.
- Cemetery Fund disbursements of property taxes and related receipts, in the amount of \$86,832, collected to support a cemetery were recorded as Health Disbursements instead of Intergovernmental Disbursements.
- Debt Service Fund Other Financing Sources: Proceeds from the Sale of Refunding Bonds, Bond Principal Payment, Other Financing Uses - Payment to Refunded Bond Escrow Agent, and Issuance Costs, were all understated by \$30,000, \$540,000, \$540,000 and \$30,000, respectively, as a result of the exclusion of memo entries required for receipts and disbursements related to the Sale of the Swimming Pool Refunding Bonds. In addition, there was no related note disclosure for this refunding.
- Principal and interest receipts, in the amount of \$8,451 and \$154, respectively, paid into the City's Revolving Loan Fund were recorded as Bond Proceeds instead of Miscellaneous and Interest Receipts.
- Cash and Unreserved Net Assets in Water Fund were understated by \$101,742, compared to the ending Net Asset from Operating and Non-Operating activity.
- Other Operating Receipts, in the amount of \$119,011, recorded in the Sewer Fund were reported as Program Revenue instead of General Receipts.
- For the General Fund Budgetary Comparison Schedule, total actual receipts were understated by \$5,554, actual disbursements were overstated by \$24,914, prior year encumbrances were understated by \$24,903, original and final budgeted ending fund balances were understated by \$24,903 and the actual ending fund balance was understated by \$55,370. There were also twenty instances noted where budget and actual accounts on the schedule had to be changed due to errors noted between accounts.
- For the Community Development Block Grant Fund Budgetary Comparison Schedule, original and final budgeted amounts in the amount of \$43,000, and actual activity, in the amount of 42,061, for the "Public Works" disbursements expenditures were recorded as "Economic Development" expenditures. Original and final budgeted expenditures in the amounts of \$506,503 and \$1,476,329, respectively, and actual expenditures in the amount of \$1,014,261, for "Economic Development" were recorded as "Public Works disbursements".

**FINDING NUMBER 2011-01  
(Continued)**

Errors and omissions in the financial statements inhibit users' understanding of the results of operations and may result in the material misstatement of the financial statements. The accompanying financial statements and notes have been adjusted for the errors and omissions identified above.

The City should perform a review of the annual financial statements to help assure completeness and accuracy. Resources such as those found on the Auditor of State web site should be utilized when preparing and reviewing the annual financial statements.

The City Auditor should review Auditor of State Bulletins and other resources for guidance in correctly classifying receipts and disbursements. Periodically the Council members should perform a review of the receipt and disbursement ledgers to help identify errors and/or irregularities.

**OFFICIALS' RESPONSE:** The necessary changes will be made during 2012.

**FINDING NUMBER 2011-02**

**Noncompliance Citation**

**Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

**Ohio Adm. Code Section 117-2-03 (B)** requires all cities to prepare annual financial reports in accordance with generally accepted accounting principles (GAAP). The City prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The City should prepare its financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements.

**OFFICIALS' RESPONSE:**

City Council passed Resolution #04-003 on February 23, 2004 that stated "to be more cost efficient....That, effective fiscal year 2003, the City of Kenton will report on a cash basis as opposed to GAAP and/or GASB 34." This Resolution remains in effect and the City will continue to report on a cash basis for the foreseeable future.



**CITY OF KENTON  
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Ohio Rev. Code Sec. 117.38 & Ohio Admin. Code Sec. 117-2-03(B) – The City did not prepare financial statements in accordance with generally accepted accounting principles (GAAP).	No	Repeated as finding 2011-02

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# Dave Yost • Auditor of State

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  
AUGUST 23, 2012