



Dave Yost • Auditor of State

**CITY OF KENTON
HARDIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2012, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

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Accounting Basis

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2012, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the City's financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* includes tables of net position, changes in net position, governmental activities, and long-term debt. The City presents budgetary comparison schedules for the General and Community Development Block Grant funds. These tables and schedules provide additional analysis and are not a required part of the basic financial statements.

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. We subjected this information 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and schedules are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2013

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
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, 2012, 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 2012 are as follows:

- The net position of governmental activities increased \$262,196 or 18 percent. The General Fund and the Community Development Block Fund balances increased by \$335,870, and \$1,872, respectively, while the other governmental funds decreased \$75,546. The City's general receipts for the governmental funds are primarily property and income taxes. These receipts represent respectively 6.5 and 53.4 percent of the total cash received for governmental activities during the year. Income tax receipts for 2012 were 5% more than 2011 due to increased business and withholding tax collections.
- Net position of the City's business-type activities decreased \$580,035 or 36 percent. The decrease was mainly due to increased capital outlay disbursements in the Water Fund. In 2012, the City replaced both lime slakers at the Water Plant and purchased a truck for the Water Department.

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 position and the statement of 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, 2012
UNAUDITED
(Continued)**

Reporting the City as a Whole

The statement of net position and the statement of activities reflect how the City did financially during 2012, within the limitations of cash basis accounting. The statement of net position 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 position and the statement of 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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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.

The City as a Whole

The table below provides a summary of the City's net position for 2012 compared to 2011 on a cash basis.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets						
Cash	\$1,692,680	\$1,430,484	\$1,039,270	\$1,619,305	\$2,731,950	\$3,049,789
Total Assets	<u>1,692,680</u>	<u>1,430,484</u>	<u>1,039,270</u>	<u>1,619,305</u>	<u>2,731,950</u>	<u>3,049,789</u>
Net Position						
Restricted:						
Pension Obligations	6,036	7,812			6,036	7,812
Revolving Loans	67,440	102,608			67,440	102,608
Customer Deposits			109,605	101,740	109,605	101,740
Other Purposes	442,102	477,838			442,102	477,838
Unrestricted	<u>1,177,102</u>	<u>842,226</u>	<u>929,665</u>	<u>1,517,565</u>	<u>2,106,767</u>	<u>2,359,791</u>
Total Net Position	<u>\$1,692,680</u>	<u>\$1,430,484</u>	<u>\$1,039,270</u>	<u>\$1,619,305</u>	<u>\$2,731,950</u>	<u>\$3,049,789</u>

As mentioned previously, net position of governmental activities increased \$262,196 or 18 percent during 2012 and net position of business-type activities decreased \$580,035 or 36 percent. The primary reasons contributing to the changes in cash balances are as follows:

- **Governmental Activities:** Income tax collections were 5 percent more in 2012 compared to 2011 as a result of increased business and withholding tax collections. In addition, total cash disbursements in the governmental funds were 14.4 percent less in 2012, compared to 2011.
- **Business-Type Activities:** Water fund capital outlay disbursements increased significantly due to the replacement of both lime slakers at the Water Plant and the purchase of a truck during 2012. Overall, Water fund operating disbursements increased \$415,972, or 35 percent, from 2011 to 2012 and Sewer fund operating disbursements increased \$68,140, or 7 percent, both of which contributed to this decrease in net position.

The next table reflects the changes in net position on cash basis in 2012 and 2011 for governmental activities, business-type activities and total primary government.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Receipts:						
Program Receipts:						
Charges for Services	\$ 534,848	\$1,425,548	\$3,023,011	\$3,049,680	\$3,557,859	\$4,475,228
Operating Grants & Contributions	381,050	411,574			381,050	411,574
Capital Grants & Contributions	900,714	387,275			900,714	387,275
Total Program Receipts	<u>1,816,612</u>	<u>2,224,397</u>	<u>3,023,011</u>	<u>3,049,680</u>	<u>4,839,623</u>	<u>5,274,077</u>
General Receipts:						
Property Taxes	354,081	399,731			354,081	399,731
Income Taxes	2,897,915	2,753,279			2,897,915	2,753,279
Hotel/Motel Taxes	9,842	11,118			9,842	11,118
Grants and Contributions Net						
Restricted to Specific Programs	293,721	354,632			293,721	354,632
Interest Income	8,215	12,626			8,215	12,626
Miscellaneous	46,599	63,889	132,971	169,011	179,570	232,900
Debt Proceeds	-	570,000				570,000
Total General Receipts	<u>3,610,373</u>	<u>4,165,275</u>	<u>132,971</u>	<u>169,011</u>	<u>3,743,344</u>	<u>4,334,286</u>
Total Receipts	<u>5,426,985</u>	<u>6,389,672</u>	<u>3,155,982</u>	<u>3,218,691</u>	<u>8,582,967</u>	<u>9,608,363</u>
Disbursements:						
General Government	1,016,928	1,021,682			1,016,928	1,021,682
Public Safety	2,317,272	2,188,425			2,317,272	2,188,425
Public Works	646,293	585,957			646,293	585,957
Health Services	81,500	81,500			81,500	81,500
Economic Development	374,512	877,949			374,512	877,949
Leisure-time Activities	52,028	40,945			52,028	40,945
Intergovernmental Expenditures	80,715	86,832			80,715	86,832
Capital Outlay	464,508	430,307			464,508	430,307
Debt Service	131,033	721,845			131,033	721,845
Water			1,608,364	1,193,325	1,608,364	1,193,325
Sewer			2,127,653	2,068,602	2,127,653	2,068,602
Total Disbursements	<u>5,164,789</u>	<u>6,035,442</u>	<u>3,736,017</u>	<u>3,261,927</u>	<u>8,900,806</u>	<u>9,297,369</u>
Increase/(Decrease) in Net Position	<u>262,196</u>	<u>354,230</u>	<u>(580,035)</u>	<u>(43,236)</u>	<u>(317,839)</u>	<u>310,994</u>
Net Position, January 1	<u>1,430,484</u>	<u>1,076,254</u>	<u>1,619,305</u>	<u>1,662,541</u>	<u>3,049,789</u>	<u>2,738,795</u>
Net Position, December 31	<u>\$1,692,680</u>	<u>\$1,430,484</u>	<u>\$1,039,270</u>	<u>\$1,619,305</u>	<u>\$2,731,950</u>	<u>\$3,049,789</u>

Program receipts for Governmental and Business activities represent 56.4 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 43.6 percent of the City's total receipts, and of this amount 86.9 percent are local property and income taxes. Grants and entitlements not restricted to specific programs 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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

Public Safety is the cost 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.

Governmental Activities

If you look at the Statement of Activities on page 1G 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 public safety and streets (streets includes public works and capital outlay, which represents an Issue II street project), which account for 44.8 and 21.5 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 19.7 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.

	Governmental Activities			
	2012		2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$1,016,928	\$ 497,633	\$1,021,682	\$ 621,289
Public Safety	2,317,272	2,227,481	2,188,425	2,122,315
Public Works	646,293	234,669	585,957	124,759
Health Services	81,500	81,500	81,500	81,500
Economic Development	374,512	3,597	877,949	(15,406)
Leisure Time Activities	52,028	36,955	40,945	24,879
Intergovernmental	80,715	80,715	86,832	86,832
Capital Outlay	464,508	54,594	430,307	43,032
Debt Service	120,436	120,436	689,436	689,241
Interest Expense	10,597	10,597	32,409	32,604
Totals	<u>\$5,164,789</u>	<u>\$3,348,177</u>	<u>\$6,035,442</u>	<u>\$3,811,045</u>

The dependence upon property, income tax receipts, and hotel/motel taxes is apparent as these receipts provide support for 63.2 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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

The City's Funds

Total governmental funds had receipts and other financing sources (excluding transfers-in) of \$5,426,985 and disbursements of \$5,164,789. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$335,870 as a result of the increased collections in business and withholding income tax receipts. Administration and department heads were very careful with their spending in 2012.

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 \$3,864,169 while actual disbursements were \$3,655,294, a difference of \$208,875 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 \$7,342,016 in long-term debt outstanding – a decrease of 12 percent from last year. Governmental activities accounted for \$857,141 and business-type activities accounted for the remaining \$6,484,875 of long-term debt. For further information regarding the City's debt, refer to Note 11 to the basic financial statements.

City of Kenton Long-Term Debt

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Capital Leases	\$ 10,318	\$ 20,007			\$ 10,318	\$ 20,007
Bond Obligations	495,000	570,000	\$166,500	\$ 194,250	661,500	764,250
OPWC Loans	351,823	397,259	58,911	64,802	410,734	462,061
OWDA Loans			6,259,464	7,099,606	6,259,464	7,099,606
Totals	<u>\$857,141</u>	<u>\$987,266</u>	<u>\$6,484,875</u>	<u>\$7,358,658</u>	<u>\$7,342,016</u>	<u>\$8,345,924</u>

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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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.

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**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2012**

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,692,680	\$1,039,270	\$2,731,950
Net Position:			
Restricted for:			
Pension Obligations	6,036		6,036
Revolving Loan	67,440		67,440
Customer Water Deposits		109,605	109,605
Other Purposes	442,102		442,102
Unrestricted	1,177,102	929,665	2,106,767
Total Net Position	<u>\$1,692,680</u>	<u>\$1,039,270</u>	<u>\$2,731,950</u>

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	(\$1,016,928)	\$519,295		
Public Safety	(2,317,272)		\$952	\$88,839
Public Works	(646,293)	480	380,098	31,046
Health	(81,500)			
Economic Development	(374,512)			\$370,915
Leisure Time Activities	(52,028)	15,073		
Intergovernmental	(80,715)			
Capital Outlay	(464,508)			409,914
Debt Service:				
Bond Principal Payment	(75,000)			
Note Principal Payment	(45,436)			
Interest and Fiscal Charges	(10,597)			
Total Governmental Activities	(5,164,789)	534,848	381,050	900,714
Business Type Activities				
Waterworks	(1,608,364)	1,037,051		
Sewer	(2,127,653)	1,985,960		
Total Business Type Activities	(3,736,017)	3,023,011		
Total Activity	(\$8,900,806)	\$3,557,859	\$381,050	\$900,714

General Receipts

Property Taxes for:

General Purpose
Police Pension
Fire Pension
Grove Cemetery
Income
Hotel/Motel
Grants and Entitlements not Restricted for Specific Purposes
Investment Income
Miscellaneous
Total General Receipts

Increase/(Decrease) in Net Position

Net Cash Position Beginning of Year

Net Cash Position End of Year

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

**Net (Cash Disbursements) Cash Receipts
and Changes in Net Cash Position**

Primary Government		
Governmental Activities	Business Type Activities	Total
(\$497,633)		(\$497,633)
(2,227,481)		(2,227,481)
(234,669)		(234,669)
(81,500)		(81,500)
(3,597)		(3,597)
(36,955)		(36,955)
(80,715)		(80,715)
(54,594)		(54,594)
(75,000)		(75,000)
(45,436)		(45,436)
(10,597)		(10,597)
<u>(3,348,177)</u>		<u>(3,348,177)</u>
	(\$571,313)	(571,313)
	<u>(141,693)</u>	<u>(141,693)</u>
	<u>(713,006)</u>	<u>(713,006)</u>
<u>(3,348,177)</u>	<u>(713,006)</u>	<u>(4,061,183)</u>
230,153		230,153
26,556		26,556
26,556		26,556
70,816		70,816
2,897,915		2,897,915
9,842		9,842
293,721		293,721
8,215		8,215
46,599	132,971	179,570
<u>3,610,373</u>	<u>132,971</u>	<u>3,743,344</u>
262,196	(580,035)	(317,839)
<u>1,430,484</u>	<u>1,619,305</u>	<u>3,049,789</u>
<u>\$1,692,680</u>	<u>\$1,039,270</u>	<u>\$2,731,950</u>

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<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</u>
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$1,177,102	\$26,594	\$0	\$474,696	\$1,678,392
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	14,288				\$14,288
Total Assets	<u>1,191,390</u>	<u>26,594</u>		<u>474,696</u>	<u>1,692,680</u>
Fund Balances:					
Non-spendable	14,288				14,288
Restricted		26,594		474,696	501,290
Assigned	42,709				42,709
Unassigned	1,134,393				1,134,393
Total Cash Fund Balances	<u>\$1,191,390</u>	<u>\$26,594</u>	<u>\$0</u>	<u>\$474,696</u>	<u>\$1,692,680</u>

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Community Dev. Block Grant	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts:					
Property and Other Taxes	\$239,995			\$123,928	\$363,923
Income Taxes	2,897,915				2,897,915
Charges for Services	66,323			15,073	81,396
Licenses and Permits	50,530			480	51,010
Fines and Forfeitures	305,527			93,372	398,899
Intergovernmental	358,898	\$409,915		810,215	1,579,028
Interest on Investments	7,544	187		484	8,215
Miscellaneous Receipts	16,822			17,024	33,846
Total Receipts	3,943,554	410,102		1,060,576	5,414,232
Cash Disbursements:					
General Government:					
Legislative and Executive	553,983				553,983
Judicial	413,537			49,408	462,945
Public Safety	2,238,443			78,829	2,317,272
Public Works		81,000		565,293	646,293
Health	81,500				81,500
Economic Development	4,544	369,230		738	374,512
Leisure Time Activities				52,028	52,028
Intergovernmental				80,715	80,715
Capital Outlay	20,650			443,858	464,508
Debt Service:					
Bond Principal Payment			\$75,000		75,000
Note Principal Payment				45,436	45,436
Interest and Fiscal Charges			10,597		10,597
Total Cash Disbursements	3,312,657	450,230	85,597	1,316,305	5,164,789
Cash Receipts Over (Under) Cash Disbursements	630,897	(40,128)	(85,597)	(255,729)	249,443
Other Financing Sources (Uses):					
Operating Transfers - In		42,000	85,597	214,436	342,033
Operating Transfers - (Out)	(300,033)			(42,000)	(342,033)
Other Financing Sources	5,006			7,747	12,753
Total Other Financing Sources (Uses)	(295,027)	42,000	85,597	180,183	12,753
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses					
	335,870	1,872		(75,546)	262,196
Cash Fund Balances - Beginning of Year	855,520	24,722		550,242	1,430,484
Cash Fund Balances - End of Year	<u>\$1,191,390</u>	<u>\$26,594</u>	<u>\$0</u>	<u>\$474,696</u>	<u>\$1,692,680</u>

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF FUND NET POSITION - CASH BASIS
ENTERPRISE FUNDS
DECEMBER 31, 2012**

	Water Fund	Sewer Fund	Total Enterprise Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$828,951	\$100,714	\$929,665
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	109,605		109,605
Total Assets	938,556	100,714	1,039,270
Net Position:			
Restricted for Customer Water Deposits	109,605		109,605
Unrestricted	828,951	100,714	929,665
Total Net Position	\$938,556	\$100,714	\$1,039,270

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND NET POSITION - CASH BASIS
ENTERPRISE FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

	Water Fund	Sewer Fund	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$1,037,051	\$1,985,960	\$3,023,011
Other Operating Receipts	1,015	74,838	75,853
Total Operating Cash Receipts	1,038,066	2,060,798	3,098,864
Operating Cash Disbursements:			
Personal Services	675,309	584,066	1,259,375
Contract Services	212,067	396,918	608,985
Materials and Supplies	330,092	116,014	446,106
Capital Outlay	338,345	2,702	341,047
Total Operating Cash Disbursements	1,555,813	1,099,700	2,655,513
Operating Income (Loss)	(517,747)	961,098	443,351
Non-Operating Cash Receipts/(Disbursements):			
Bond Retirement		(27,750)	(27,750)
Loan Retirement	(5,891)	(840,142)	(846,033)
Interest Expense		(158,711)	(158,711)
Other Non-Operating Receipts	56,175	943	57,118
Other Non-Operating Disbursements	(46,660)	(1,350)	(48,010)
Total Non-Operating Receipts/(Disbursements)	3,624	(1,027,010)	(1,023,386)
Changes in Net Postion	(514,123)	(65,912)	(580,035)
Net Position - Beginning of Year	1,452,679	166,626	1,619,305
Net Position - End of Year	\$938,556	\$100,714	\$1,039,270

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

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
AGENCY FUNDS
DECEMBER 31, 2012

Cash Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$77,367</u>
--------------------------------------------	-----------------

Net Position:

Unrestricted	<u><u>\$77,367</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND NET POSITION - CASH BASIS
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Agency Funds</u>
Cash Receipts	\$1,113,601
Cash Disbursements	<u>1,128,501</u>
Changes in Net Position	(14,900)
Net Position - Beginning of Year	<u>92,267</u>
Net Position - End of Year	<u><u>\$77,367</u></u>

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

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**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 8 and 17 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. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting board for establishing governmental accounting and financial reporting principles

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net position, statement of 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, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-Wide Financial Statements

The statement of net position and statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish 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 statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities 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 functions 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, 2012
(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 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 position and changes in net position. 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 – 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.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012, the City invested in nonnegotiable certificates of deposit, mutual funds and money market funds. Investments are reported at cost. The City's money market fund investments are recorded at the amount reported by Ross, Sinclair, & Associates, Community First Bank, N.A., and Home Savings and Loan Company on December 31, 2012.

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 2012 was \$7,544 which includes \$2,640 assigned from other City funds.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Restricted assets also represent utility deposits from customers that are classified as restricted because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

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 9 and 10, 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 11.

L. Net Position

Net cash position consists of cash receipts and balances reduced by cash disbursements for the current year. Net position is 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 position for pension obligations, revolving loan balances and customer water deposits. Restricted for Other Purposes is comprised of net position restricted for grants. The City did not have any net position restricted by enabling legislation. The City's policy is to first apply restricted resources when a disbursement is incurred for purposes which both restricted and unrestricted net position is available.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(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, the 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, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City applies restricted resources first when disbursements 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 disbursements 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 AND CHANGES IN ACCOUNTING PRINCIPLE

A. 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.

B. Change in Accounting Principle

For 2012, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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, and Community Development Block Grant 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 restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$42,709 for the General Fund and -0- for the Community Development Block Grant Fund.

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 two 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;

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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.

A. Deposits

At year end, the carrying amount of the City's deposits was \$2,809,317 and the bank balance was \$2,937,263. 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, none of the City's bank balance was exposed to custodial credit risk.

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. 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 2012 represent the collection of 2011 taxes. Public utility real and tangible personal property taxes received in 2012 became a lien on December 31, 2010, were levied after October 1, 2011, and are collected with real property taxes. Public utility tangible personal property is currently assessed at varying percentages of true value.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

7. PROPERTY TAXES (Continued)

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2012 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.

The assessed values of real property, public utility property, and tangible personal property upon which 2012 property tax receipts were based are as follows:

Residential	\$ 63,037,000
Agriculture	399,170
Commercial	22,709,070
Industrial	9,900,530
Utility Real Estate	32,260
Utility Personal Prop	4,275,470
Total	<u>\$100,353,500</u>

Real property taxes for tax year 2012 are payable annually or semi-annually. If paid annually, payment is due February 13, 2013. If paid semi-annually, the first payment is due February 13, 2013 with the remainder payable by July, 2013. 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 17, through a tax levy. The levy for the Cemetery is voted millage. During 2012, the Cemetery received \$80,715 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.

8. 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. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

8. RISK MANAGEMENT (Continued)

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, 2012, 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.

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, 2012 and 2011:

	2012	2011
Assets	\$34,389,569	\$33,362,404
Liabilities	(14,208,353)	(14,187,23)
Net Assets	\$20,181,216	\$19,175,131

The Casualty Coverage assets and retained earnings above include approximately \$13.1 million of unpaid claims to be billed to approximately 466 member governments in the future, as of December 31, 2012. PEP will collect these amounts in future annual premium billings when PEP'S related liabilities are due for payment. The City's share of these unpaid claims is approximately \$122,000.

Contributions to PEP	
2010	\$121,504
2011	118,844
2012	141,516

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, 2012
(Continued)**

9. 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 2012, 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 2012 member contribution rates were 10.0% for members in state and local classifications. The 2012 employer contribution rate for state and local employers was 14.0% of covered payroll. For 2012, a portion of the City's contribution equal to 4 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, 2012, 2011 and 2010 were \$155,695, \$123,806, and \$133,120 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 or by visiting the website at www.op-f.org.

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 \$77,329 and \$93,780 for the year ended December 31, 2012, \$71,114 and \$95,331 for the year ended December 31, 2011, and \$77,060 and \$95,319 for the year ended December 31, 2010. 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, 2012
(Continued)**

10. 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 or by visiting <https://www.opers.org/investments/cafr.shtml>.

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 2012, 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 for members in the Traditional Plan was 4% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board to Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2012, 2011, and 2010 were \$62,278, \$48,638, and \$75,953 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.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into 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, 2012, 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.

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits of police and firefighters were \$40,939 and \$36,697 for the year ended December 31, 2012, \$37,648 and \$37,303 for the year ended December 31, 2011, and \$40,805 and \$37,609 for the year ended December 31, 2010. The full amount has been contributed for all three years.

11. DEBT

The City's debt transactions for the year ended December 31, 2012, are summarized below:

	<u>Debt Principal Outstanding 1/1/12</u>	<u>Debt Issued in 2012</u>	<u>Debt Principal Retired in 2012</u>	<u>Debt Principal Outstanding 12/31/12</u>
Governmental Activities				
General Obligations Issues:				
2011 Swimming Pool Improvement Refunding Bonds	\$ 570,000		\$ 75,000	\$ 495,000
Total General Obligation Bonds	570,000		75,000	495,000
2003 OPWC Loan-Street	2,602		1,735	867
2006 OPWC Loan-Street	100,485		6,930	93,555
2010 OPWC Loan-Street	294,172		36,771	257,401
Total General Obligation Loans	397,259		45,436	351,823
Total Governmental Activity	967,259		120,436	846,823
Business Type Activities:				
Sewer Fund:				
2008 WWTP/System Imp Bonds	194,250		27,750	166,500
Total Bonds	194,250		27,750	166,500
1996 OWDA Wastewater Improvement Loan (NIS)	455,395		71,809	383,586
1998 OWDA Wastewater Improvement Loan (WWTP Exp)	6,644,211		768,333	5,875,878
Total Loans	7,099,606		840,142	6,259,464
Total Sewer Fund	7,293,856		867,892	6,425,964
Waterworks Fund:				
2003 OPWC Waterworks Loan	64,802		5,891	58,911
Total Business Type Activity:	7,358,658		873,783	6,484,875
Total Debt	<u>\$8,325,917</u>		<u>\$994,219</u>	<u>\$7,331,698</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

11. DEBT (Continued)

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.

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	85,000
2015	80,000
2016	80,000
2017	85,000

Unless otherwise called for redemption, the remaining \$85,000 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

11. 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.

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.

2010 Ohio Public Works Commission Loan (OPWC)

During 2009, 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.

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
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

11. DEBT (Continued)

The annual requirements to amortize all long term debt outstanding as of December 31, 2012, including interest payments of \$572,643 are listed in the table below:

	G.O. Bonds	OWDA Loans	OPWC Loans	Total
2013	\$122,356	\$ 991,738	\$ 50,461	\$1,164,555
2014	125,460	991,738	49,593	1,166,791
2015	117,919	991,739	49,592	1,159,250
2016	115,464	991,738	49,592	1,156,794
2017	118,006	991,739	49,592	1,159,337
2018-2022	115,104	1,820,606	134,703	2,070,413
2023-2026			27,201	27,201
Total	714,309	6,779,298	410,734	7,904,341
Less Interest	(52,809)	(519,834)		(572,643)
Principal	\$661,500	\$ 6,259,464	\$410,734	\$7,331,698

12. 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.

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, 2012.

<u>Ending December 31:</u>	<u>Cruiser</u>
2013	\$10,989
	10,989
Less Amount Representing Interest	(671)
Present Value of minimum lease payments	<u>\$ 10,318</u>

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, 2012
(Continued)**

12. LEASES (Continued)

Fiscal Year Ending December 31:	Amount
2013	\$ 6,615
2014	6,615
2015	6,946
2016	6,946
2017	6,946
2018-2022	35,769
2023-2027	37,557
2028-2032	39,434
2033-2037	41,406
2038-2042	43,478
2043-2047	45,651
2048-2049	18,616
	\$295,979

13. 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 government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Community Development Fund	Non-Major Governmental Funds	Total
Non-spendable:				
Unclaimed Funds	\$ 14,288			\$ 14,288
Total Non-spendable	14,288			14,288
Restricted for:				
Street Maintenance			\$ 68,947	68,947
Park and Recreational Operations			9,059	9,059
Home Repair		\$26,594		26,594
Economic Development			67,441	67,441
Court Improvements			165,772	165,772
Police Pension			3,017	3,017
Fire Pension			3,017	3,017
Police Improvements			22,096	22,096
Indigent Drivers			80,597	80,597
Emergency Medical Services			39,008	39,008
Probation Services			15,742	15,742
Capital Improvements				
Total Restricted		26,594	474,696	501,290
Assigned for:				
Unpaid Obligations	42,709			42,709
Total Assigned	42,709			42,709
Unassigned (Deficit)	1,134,393			1,134,393
Total Fund Balances	\$1,191,390	\$26,594	\$474,696	\$1,692,680

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

14. INTER-FUND TRANSFERS

During 2012, the General Fund made transfers to other governmental funds, in the amount of \$300,033, including the Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund and the Note Retirement Fund. Other governmental funds made transfers to Community Development Block Grant Fund, in the amount of \$42,000, for North Cherry Street resurfacing. 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.

15. COMMITMENTS

The City's encumbrance policy for the year ended December 31, 2012 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, 2012 were:

<u>Fund</u>	<u>Assigned</u>	<u>Restricted</u>	<u>Total</u>
Major Governmental Funds:			
General	\$42,709		\$ 42,709
Community Development Block Grant			
Non-Major Governmental Funds		\$71,179	71,179
Totals	<u>\$42,709</u>	<u>\$71,179</u>	<u>\$113,888</u>

16. 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.

17. 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 Peg Brown, 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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$ 811,485	\$ 811,485	\$ 811,485	
Resources (Inflows):				
Taxes	2,800,427	2,800,427	3,137,910	\$337,483
Charges for Services	66,200	66,200	66,323	123
Licenses and Permits	41,000	41,000	50,530	9,530
Fines and Forfeitures	361,909	361,909	305,527	(56,382)
Intergovernmental	220,117	220,117	358,898	138,781
Interest on Investments	6,000	6,000	7,544	1,544
Miscellaneous Receipts	4,000	4,000	20,729	16,729
Total Resources (Inflows):	<u>3,499,653</u>	<u>3,499,653</u>	<u>3,947,461</u>	<u>447,808</u>
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	594,693	618,782	564,811	53,971
Judicial	427,875	438,540	424,784	13,756
Public Safety	2,268,972	2,393,569	2,258,972	134,597
Health	81,500	81,500	81,500	
Economic Development	4,365	4,545	4,544	1
Capital Outlay	18,550	27,198	20,650	6,548
Other Financing Uses				
Transfers Out	<u>256,034</u>	<u>300,035</u>	<u>300,033</u>	<u>2</u>
Total Charges to Appropriations:	<u>3,651,989</u>	<u>3,864,169</u>	<u>3,655,294</u>	<u>208,875</u>
Net Change to Fund Balance	(152,336)	(364,516)	292,167	656,683
Prior Year Encumbrances Appropriated	<u>30,741</u>	<u>30,741</u>	<u>30,741</u>	
Ending Budgetary Balance:	<u>\$ 689,890</u>	<u>\$ 477,710</u>	<u>\$1,134,393</u>	<u>\$656,683</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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	(\$137,102)	(\$137,102)	(\$137,102)	
Resources (Inflows):				
Intergovernmental	539,000	676,102	409,915	(\$266,187)
Interest on Investments	140	140	187	47
Transfer In			42,000	42,000
Total Resources (Inflows):	<u>539,140</u>	<u>676,242</u>	<u>452,102</u>	<u>(224,140)</u>
Charges to Appropriations (Outflows):				
Public Works	39,000	81,000	81,000	
Economic Development	500,000	550,000	369,230	180,770
Total Charges to Appropriations	<u>539,000</u>	<u>631,000</u>	<u>450,230</u>	<u>180,770</u>
Net Change to Fund Balance	<u>140</u>	<u>45,242</u>	<u>1,872</u>	<u>(43,370)</u>
Prior Year Encumbrances Appropriated	161,824	161,824	161,824	
Ending Budgetary Balance:	<u>\$ 24,862</u>	<u>\$ 69,964</u>	<u>\$ 26,594</u>	<u>(\$ 43,370)</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 30th 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 2012.

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

	General Fund	Community Development Block Grant Fund
Budget Basis	\$1,134,393	\$26,594
Adjustments for encumbrances	42,709	0
Funds Budgeted Elsewhere**	14,288	0
Cash Basis	\$1,191,390	\$26,594

** 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 AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 18, 2013, wherein we noted the City uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 2012-001.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
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www.ohioauditor.gov

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2013

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-001

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 file 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, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	The City should have procedures in place to help assure that the annual financial statements are complete and accurate.	No	Partially corrected, repeated in management letter
2011-002	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 2012-001



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 8, 2013**