



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CITY OF KENTON  
HARDIN COUNTY**

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Members of Council:

We have audited the accompanying general-purpose financial statements of the City of Kenton, Hardin County, (the City), as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed for the purpose of forming an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a cursive "Petro".

**Jim Petro**  
Auditor of State

September 25, 2002

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CITY OF KENTON  
HARDIN COUNTY

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>
<b>Assets and Other Debits</b>				
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,299,845	\$607,426	\$1,463,023	\$98,555
Cash and Cash Equivalents in Segregated Accounts	400		600	
Receivables (Net, where applicable, of allowance for uncollectibles):				
Income Taxes	175,755			
Property Taxes	241,710	55,778		
Accounts	17,717		363,939	197
Special Assessments		12,785	17,408	
Accrued Interest		1,758		
Due from Other Funds	14,584	2,654	37	
Intergovernmental Receivable	219,648	184,548		
Materials and Supplies Inventory		11,089	26,107	
Loans Receivable		243,128		
Prepaid Items	19,006	11,005	22,984	
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			23,571,421	
<b>Other Debits:</b>				
Amount to be Provided from General Government Resources				
<b>Total Assets and Other Debits</b>	<u>1,988,665</u>	<u>1,130,171</u>	<u>25,465,519</u>	<u>98,752</u>
<b>Liabilities, Fund Equity and Other Credits</b>				
<b>Liabilities:</b>				
Accounts Payable	15,616	46,232	23,254	
Contracts Payable			50,702	
Accrued Wages and Benefits	57,684	9,125	56,302	
Compensated Absences Payable	29,955	5,938	116,729	
Due to Other Funds				
Intergovernmental Payable				
Deferred Revenue	387,013	165,805	17,408	
Deposits Held and Due to Others	13,225		74,135	
Accrued Interest Payable			14,537	
Notes Payable			770,000	
Claims Payable				73,725
Capital Leases Payable				
OWDA Loans Payable			14,289,202	
General Obligation Bonds Payable			240,000	
OPWC Loan Payable			38,423	
<b>Total Liabilities</b>	<u>503,493</u>	<u>227,100</u>	<u>15,690,692</u>	<u>73,725</u>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets				
Contributed Capital			3,744,318	
Retained Earnings:				
Unreserved			6,030,509	
Fund Balance:				
Reserved for Encumbrances	32,358	40,229		
Reserved for Property Taxes	7,321	1,690		
Reserved for Materials and Supplies		11,089		
Reserved for Prepaid Items	19,006	11,005		
Reserved for Loans Receivable		243,128		
Unreserved, Undesignated (Deficit)	1,426,487	595,930		25,027
<b>Total Fund Equity and Other Credits</b>	<u>1,485,172</u>	<u>903,071</u>	<u>9,774,827</u>	<u>25,027</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<u>\$1,988,665</u>	<u>\$1,130,171</u>	<u>\$25,465,519</u>	<u>\$98,752</u>

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



Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets Account Group	General Long- Term Obligations Account Group	
Agency			
\$700			\$3,469,549
47,205			48,205
			175,755
			297,488
			381,853
			30,193
			1,758
			17,275
			404,196
			37,196
			243,128
			52,995
	5,864,883		29,436,304
		2,448,175	2,448,175
47,905	5,864,883	2,448,175	37,044,070
			85,102
			50,702
		96,955	220,066
		229,685	382,307
17,275			17,275
17,523			17,523
			570,226
13,107			100,467
			14,537
		68,800	838,800
			73,725
		441,235	441,235
			14,289,202
		1,611,500	1,851,500
			38,423
47,905		2,448,175	18,991,090
	5,864,883		5,864,883
			3,744,318
			6,030,509
			72,587
			9,011
			11,089
			30,011
			243,128
			2,047,444
	5,864,883		18,052,980
\$47,905	\$5,864,883	\$2,448,175	\$37,044,070

**CITY OF KENTON  
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Revenues:</b>					
Municipal Income Tax	\$2,136,319				\$2,136,319
Property and Other Taxes	279,021	57,510			336,531
Charges for Services	61,248	94,503			155,751
Licenses and Permits	39,600	840			40,440
Fines and Forfeitures	262,393	78,834			341,227
Intergovernmental	378,930	741,319		96,949	1,217,198
Special Assessments		6,150			6,150
Interest	145,663	5,191			150,854
Other	24,962	26,731			51,693
<b>Total Revenues</b>	<b>3,328,136</b>	<b>1,011,078</b>		<b>96,949</b>	<b>4,436,163</b>
<b>Expenditures:</b>					
Current:					
General Government	896,895	82,243			979,138
Security of Persons and Property	1,705,316	244,799			1,950,115
Public Health and Welfare	70,500				70,500
Transportation		662,998			662,998
Community Environment	34,637	338,457			373,094
Leisure Time Activities		242,387			242,387
Capital Outlay	72,706	118,408		96,949	288,063
Debt Service:					
Principal Retirement	34,148	65,798	120,000		219,946
Interest	23,140	56,356	30,389		109,885
<b>Total Expenditures</b>	<b>2,837,342</b>	<b>1,811,446</b>	<b>150,389</b>	<b>96,949</b>	<b>4,896,126</b>
Excess of Revenues Over (Under) Expenditures	490,794	(800,368)	(150,389)		(459,963)
<b>Other Financing Sources (Uses):</b>					
Sale of Fixed Assets	3,450	360			3,810
Operating Transfers - In		655,000	148,568		803,568
Operating Transfers - Out	(803,568)				(803,568)
<b>Total Other Financing Sources (Uses)</b>	<b>(800,118)</b>	<b>655,360</b>	<b>148,568</b>		<b>3,810</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(309,324)	(145,008)	(1,821)		(456,153)
Fund Balances at Beginning of Year (Restated Note 4)	1,794,496	1,048,557	1,821		2,844,874
Decrease in Reserve for Inventory		(478)			(478)
<b>Fund Balances at End of Year</b>	<b>\$1,485,172</b>	<b>\$903,071</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,388,243</b>

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

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**CITY OF KENTON  
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES-BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General Fund</u>		<b>Variance Favorable (Unfavorable)</b>
	<b>Revised Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Municipal Income Tax	\$2,200,000	\$2,252,407	\$52,407
Property and Other Taxes	252,550	300,272	47,722
Charges for Services	61,200	61,248	48
Licenses and Permits	40,700	39,600	(1,100)
Fines and Forfeitures	245,500	262,972	17,472
Intergovernmental	329,150	334,804	5,654
Special Assessments			
Interest	175,000	145,665	(29,335)
Other	1,000	26,298	25,298
<b>Total Revenues</b>	<u>3,305,100</u>	<u>3,423,266</u>	<u>118,166</u>
<b>Expenditures:</b>			
Current:			
General Government			
Legislative and Executive	730,957	614,325	116,632
Judicial	345,530	316,835	28,695
Security of Persons and Property	2,074,018	1,833,236	240,782
Public Health and Welfare	70,500	70,500	
Transportation			
Community Environment	62,380	34,636	27,744
Leisure Time Activities			
Capital Outlay	137,036	72,703	64,333
Debt Service:			
Principal Retirement	34,148	34,148	
Interest and Fiscal Charges	23,140	23,140	
<b>Total Expenditures</b>	<u>3,477,709</u>	<u>2,999,523</u>	<u>478,186</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(172,609)</u>	<u>423,743</u>	<u>596,352</u>
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets		3,450	3,450
Operating Transfers - In	88,394	0	(88,394)
Operating Transfers - Out	(980,500)	(803,568)	176,932
<b>Total Other Sources (Uses)</b>	<u>(892,106)</u>	<u>(800,118)</u>	<u>91,988</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<u>(1,064,715)</u>	<u>(376,375)</u>	<u>688,340</u>
<b>Fund Balances at Beginning of Year</b>	1,517,145	1,517,145	
<b>Prior Year Encumbrances Appropriated</b>	<u>111,500</u>	<u>111,500</u>	
<b>Fund Balances at End of Year</b>	<u><u>\$563,930</u></u>	<u><u>\$1,252,270</u></u>	<u><u>\$688,340</u></u>

Special Revenue Funds			Debt Service Funds			Capital Project Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$53,862	\$62,414	\$8,552						
95,100	98,478	3,378						
1,000	840	(160)						
86,100	79,772	(6,328)						
741,916	726,964	(14,952)				500,000	96,949	(403,051)
5,000	6,149	1,149						
9,250	6,184	(3,066)						
30,300	44,050	13,750						
<u>1,022,528</u>	<u>1,024,851</u>	<u>2,323</u>				<u>500,000</u>	<u>96,949</u>	<u>(403,051)</u>
249,750	60,100	189,650						
257,406	241,929	15,477						
948,212	711,351	236,861						
480,098	400,276	79,822						
327,217	256,944	70,273						
178,065	178,065					1,074,069	96,949	977,120
65,798	65,798		174,100	120,000				
56,356	56,356		83,288	30,389	52,899			
<u>2,562,902</u>	<u>1,970,819</u>	<u>592,083</u>	<u>257,388</u>	<u>150,389</u>	<u>106,999</u>	<u>1,074,069</u>	<u>96,949</u>	<u>977,120</u>
<u>(1,540,374)</u>	<u>(945,968)</u>	<u>594,406</u>	<u>(257,388)</u>	<u>(150,389)</u>	<u>106,999</u>	<u>(574,069)</u>		<u>574,069</u>
830,000	360 655,000	360 (175,000)	257,788	148,568	(109,220)			
(88,718)		88,718						
<u>741,282</u>	<u>655,360</u>	<u>(85,922)</u>	<u>257,788</u>	<u>148,568</u>	<u>(109,220)</u>			
(799,092)	(290,608)	508,484	400	(1,821)	(2,221)	(574,069)		574,069
695,496	695,496		1,821	1,821				
<u>111,477</u>	<u>111,477</u>							
<u>\$7,881</u>	<u>\$516,365</u>	<u>\$508,484</u>	<u>\$2,221</u>	<u>\$0</u>	<u>(\$2,221)</u>	<u>(\$574,069)</u>	<u>\$0</u>	<u>\$574,069</u>

**CITY OF KENTON  
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND EQUITY  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
<b>Operating Revenues:</b>			
Charges for Services	\$3,254,902	\$329,588	\$3,584,490
Miscellaneous Income	15,195		15,195
<b>Total Operating Revenues</b>	<b>3,270,097</b>	<b>329,588</b>	<b>3,599,685</b>
<b>Operating Expenses:</b>			
Personal Services	933,156		933,156
Contractual Services	376,539	364,615	741,154
Materials and Supplies	442,894		442,894
Other	509		509
Depreciation	649,718		649,718
Capital Outlay	203,492		203,492
<b>Total Operating Expenses</b>	<b>2,606,308</b>	<b>364,615</b>	<b>2,970,923</b>
Operating Income (Loss)	663,789	(35,027)	628,762
<b>Non-Operating Revenues (Expenses):</b>			
Interest on Investments	6,523		6,523
State Grants	26,454		26,454
Capital Contributions	218,649		218,649
Loss on Disposal of Fixed Assets	(3,745)		(3,745)
Special Assessments	2,389		2,389
Interest and Fiscal Charges	(379,423)		(379,423)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(129,153)</b>		<b>(129,153)</b>
Net Income (Loss)	534,636	(35,027)	499,609
Depreciation on Fixed Assets Acquired by Contributed Capital	161,410		161,410
Retained Earnings at Beginning of Year	5,553,112	60,054	5,613,166
<b>Retained Earnings at End of Year</b>	<b>6,249,158</b>	<b>25,027</b>	<b>6,274,185</b>
Contributed Capital at Beginning of Year	3,687,079		3,687,079
Depreciation on Fixed Assets Acquired by Contributed Capital	(161,410)		(161,410)
Contributed Capital at End of Year	3,525,669		3,525,669
<b>Total Fund Equity at End of Year</b>	<b>\$9,774,827</b>	<b>\$25,027</b>	<b>\$9,799,854</b>

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

CITY OF KENTON  
HARDIN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES-BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Enterprise Funds			Internal Service Funds		
	Revised Budget	Actual	Variance Favorable (Unfav.)	Revised Budget	Actual	Variance Favor. (Unfav.)
<b>Revenues:</b>						
Charges for Services	\$3,001,000	\$3,155,143	\$154,143	\$240,000	\$329,391	\$89,391
Other Operating Revenues	2,100	15,157	13,057			
Total Revenues	<u>3,003,100</u>	<u>3,170,300</u>	<u>167,200</u>	<u>240,000</u>	<u>329,391</u>	<u>89,391</u>
<b>Expenditures:</b>						
Current:						
Personal Services	1,017,125	945,787	71,338			
Contractual Services	479,062	402,206	76,856	338,134	335,918	2,216
Materials and Supplies	774,072	621,560	152,512			
Other	89,000	509	88,491			
Capital Outlay	1,154,788	719,564	435,224			
Debt Service	1,744,740	1,719,286	25,454			
Total Expenses	<u>5,258,787</u>	<u>4,408,912</u>	<u>849,875</u>	<u>338,134</u>	<u>335,918</u>	<u>2,216</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,255,687)</u>	<u>(1,238,612)</u>	<u>1,017,075</u>	<u>(98,134)</u>	<u>(6,527)</u>	<u>91,607</u>
<b>Nonoperating Revenues (Expenses)</b>						
Sale of Fixed Assets		2,100	2,100			
State Grants	630,000	26,454	(603,546)			
Interest	5,000	6,623	1,623			
Capital Contributions			0			
Special Assessments	2,400	2,389	(11)			
Security Deposits	30,000	44,950	14,950			
Security Deposits (Applied)	(40,000)	(34,330)	5,670			
Loan Proceeds	1,188,416	1,115,712	(72,704)			
Total Nonoperating Revenues (Expenses)	<u>1,815,816</u>	<u>1,163,898</u>	<u>(651,918)</u>			
Excess of Revenues Over (Under) Expenses and Operating Transfers	<u>(439,871)</u>	<u>(74,714)</u>	<u>365,157</u>	<u>(98,134)</u>	<u>(6,527)</u>	<u>91,607</u>
Fund Balances at Beginning of Year (Restated Note 4)	741,906	741,906		89,945	89,945	
Prior Year Encumbrances Appropriated	<u>522,246</u>	<u>522,246</u>		<u>8,189</u>	<u>8,189</u>	
Fund Balances at End of Year	<u>\$824,281</u>	<u>\$1,189,438</u>	<u>\$365,157</u>	<u>\$0</u>	<u>\$91,607</u>	<u>\$91,607</u>

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

CITY OF KENTON  
HARDIN COUNTY

**COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Enterprise Funds	Internal Service	Totals (Memorandum Only)
<b>Increase (Decrease) in Cash and Cash Equivalents:</b>			
<b>Cash flows from operating activities:</b>			
Cash Received from Customers	\$3,170,300		\$3,170,300
Cash Received from Quasi-External Transactions with Other Funds		329,391	329,391
Cash Payments for Materials and Supplies	(496,735)		(496,735)
Cash Payments to Employees for Services	(924,604)		(924,604)
Cash Payments for Contractual Services	(485,166)		(485,166)
Cash Payments for Claims		(328,970)	(328,970)
Customer Deposits Received	44,950		44,950
Customer Deposits Applied	(34,330)		(34,330)
Cash Payments for Miscellaneous Expenses	(509)		(509)
Net Cash Provided by Operating Activities	<u>1,273,906</u>	<u>421</u>	<u>1,274,327</u>
<b>Cash flows from noncapital financing activities</b>			
Proceeds from grant	26,455		26,455
<b>Cash Flows from (used for) Capital and Related Financing Activities:</b>			
Acquisition and Construction of Capital Assets	(457,520)		(457,520)
Principal Payments	(1,335,095)		(1,335,095)
Interest Payments	(384,191)		(384,191)
Proceeds From Loans	1,115,712		1,115,712
Proceeds From Special Assessments	2,389		2,389
Proceeds from the Sales of Fixed Assets	2,100		2,100
Net Cash From (Used for) Capital and Related Financing Activities	<u>(1,056,605)</u>		<u>(1,056,605)</u>
<b>Cash flows from investing activities</b>			
Interest Receipts	6,623		6,623
Net Increase (Decrease) in Cash and Cash Equivalents	250,379	421	250,800
Cash and Cash Equivalents at Beginning of Year	<u>1,213,244</u>	<u>98,134</u>	<u>1,311,378</u>
Cash and Cash Equivalents at End of Year	<u>1,463,623</u>	<u>98,555</u>	<u>1,562,178</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	663,789	(35,027)	628,762
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:</b>			
Depreciation	649,718		649,718
<b>Change in Assets and Liabilities:</b>			
(Increase) Decrease in Accounts Receivable	(99,698)	(197)	(99,895)
Increase (Decrease) in Special Assessments Receivable	2,389		2,389
(Increase) Decrease in Inventory	(1,533)		(1,533)
(Increase) Decrease in Prepaid Expenses	(2,782)		(2,782)
Increase (Decrease) in Accounts Payable	(5,463)		(5,463)
Increase(Decrease) in Contracts Payable	50,702		50,702
Increase (Decrease) in Accrued Wages	(9,495)		(9,495)
Increase (Decrease) in Compensated Absences	18,047		18,047
Increase (Decrease) in Claims Payable		35,645	35,645
Increase (Decrease) in Deferred Revenue	(2,388)		(2,388)
Increase (Decrease) in Customer Deposits	10,620		10,620
Net Cash Provided by Operating Activities	<u>\$1,273,906</u>	<u>\$421</u>	<u>\$1,274,327</u>

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



**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**1. DESCRIPTION OF REPORTING ENTITY**

**A. Reporting Entity**

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

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

**Kenton City School District**

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

**Grove Cemetery Association**

The Grove Cemetery Association is an organization which is defined as a jointly-governed organization. A jointly-governed organization is an organization that is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest in or responsibility by the participating governments. This organization is described in Note 24 of the general-purpose financial statements.

The City is also associated with the Ohio Municipal League Worker's Compensation Group Rating Program as a group purchasing pool. This organization is discussed in Note 25 to the general purpose financial statements.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Basis of Presentation - Fund Accounting**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund and categories of governmental, proprietary and fiduciary.

**1. Governmental Fund Types**

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

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

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

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

**Capital Project Funds** - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, and trust funds).

**2. Proprietary Fund Types**

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

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

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

**3. Fiduciary Fund Types**

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

**4. Account Groups**

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

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

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue.

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

**C. Budgetary Process**

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

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

**Estimated Resources** - Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures/expenses from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about January 1, the certificate is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during 2001.

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

**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.

**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 on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis for governmental funds in order to demonstrate legal compliance. Proprietary fund encumbrances are reported in the notes to the financial statements. This encumbrance authority is carried forward to the next fiscal year and is reported in the "Revised Budget" amount for budgetary comparisons. If the actual expenditures are less than the amount encumbered, the excess reserve is closed to the unreserved fund balance.

**D. Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes.

STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2001.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Under these provisions, City funds required to receive interest allocations are the General Fund, Street Fund, State Highway Fund, and Revolving Loan Fund. Interest revenue credited to the General Fund during fiscal year 2001 amounted to \$145,663.

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

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

**E. Short-term Interfund Receivables/Payables**

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

**F. Inventories**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported material and supplies inventory in governmental funds is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. At December 31, 2001, the Street Fund, Water Fund and Sewer Fund maintained significant inventories.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as expenditures in the governmental fund type when paid and as expenses in the proprietary fund types when used. Reported prepaid items in governmental funds are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**H. Fixed Assets and Depreciation**

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

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

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

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

Classification	Life
Buildings	40 Years
Utility Plant in Service	40 – 80 Years
Improvements Other than Buildings	20 – 50 Years
Machinery, Equipment and Vehicles	3 – 20 Years

**I. Contributed Capital**

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

**J. Compensated Absences**

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

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

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



**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

**K. Long-term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources.

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

**L. Reserves and Designations of Fund Equity**

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

**M. Intergovernmental Revenues**

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

**N. Interfund Transactions**

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

**O. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

**P. Total Columns on General Purpose Financial Statements**

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

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For calendar year 2001, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. The provisions of GASB Statement No. 33 also require that capital contributions to proprietary funds be recognized as revenues beginning in 2001. The implementation of these pronouncements required no restatement the City's beginning fund balances.

**4. RESTATEMENT OF BEGINNING FUND BALANCES**

During prior year, the Community Development Block Grant was presented as a Capital Projects Fund Type due to a significant portion of the activity being related to capital projects that benefited the City. During 2001, the activity of this fund was more appropriately classified as a Special Revenue Fund Type. As a result the beginning fund balance for Capital Projects Fund Type was reduced by \$40,048 and the beginning fund balance for Special Revenue Fund type was increased by \$40,048. The beginning budgetary fund balance for the Enterprise Fund type has been adjusted from \$970,463 to \$741,901 due to an error in the actual expenditure column during 2000.

**5. ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

The following funds had a negative year-end fund balance on the non-GAAP budgetary basis:

Special Revenue Fund:	Permissive License Tax Fund	\$12,665
Capital Projects Fund:	Community Development Block Grant Fund	\$22,122

These negative balances were the result of the practice of appropriating for, and encumbering the entire contract amounts in the year awarded rather than in the year(s) actually performed. These projects are dependent upon future revenues, primarily in the form of loan proceeds and/or grant funds.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**5. ACCOUNTABILITY AND COMPLIANCE (Continued)**

**B. Compliance**

The City transferred \$125,985 from its Special Revenue-Police Pension fund and \$110,921 from its Special Revenue - Fire Pension fund to its General Fund which was used to pay off its past service cost for police and fire pension. The City transferred \$630,000 from its Enterprise – Water fund to its Capital Projects - Issue II fund which was used as partial payment for improvements to its water treatment plant. Also the City transferred \$15,288 from its Street Fund and \$91,676 from its RSPO Fund to the Debt Service Fund for the payment of debt. These transfers violated Ohio Rev. Code Section 5705.14.

**6. DEPOSITS AND INVESTMENTS**

The City Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the City into three categories.

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

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim moneys may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

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

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

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

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

The carrying amount of the City's deposits was \$351,709 and the bank balance was \$416,826. Of the bank balance \$155,502 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the collateral was held by the pledging financial institutions trust departments and all state statutory requirements for the investment of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

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

The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Star Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAR Ohio	3,165,045

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds in Governmental Entities that use Proprietary Fund Accounting". Funds included within the city-wide cash management pool, which are used essentially as demand deposit accounts for the various City funds, and investments with an original maturity of three months or less are treated as cash and cash equivalents. A reconciliation between the classifications of deposits and investments on the combined balance sheet and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$ 3,517,754	
Cash on Hand	(1,000)	
Investments:		
STAR Ohio	(3,165,045)	3,165,045
GASB Statement 3	\$ 351,709	\$3,165,045

**7. DUE TO/DUE FROM OTHER FUNDS RECEIVABLES AND PAYABLES**

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

General Fund	\$ 14,584
Indigent Drivers Alcohol Fund	96
Police Dept. Arresting Fund	61
Court Special Projects Fund	1,274
Court Computerization Fund	1,223
Waterworks Fund	37
	17,275

**8. BUDGETARY BASIS OF ACCOUNTING**

The City is reporting its financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**8. BUDGETARY BASIS OF ACCOUNTING (Continued)**

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget (Non-GAAP Budgetary Basis) and Actual--All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Balances-Budget (Non-GAAP Budgetary Basis) and Actual-All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) rather than when susceptible to accrual (GAAP basis);
2. Expenditures/expenses are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses (budget basis rather than as a reservation of fund balance for governmental funds, and as note disclosure for proprietary funds (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
6. The City repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

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

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

	General Fund	Special Revenue Funds	Debt Service Fund
Budget Basis	(\$376,375)	(\$290,608)	(\$1,821)
Increase (decrease) due to:			
Change in accrued receivables not recognized in budget	132,938	(13,773)	
Change in accrued liabilities not recognized in budget	(113,862)	68,312	
Adjustment for encumbrances	47,975	91,061	
GAAP Basis	(\$309,324)	(\$145,008)	(\$1,821)

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**8. BUDGETARY BASIS OF ACCOUNTING (Continued)**

<b>Net Income (Loss)/Excess of Revenues Over (Under) Expenses All Proprietary Fund Types</b>		
	<b>Enterprise Fund</b>	<b>Internal Service Fund</b>
Budget Basis	(\$74,714)	(\$ 6,527)
Increase (decrease) due to:		
Change in accrued receivables not recognized in budget	( 844,211)	197
Change in accrued liabilities not recognized in budget	1,179,376	(35,645)
Adjustment for encumbrances	274,185	6,948
GAAP Basis	534,636	(\$35,027)

**9. TAXES**

**A. Property Tax**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2001 represent the collection of 2000 taxes. Real property taxes for 2001 were levied after October 1, 2001, on the assessed values as of January 1, 2001, the lien date. These taxes will be collected in and are intended to finance 2002 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility, real and tangible personal property taxes for 2001 were levied after October 1, 2001, on the assessed values as of December 31, 2000, the lien date. These taxes will be collected in and are intended to finance 2002 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2001 (other than public utility property) represent the collection of 2001 taxes. Tangible personal property taxes received in 2001 were levied after October 1, 2000, on the true value as of December 31, 2000. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2001, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2001 operations.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**9. TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2001, was \$3.75 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$46,341,380
Commercial/Industrial	24,385,370
Public Utilities	32,860
Tangible Personal	24,212,700
Public Utility	4,647,520
Total	\$99,619,830

**B. City Income Tax**

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

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

**10. RECEIVABLES**

The City's significant receivables at December 31, 2001, by fund type consist of the following:

	General	Special Revenue	Enterprise	TOTAL
City Income Tax				
Withholding	\$158,020			\$158,020
Estimates	17,735			17,735
Total Income Taxes Receivable	175,755			175,755
Property Taxes				
Current	235,494	54,344		289,838
Delinquent	6,216	1,434		7,650
Total Property Taxes Receivable	241,710	55,778		297,488
Accounts Receivable				
General	17,717			17,717
Utilities (Water/Sewer)			363,939	363,939
Total Accounts Receivable	17,717		363,939	381,656
Special Assessments				
Street - Curbs/Gutters		12,785		12,785
Sewer			17,408	17,408
Total Special Assessments		12,785	17,408	30,193
Loans Receivable		243,128		243,128
TOTAL	\$435,182	\$311,691	\$381,347	\$1,128,220

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



**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**10. RECEIVABLES (Continued)**

City income taxes are accrued at December 31, 2001, to the extent of individual estimates and employee withholdings paid in the first month of 2002, which are due by April 30, 2002.

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

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

**11. TRANSFER TO/FROM OTHER FUNDS**

The transfers indicated below include transfers from the General Fund to the Street and Park Funds for operating expenses, and from the General Fund to the Debt Service Fund for bond and note payments.

		Transfer From Other Funds	Transfer To Other Funds
General Fund		\$	\$ 803,568
Special Revenue Funds	Street Fund	400,000	
	Park and Recreation Fund	255,000	
Debt Service Fund	Bond Retirement Fund	148,568	
<b>TOTAL</b>		<b>\$803,568</b>	<b>\$803,568</b>

**12. PROPERTY, PLANT AND EQUIPMENT**

All costs associated with the construction and acquisition of general fixed assets are included in the Capital Outlay amount within the accompanying financial statements. Costs associated with the construction of infrastructure fixed assets are not capitalized in the General Fixed Assets Account Group in accordance with the City's accounting policy and, accordingly, are not reflected as additions in the General Fixed Assets Account Group. A summary of general fixed assets at December 31, 2001, by class and the changes therein during 2001, is as follows:

	Balance 1/1/01	Additions	Retirements	Balance 12/31/01
Land	\$1,194,293			\$1,194,293
Buildings	2,168,473	\$ 1,312		2,169,785
Land Improvements	2,148,729	39,342	\$ 4,601	2,183,470
Construction In Progress	16,083	8,222	16,083	8,222
Mach./Equip./Vehicles	2,518,289	184,844	37,711	2,665,422
<b>TOTAL</b>	<b>\$8,045,867</b>	<b>\$233,720</b>	<b>\$58,395</b>	<b>\$8,221,192</b>
Less Accumulated Depreciation				(2,356,309)
<b>Net General Fixed Assets</b>				<b>\$5,864,883</b>

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**12. PROPERTY, PLANT AND EQUIPMENT (Continued)**

A summary of proprietary fund property, plant and equipment at December 31, 2001, by class and by individual fund is as follows:

	Water	Sewer	Total
Land	\$ 89,814	\$ 4,600	\$ 94,414
Buildings	3,707,179	16,651,907	20,359,086
Utility Plant in Service	1,431,449	6,295,729	7,727,178
Mach./Equip./Vehicles	492,041	466,950	958,991
Construction In Progress	325,148		325,148
	<u>6,045,631</u>	<u>23,419,186</u>	<u>29,464,817</u>
Less Accumulated Depreciation	<u>(3,156,073)</u>	<u>(2,737,323)</u>	<u>(5,893,396)</u>
Net Property, Plant, and Equipment	<u>\$2,889,558</u>	<u>\$20,681,863</u>	<u>\$23,571,421</u>

**13. LEASES**

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

Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases, net of down payments, are reflected in the accounts "Capital Outlay" and "Inception of Capital Leases" for governmental funds.

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2001.

Fiscal Year Ending December 31,	General Long-Term Obligations
2002	\$ 72,477
2003	72,477
2004	72,477
2005	57,287
2006	57,287
2007-2010	229,150
Total Minimum Lease Payments	561,155
Less amount representing interest	<u>(119,920)</u>
Present Value of minimum lease payments	<u>\$441,235</u>

The City leases land under a noncancellable operating lease. Total cost for such lease was \$6,000 for the year ended December 31, 2001. The lease is for a term of ninety-nine years commencing on August 1, 2000, and ending on July 31, 2099, with lease payments being renegotiable after fifty (50) years. The future minimum lease payments for the lease through 2051 are as follows:

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**13. LEASES (Continued)**

Fiscal Year Ending December 31,	Amount
2002	\$ 6,000
2003	6,000
2004	6,000
2005	6,300
2006	6,300
2007-2051	<u>346,736</u>
Total minimum lease payments	<u>\$377,336</u>

**14. DEBT OBLIGATIONS**

A listing of the changes in the debt of the City for the year ended December 31, 2001 follows:

	Balance 1/1/01	Additions	Retirement	Balance 12/31/01
General Obligation Issues:				
1994 Street Improvement Bond	22,000		5,500	16,500
1999 Municipal Building Bond	650,000		120,000	530,000
1999 Swimming Pool Const. Bond	1,105,000		40,000	1,065,000
1999 OPWC Note - Street	77,400		8,600	68,800
Capital Leases	487,081		45,846	441,235
Other:				
Police and Fire Pension Liability	318,420		318,420	
Accrued Wages and Benefits	121,696		24,741	96,955
Compensated Absences	<u>307,729</u>		<u>78,044</u>	<u>229,685</u>
Total General Long Term Debt Account Group	<u>3,089,326</u>		<u>641,151</u>	<u>2,448,175</u>
Enterprise Issues:				
1987 Sewer Bonds	280,000		40,000	240,000
1994 OPWC Loan	51,230		12,807	38,423
1998 OWDA Loans (WWI)	14,531,801	345,712	641,983	14,235,530
1999 OWDA (DWAF) Loan (WWI)	73,976		20,304	53,672
1999 Franklin St. Waterline Notes	120,000	120,000	120,000	120,000
1999 WTP Improvement Notes	500,000	500,000	500,000	500,000
2001 WTP/Syst Dist. Improv. Note		<u>150,000</u>		<u>150,000</u>
Total Enterprise Debt	<u>15,557,007</u>	<u>1,115,712</u>	<u>1,335,094</u>	<u>15,337,625</u>
TOTAL DEBT	<u>\$18,646,333</u>	<u>\$1,115,712</u>	<u>\$1,976,245</u>	<u>\$17,785,800</u>

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

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**14. DEBT OBLIGATIONS (Continued)**

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

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

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

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

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

Bond anticipation notes maturing on June 21, 2002, with an interest rate of 2.85% were issued by the City in 2001 for water system improvements. This is a general obligation of the City.

Compensated Absences and Wages and Benefits will be paid from the funds where the wages were generated. The City has the ability to issue \$4,642,072 of additional debt without obtaining voter approval.

An accrual was set up for a legal liability for past service cost for the Police and Fireman Pension Fund which arose when the Fund was established in 1968. During 2001, the City was given the option to retire the pension liability in full, at a discount and exercised such option.

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**14. DEBT OBLIGATIONS (Continued)**

Future Payment Due In	General Obligation Bonds/Notes		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2002	184,100	76,111	1,518,813	357,220
2003	189,100	68,907	764,422	315,395
2004	194,100	61,409	769,128	296,884
2005	198,600	53,520	760,844	278,556
2006	58,600	45,160	776,790	260,060
2007-2011	315,800	188,455	3,975,759	1,025,542
2012-2020	540,000	122,385	6,771,869	671,371
<b>TOTAL</b>	<b>\$1,680,300</b>	<b>\$615,947</b>	<b>\$15,337,625</b>	<b>\$3,205,028</b>

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

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

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

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

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

**Defeased Debt**

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City operates a water fund and a sewer fund. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges. Segment information for the year ended December 31, 2001, is as follows:

	Water	Sewer	Total Enterprise Funds
Operating Revenues	\$1,439,491	\$1,830,606	\$3,270,097
Operating Expenses - Before Depreciation	1,246,683	709,907	1,956,590
Depreciation Expense	138,179	511,539	649,718
Operating Income	54,629	609,160	663,789
Nonoperating Revenues	251,626	2,389	254,015
Nonoperating (Expenses)	(30,422)	(351,746)	(383,168)
Net Income	274,833	259,803	534,636
Fixed Asset Additions	222,894	613,369	835,263
Fixed Asset Deletions	1,000	269,016	270,016
Total Assets	4,097,538	21,367,981	24,465,519
Bonds and Other Long-term Liabilities	823,672	14,513,953	15,337,625
Total Equity	3,019,181	6,755,646	9,774,827
Net Working Capital	953,296	587,735	1,541,031

**16. ACCUMULATED UNPAID EMPLOYEE BENEFITS**

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

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

<u>Employee Service</u>	<u>Severed Sick Leave</u>	<u>Firefighter's Sick Leave</u>
10 thru 15 years	240 hours maximum	335 hours maximum
15 thru 20 years	380 hours maximum	530 hours maximum
Over 20 years	500 hours maximum	700 hours maximum

Vacation is accumulated based upon length of service as follows:

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

Unpaid compensated absences of \$229,685 were reported as an accrued liability in the General Long-Term Debt Fund. Unpaid compensated absences of \$71,238 and \$45,491 were reported as an accrued liability in the Water Fund and Sewer Fund, respectively.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**17. FEDERAL FINANCIAL ASSISTANCE**

For the period January 1, 2001 through December 31, 2001, the City received Federal financial assistance in the amount of \$406,478. This amount was posted to the Community Development Block Grant Fund for grants to homeowners for home repairs and for repairs to sewer manholes.

Also, the City continues to collect on economic development loans made in prior years with federally provided money. As of December 31, 2001, the outstanding Revolving Loan Fund cash balance is \$30,327 and the amount of loans outstanding is \$243,128.

**18. CONTRIBUTED CAPITAL**

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

<u>Source</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Contributed Capital, January 1	\$ 281,610	\$3,405,469
Depreciation on Fixed Assets Acquired by Contributed Capital	<u>(11,532)</u>	<u>(149,878)</u>
Contributed Capital, December 31	<u>\$ 270,078</u>	<u>\$3,255,591</u>

**19. RISK MANAGEMENT**

**A. Risk Pool Membership**

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

Casualty Coverage

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

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

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**19. RISK MANAGEMENT (Continued)**

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$ 9,397,094</u>
<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	1,890,323	\$ 1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>\$ 1,421,223</u>	<u>\$ 1,294,053</u>

There have been no settlements exceeding insurance coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

For the year 2001, the City participated in the Ohio Municipal League Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 25). The intent of the GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating municipalities is calculated as one experience and a common premium rate is applied to all municipalities in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate.

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

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



**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**19. RISK MANAGEMENT (Continued)**

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

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

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

**20. COMPENSATED ABSENCES**

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

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**21. DEFINED BENEFIT PENSION PLANS**

**A. Public Employees' Retirement System (PERS)**

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 9.25 percent was the portion used to fund pension obligations for 2001, an increase from 6.54 percent in 2000. For 2000, the System instituted a temporary employer rate rollback. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the years ended December 31, 2001, 2000, and 1999, were \$131,814, \$89,932, and \$126,515, respectively; 73 percent has been contributed for 2001 and 100 percent has been contributed for 2000 and 1999. The unpaid contribution for 2001 is recorded as a liability within the general long-term obligations account group for governmental funds and in the water and sewer funds for the portion related to the enterprise fund.

**B. Police and Firemen's Disability and Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (the "Fund"), a cost-sharing multiple employer defined benefit pension plan administered by the Fund's Board of Trustees. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by the Ohio State Legislature and Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police (12 percent was the portion used to fund pension obligations for 2001, a decrease from 12.25 for 2000); and 24 percent for firefighters (16.5 percent was the portion used to fund pension obligations for 2001, a decrease from 16.75 for 2000). Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$63,793 and \$75,520 for the year ended December 31, 2001, \$61,706 and \$72,399 for the year ended December 31, 2000, and \$99,058 and \$103,826 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. Seventy-two percent has been contributed for 2001 with the unpaid portion being reported as a liability within the respective funds and the general long-term obligations account group.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**22. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS BENEFITS**

**A. Public Employees Retirement System (PERS):**

The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion used to fund health care for 2001. For 2000, the employer contribution rate was 10.84 percent of covered payroll; 4.3 percent was the portion used to fund health care.

Benefits are advanced funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually, and an additional increase in total payroll of .54 percent to 5.1 percent based on additional pay increases. Health care premiums were assumed to increase 4.75 percent annually.

OPB are financed through employer contributions and investment earnings. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2001, the total number of benefit recipients eligible for OPB through the System was 411,076. As of December 31, 2001, the actuarial value of net assets available for future OPB payments was \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial liability were \$14,364.6 million and \$2,628.7 million, respectively. The City's actual contributions for 2001 which were used to fund OPB were \$61,276.

**B. Police and Firemen's Disability and Pension Fund**

The Ohio Police and Fire Pension Fund (the "Fund") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent; 7.5 percent was the portion used to fund health care for 2001. The portion used to fund health care was 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**22. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS BENEFITS (Continued)**

The number of participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters. The City's actual contributions for 2001 that were used to fund postemployment benefits were \$39,871 for police and \$34,327 for firefighters. The Fund's total health care expenses for the year ended December 31, 2000, (the latest information available), were \$106,160,054, which was net of member contributions of \$5,657,431.

**23. EMPLOYEE BENEFITS**

The City provides major medical insurance, life insurance and a drug card for prescription drugs to all full-time employees once they have completed a 90-day probationary period. Beginning April 1, 2001, all employees carrying the City's major medical insurance will contribute 10 percent of the employee's monthly premium by payroll deduction.

**24. JOINTLY-GOVERNED ORGANIZATION**

The Grove Cemetery Association is a jointly-governed organization consisting of three townships (Buck, Pleasant and Goshen) and the City of Kenton, Hardin County, Ohio. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board. Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk/Treasurer, Joe Cook, at 116 North Detroit Street, Kenton, Ohio 43326.

**25. INSURANCE PURCHASING POOL**

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

**26. CONTRACTS OUTSTANDING**

As of December 31, 2001, the City had several contracts outstanding for various construction-in-progress projects throughout the City which included services associated with the Raw Water Main Extension: D.E. Phillips Excavating, Inc. in the amount of \$171,369. The Raw Water Main Extension will be paid from the Capital Improvement -Issue II Fund. A portion of the contract is presented on the financial statements as a contract payable with the remainder shown as a reserve for encumbrance.

**27. CONTINGENT LIABILITIES**

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

CITY OF KENTON  
HARDIN COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

Federal Grantor Pass Through Grantor Program Title	Pass- Through Agency Number	CFDA Number	Disbursements
<b>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
(Direct Program)			
Home Investment Partnership Program (HOME)			
Community Housing Improvement Program	A-C-99-137-2	14.239	\$14,778
Community Housing Improvement Program	A-C-99-137-2	14.239	236,136
Community Housing Improvement Program	A-C-99-137-2	14.239	<u>11,880</u>
Total Home Investment Partnership Program (HOME)			<u><u>262,794</u></u>
(Passed through Ohio Department of Development)			
Ohio Small Cities Community Development Block Grant			
Formula Allocation Program	B-F-99-030-1	14.228	50,000
Community Housing Improvement Program	A-C-99-137-1	14.228	3,662
Community Housing Improvement Program	A-C-99-137-1	14.228	36,000
Community Housing Improvement Program	A-C-99-137-1	14.228	68,408
Ohio Housing Trust Fund Program Funds			
Community Housing Improvement Program	C-99-137-1	14.228	2,318
Community Housing Improvement Program	C-99-137-1	14.228	<u>18,904</u>
Total Small City's Community Development Block Grants			<u>179,292</u>
Total United States Department of Housing and Urban Development			<u>442,086</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u><u>\$442,086</u></u>

*The notes to the Schedule of Federal Awards Expenditures are an integral part of this statement.*

**CITY OF KENTON  
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
DECEMBER 31, 2001**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Award Expenditures (the "Schedule") summarizes the activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting. Revenues are recognized when received rather than when earned, and expenditures are recorded when paid rather than when the obligation is incurred.

**NOTE 2 - MATCHING REQUIREMENTS**

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included in the Schedule.

**NOTE 3 - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City which is passed through the Ohio Department of Development. The initial loans of these monies were recorded as disbursements and presented on the Schedule of Federal Awards Expenditures in the year the loans were awarded. The loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule.

These loans are collateralized by mortgages on the properties. At December 31, 2001, the gross amount of loans outstanding under this program was \$243,128 and cash on hand was \$30,327.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

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

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

To the Members of Council:

We have audited the financial statements of the City of Kenton (the "City"), Hardin County, as of and for the year ended December 31, 2001, and have issued our report thereon dated September 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-20233-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 25, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2001-20233-002.

**Internal Control Over Financial Reporting  
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 2001-20233-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 25, 2002.

This report is intended for the information and use management, Members of Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

September 25, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Members of Council:

**Compliance**

We have audited the compliance of the City of Kenton, Hardin County (the "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2001-20233-003 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Cash Management that are applicable to its Home Investment Partnership Program Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 25, 2002.

This report is intended for the information and use of management, Members of Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Jim Petro**  
Auditor of State

September 25, 2002

CITY OF KENTON  
HARDIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Home Investment Partnership Program – CFDA #14.239
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2001-20233-001**

**Noncompliance**

**Ohio Rev. Code Section 5705.14** states that no transfer can be made from one fund of a subdivision to any other fund that does not meet exceptions that are prescribed in the Ohio Revised Code.

The City transferred \$125,985 from the Special Revenue-Police Pension fund and \$110,921 from the Special Revenue - Fire Pension fund to the General Fund which was used to pay off its past service cost for police and fire pension. The City transferred \$630,000 from the Enterprise – Water fund to the Capital Projects - Issue II fund which was used as partial payment for improvements to the City's water treatment plant. Also the City transferred \$15,288 from the Special Revenue Street Fund and \$91,676 from the Special Revenue RSPO Fund to the Debt Service Fund for the payment of debt. These transfers are considered illegal under this Ohio Revised Code Section. The financial statements in this report have been adjusted to eliminate these transfers and to reflect the financial activity as expenditures/expenses within the funds that initially transferred the money.

The City's management should review the transfer requirements prescribed in the Ohio Revised Code and determine if a proposed transfer meets the requirements. Management should also determine if the transfer is necessary or if the expenditure can be made from the given fund instead of transferring monies to another fund and then expending them.

**FINDING NUMBER 2001-20233-002**

**Reportable Condition/Material Weakness**

**GAAP Financial Statement Reporting**

The City is responsible to present financial statements that are accurate and are in accordance with Generally Accepted Accounting Principals (GAAP). Errors encountered on the City's financial statements included, but were not limited to, the following:

- There was no review performed to determine the impact of Governmental Accounting Standards Board (GASB) statements No. 33 and No. 36. This resulted in the need for financial statements adjustments to General Fund and Special Revenue Fund type;
- Beginning fund balances did not always agree to the prior year audit report ending balances;
- Some reversing entries for year 2001 were recorded to incorrect line items;
- Not all notes to the financial statements were updated for the current year;
- Total assets per the Enterprise Fund type balance sheet did not equal total liabilities, fund equity and other credits;
- The budget versus actual statements did not have the same line item classifications as the trial balances, or the City's operating statement;
- Liabilities for retirement were recorded as encumbrances and as a long term obligation; and

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS  
 (Continued)**

**FINDING NUMBER 2001-20233-002  
 (Continued)**

- Debt payments for some fixed assets were recorded as asset additions.

The City should implement procedures to help ensure that their financial statements incorporate all applicable GASB statements. Also, review procedures should be put in place to help ensure correctness of the financial statements, trial balances, and notes to the financial statements.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>FINDING NUMBER</b>	2001-20233-003
<b>CFDA TITLE AND NUMBER</b>	Home Investment Partnership Program #14.239
<b>FEDERAL AWARD NUMBER / YEAR</b>	A-C-99-137-2
<b>FEDERAL AGENCY</b>	U.S. Department of Housing and Urban Development
<b>PASS – THROUGH AGENCY</b>	N/A

**Noncompliance and Questioned Costs**

**Cash Management**

**24 CFR 92.502(c)(2)** states that funds drawn from the United States Treasury account must be expended for eligible costs within fifteen (15) days. Any funds that are drawn down and not expended for eligible costs within fifteen (15) days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund.

It was determined that the following draw downs were not expended within the required fifteen (15) days:

Draw Date	Maximum Amount Held Beyond 15-day period	Number of Days Held Beyond 15-day period
January 31, 2001	\$12,000	57
February 28, 2001	\$ 5,490	36
March 23, 2001	\$21,865	20
April 26, 2001	\$ 105	7
April 26, 2001	\$65,483	140
June 27, 2001	\$ 4,739	78
September 21, 2001	\$ 3,375	13
October 25, 2001	\$ 7,453	7
October 25, 2001	\$17,795	17
November 29, 2001	\$15,843	7

Based on the above facts, questioned costs in the amount of \$154,148, are being issued for money not spent within the required fifteen-day period.

**3. FINDINGS FOR FEDERAL AWARDS  
(Continued)**

**FINDING NUMBER 2001-20233-003  
(Continued)**

**24 CFR 92.502(c)(2) and 24 CFR 85.21(h)(2)(i)** state that funds drawn from the United States Treasury account must be expended for eligible costs within fifteen (15) days and that any interest earned within the fifteen-day period may be retained by the participating jurisdiction as HOME funds. Interest earned after fifteen (15) days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses.

The amount of interest earned on monies held beyond the fifteen (15) days was \$591.44. Interest in excess of \$100 that was earned from the HOME funds was not returned to the Department of Housing and Urban Development.

Based on the above facts, questioned costs in the amount of \$591.44, are being issued for not returning interest income earned beyond fifteen days that exceeded \$100.

The City and its consultant, CDC of Ohio, should develop procedures to help ensure that only those monies that are readily needed and can be liquidated within fifteen (15) days after they are received are requested as part of the drawdown. In addition, procedures should be put in place to calculate interest earned on these funds so that excess earnings can be returned.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF KENTON**

**HARDIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 17, 2002**