



**Auditor of State
Betty Montgomery**

CITY OF KENTON
HARDIN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified-cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2004, and the respective changes in modified cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis and the respective budgetary comparison for the General Fund and Street Fund are not a required part of the basic financial statements but are supplementary information the *Governmental Accounting Standards Board* requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

August 17, 2005

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

The discussion and analysis of the City of Kenton's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the cash basis financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's total receipts exceeded total expenditures by \$37,182 for the year, resulting in an increase in total net assets of 1.4% over the previous year. The increase is attributed to the City's operation of its business-type activities.
- Construction was almost completed on the Pattison Avenue Storm Sewer Collections System Project – a joint ditch maintenance project between the City and Hardin County. The City has pledged funds approved through Issue II to assist in the funding for this project.

Using this Annual Report

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

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Activities and Net Assets – Cash Basis (on pages 10-11) provides information about the activities of the City government-wide (or "as a whole") and present a longer-term view of the City's finances.

Fund Financial Statements: Fund financial statements (starting on page 12) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the water and sewer services.

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

Required Supplementary Information: This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (starting on page 30) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)**

Basis of Accounting

The City has elected to present its financial statements on the modified-cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the City of Kenton is fiscally responsible.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the City as a whole begins on page 5. The government-wide financial statements are presented on pages 10 and 11. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information about the City as a whole and about its activities in a way that helps answer this question.

This statement reports the City's net assets and changes in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the City's net assets as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement Activities and Net Assets, we divide the City into two kinds of activities:

Governmental activities: Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks. Property taxes, income taxes, franchise fees, fines and state and federal grants finance most of these activities.

Business-type activities: The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 12 and provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds – governmental, proprietary and fiduciary – use different accounting approaches.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)**

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Activities and Net Assets) and governmental funds in a reconciliation at the bottom of the fund financial statements. The City considers the General Fund and the Street Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled non-major funds.

Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The City has two enterprise funds – the Waterworks Fund and the Sewer Fund.

Fiduciary funds – These funds are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

A Financial Analysis of the City as a Whole

Net Assets – Cash Basis

The City's combined net assets, resulting from cash basis transactions, increased from \$2,658,597 to \$2,695,779 between fiscal years 2003 and 2004. Looking at the net assets and net expenses of governmental and business-type activities separately, business-type activities had an increase of approximately \$188,053 in net assets between 2003 and 2004. The increase in net assets was primarily due to the City reducing capital expenditures from 2003 and the pay off of a debt issue in 2003.

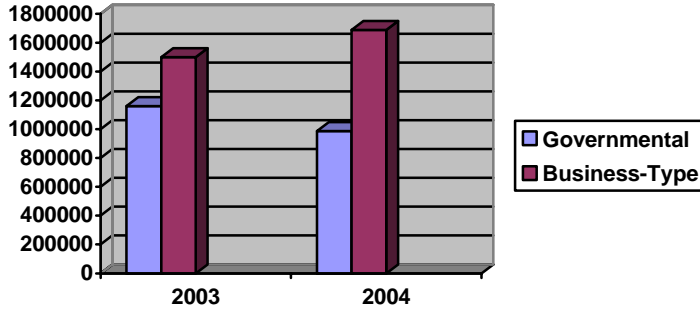
	Governmental Activities		Business-Type Activities		TOTALS	
	2003	2004	2003	2004	2003	2004
ASSETS						
Cash	1,158,995	1,008,124	1,499,602	1,687,655	2,658,597	2,695,779
Total Assets	1,158,995	1,008,124	1,499,602	1,687,655	2,658,597	2,695,779
NET ASSETS						
Restricted:						
Pension Obligations	108,032	9,959			108,032	9,959
Revolving Loans	91,164	151,367			91,164	151,367
Customer Deposits			87,945	88,490	87,945	88,490
Other Purposes	410,271	340,929			410,271	340,929
Unrestricted:	549,528	505,869	1,411,657	1,599,165	1,961,185	2,105,034
Total Net Assets	1,158,995	1,008,124	1,499,602	1,687,655	2,658,597	2,695,779

Net assets of the City's governmental activities decreased 13 percent to \$1,008,124 primarily due to reductions in funding. However, \$502,255 of those net assets is restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed only \$505,869 at the end of this year.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)**

Net Assets – Cash Basis



Changes from 2003 to 2004 reflect a net change of 1.5% in total activities with a decrease of 13% for governmental activities and an increase of 12.5% for business-type activities.

Changes in Net Assets – Cash Basis

For the year ended December 31, 2004, net assets of the primary government changed as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2003	2004	2003	2004	2003	2004
Revenues						
Program Revenues						
Charges for Services	\$133,475	\$508,027	\$3,323,600	\$3,337,343	\$3,457,075	\$3,845,370
Operating Grants & Contributions	314,940	375,476			314,940	375,476
Capital Grants	180,340	709,864	8,910		189,250	709,864
General Revenues						
Property Taxes	397,479	409,270			397,479	409,270
Income Taxes	2,260,933	2,358,829			2,260,933	2,358,829
Other Taxes	25,592	27,414			25,592	27,414
Grants or Contributions Net						
Restricted to Specific Programs	326,134	373,639			326,134	373,639
Interest Income	34,528	36,571			34,528	36,571
Miscellaneous	445,808	52,335	100,572	98,530	546,380	150,865
Sale of Capital Assets	6,290				6,290	
Loan Proceeds			500,000	400,000	500,000	400,000
Special Assessments	4,936		2,362		7,298	
Total Revenues	<u>4,130,445</u>	<u>4,851,425</u>	<u>3,935,444</u>	<u>3,835,873</u>	<u>8,065,889</u>	<u>8,687,298</u>
Expenses						
General Government	1,576,660	1,676,729			1,576,660	1,676,729
Public Safety	1,989,759	2,094,583			1,989,759	2,094,583
Streets and Public Works	718,721	975,685			718,721	975,685
Health and Welfare	76,500	76,500			76,500	76,500
Culture and Recreation	181,595	178,799			181,595	178,799
Water			2,121,208	1,735,653	2,121,208	1,735,653
Sewer			2,021,817	1,912,167	2,021,817	1,912,167
Total Expenses	<u>4,543,235</u>	<u>5,002,296</u>	<u>4,143,025</u>	<u>3,647,820</u>	<u>8,686,260</u>	<u>8,650,116</u>
Increase/(Decrease) In Net Assets	<u>(\$412,790)</u>	<u>(\$150,871)</u>	<u>(\$207,581)</u>	<u>\$188,053</u>	<u>(\$620,371)</u>	<u>\$37,182</u>

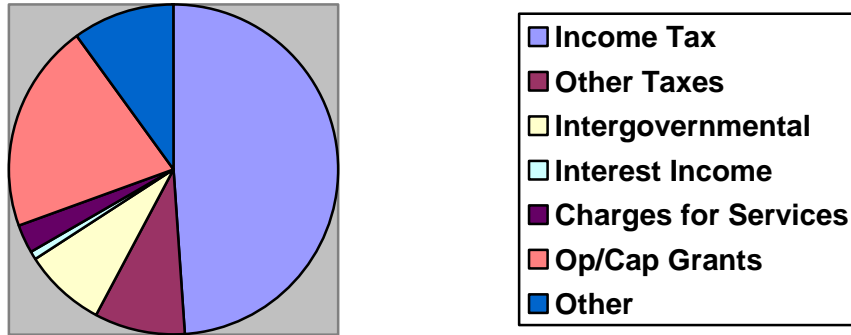
CITY OF KENTON
HARDIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)

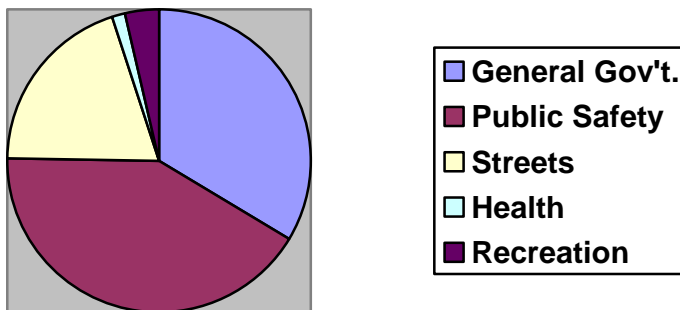
Governmental Activities

To aid in the understanding of the Statement of Activities and Net Assets, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Sources of Funds for Governmental Activities



Uses of Funds for Governmental Activities



For the year ended December 31, 2004, total expenses for governmental activities, resulting from cash basis transactions, amounted to \$5,002,296. Of those total expenses, taxpayers and other general revenues funded \$3,408,929, while those directly benefiting from the program funded only \$1,085,340 from grants and other contributions and \$508,027 from charges for services.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)**

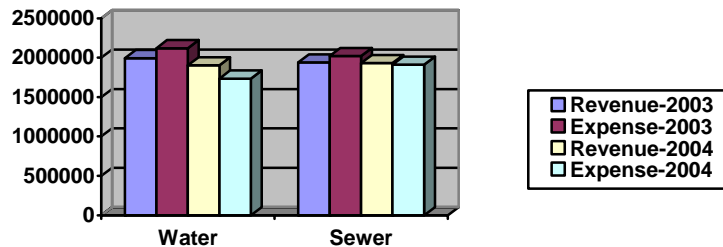
Net Cost of City of Kenton's Governmental Activities

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2003	2004		2003	2004	
General Government	\$1,576,658	\$1,676,729	6.35%	\$1,028,874	\$961,262	-6.57%
Public Safety	1,989,759	2,094,583	5.27%	1,989,759	2,048,892	2.98%
Streets	718,721	975,685	35.75%	710,011	211,672	-70.19%
Health	76,500	76,500	0.00%	76,500	76,500	0.00%
Recreation	181,595	178,799	-1.54%	109,334	110,603	1.16%
Totals	<u>\$4,543,233</u>	<u>\$5,002,296</u>	10.10%	<u>\$3,914,478</u>	<u>\$3,408,929</u>	-12.91%

Business-Type Activities

In reviewing the business-type activities' net (expense)/revenue resulting from cash basis transactions, there are certain activities that need to be examined more closely. Both water and sewer service activities reported net revenue with a combined total of \$188,053 for 2004. Water had net revenue of \$168,703 which included reducing \$100,000 of debt. Sewer had net revenue of \$19,350.

Business-Type Activities - Revenue and Expense



A Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,008,124, which is \$150,871 less than the year before. A decrease of \$43,659 in the City's general fund made up a significant part of this loss. The primary reasons for the general fund's deficit mirror those highlighted in the analysis of governmental activities. In addition, these other changes in fund balances should be noted:

- The City's Revolving Loan Fund increased by \$60,203 from payments made as scheduled plus partial collection of a loan placed on non-accrual status the year before.
- The Police and Fire Pension Funds had a combined decrease of \$98,073 resulting from operating expenses paid for the police and fire departments.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several time. These budget amendments fall into several categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in October 2003).
- Appropriation transfers within departments to reflect changes in departmental needs.
- Increases in appropriations to prevent budget overruns and to reflect unexpected increases in anticipated revenues.

For the year ended December 31, 2004, General Fund expenditures were \$236,528 below final appropriations while actual resources available for appropriations were \$230,163 above the final budgeted amount.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2004
(Continued)**

Debt Administration

Long-Term Debt

At year-end the City had \$14.3 million in long-term debt outstanding – a decrease of 7 percent from last year. Governmental activities accounted for \$1,495,981 and \$12,791,289 were related to business-type activities. (See table below.)

	City of Kenton Long-Term Debt					
	Governmental Activities		Business-Type Activities		Totals	
	2003	2004	2003	2004	2003	2004
General Obligations	\$1,744,192	\$1,495,981			\$1,744,192	\$1,495,981
Bond Obligations			\$160,000	\$120,000	160,000	120,000
OPWC Loans			124,738	106,039	124,738	106,039
OWDA Loans			12,881,574	12,165,250	12,881,574	12,165,250
Bond Anticipation Notes			500,000	400,000	500,000	400,000
Totals	<u>\$1,744,192</u>	<u>\$1,495,981</u>	<u>\$13,666,312</u>	<u>\$12,791,289</u>	<u>\$15,410,504</u>	<u>\$14,287,270</u>

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2005, the City's budget is fairly consistent with this year (the 2005 original appropriations budget is in fact 10.3% less than the original 2004 appropriations budget).

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Auditor's office at 111 W. Franklin Street, Kenton, Ohio 43326 or telephone at (419) 673-1310.

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - MODIFIED CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

	Cash Disbursements	Program Cash Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	(\$1,676,729)	\$434,891		\$280,576
Public Safety	(2,094,583)		45,691	
Streets and Public Works	(975,685)	4,940	329,785	429,288
Health and Welfare	(76,500)			
Culture and Recreation	(178,799)	68,196		
Total Governmental Activities	<u>(5,002,296)</u>	<u>508,027</u>	<u>375,476</u>	<u>709,864</u>
Business-Type Activities:				
Waterworks	(1,735,653)	1,453,140		
Sewer	(1,912,167)	1,884,203		
Total Business-Type Activities	<u>(3,647,820)</u>	<u>3,337,343</u>		
Total Activity	<u><u>(\$8,650,116)</u></u>	<u><u>\$3,845,370</u></u>	<u><u>\$375,476</u></u>	<u><u>\$709,864</u></u>

General Receipts:

- Property taxes, levied for general purposes
- Property taxes, levied for police pension
- Property taxes, levied for fireman's pension
- Property taxes, levied for cemetery
- Taxes - Income
- Taxes - Other
- Grants or Contributions Not Restricted to Specific Programs
- Investment Income
- Rollover of Note
- Miscellaneous
- Total General Receipts

Increase (Decrease) in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

Assets

Cash

Net Assets

Restricted for:

- Pension Obligations
- Revolving Loans
- Customer Water Deposits
- Other Purposes

Unrestricted

Total Net Assets

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

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Funds	Business-Type Funds	Totals Funds
(\$961,262)		(\$961,262)
(2,048,892)		(2,048,892)
(211,672)		(211,672)
(76,500)		(76,500)
(110,603)		(110,603)
<u>(3,408,929)</u>		<u>(3,408,929)</u>
	(282,513)	(282,513)
	(27,964)	(27,964)
	<u>(310,477)</u>	<u>(310,477)</u>
(3,408,929)	(310,477)	(3,719,406)
270,568		270,568
30,851		30,851
30,851		30,851
77,000		77,000
2,358,829		2,358,829
27,414		27,414
373,639		373,639
36,571		36,571
	400,000	400,000
52,335	98,530	150,865
<u>3,258,058</u>	<u>498,530</u>	<u>3,756,588</u>
(150,871)	188,053	37,182
1,158,995	1,499,602	2,658,597
<u>\$1,008,124</u>	<u>\$1,687,655</u>	<u>\$2,695,779</u>
<u>\$1,008,124</u>	<u>\$1,687,655</u>	<u>2,695,779</u>
9,959		9,959
151,367		151,367
	88,490	88,490
340,929		340,929
505,869	1,599,165	2,105,034
<u>\$1,008,124</u>	<u>\$1,687,655</u>	<u>\$2,695,779</u>

CITY OF KENTON
HARDIN COUNTY

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES AND CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Receipts:				
Taxes	\$2,655,696		\$139,817	\$2,795,513
Charges for Services	61,037		68,196	129,233
Licenses and Permits	40,691	405		41,096
Fines and Forfeitures	304,295		52,927	357,222
Intergovernmental	401,765	615,453	363,393	1,380,611
Special Assessments		4,940		4,940
Interest on Investments	33,477	1,084	2,010	36,571
Miscellaneous Receipts	12,973	7,935	78,198	99,106
Total Receipts	3,509,934	629,817	704,541	4,844,292
Disbursements:				
General Government				
Legislative and Executive	622,387			622,387
Judicial	350,712		51,919	402,631
Public Safety	1,811,328		167,721	1,979,049
Public Works		575,696	55,007	630,703
Health	76,500			76,500
Economic Development	3,334		298,010	301,344
Leisure Time Activities			156,719	156,719
Intergovernmental Expenditures			84,997	84,997
Capital Outlay	110,391	344,982	36,936	492,309
Debt Service				
Bond Principal Payment			185,500	185,500
Note Principal Payment			8,600	8,600
Interest and Fiscal Charges			61,557	61,557
Total Disbursements	2,974,652	920,678	1,106,966	5,002,296
Receipts Over/(Under) Disbursements	535,282	(290,861)	(402,425)	(158,004)
Other Financing Sources/(Uses)				
Operating Transfers - In		250,000	330,199	580,199
Operating Transfers - (Out)	(580,199)			(580,199)
Other Financing Sources	1,258	5,875		7,133
Total Other Financing Sources/(Uses)	(578,941)	255,875	330,199	7,133
Receipts and Other Financing Sources Sources (Under) Disbursements and Other Financing Uses	(43,659)	(34,986)	(72,226)	(150,871)
Fund Balances - Beginning of Year	549,528	124,528	484,939	1,158,995
Fund Balances - End of Year	\$505,869	\$89,542	\$412,713	\$1,008,124
Assets				
Cash	\$505,869	\$89,542	\$412,713	\$1,008,124
Fund Balances				
Reserved for Encumbrances	95,936	13,704	54,417	164,057
Unreserved	409,933	75,838	358,296	844,067
Total Fund Balances	\$505,869	\$89,542	\$412,713	\$1,008,124

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF MODIFIED CASH BASIS FUND NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND NET ASSETS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

ENTERPRISE FUNDS

	Water Fund	Sewer Fund	Totals (Memorandum Only)
Operating Receipts:			
Charges for Services	\$1,453,140	\$1,884,203	\$3,337,343
Other Operating Revenues	3,866	46,829	50,695
Total Operating Revenues	1,457,006	1,931,032	3,388,038
Operating Disbursements:			
Personnel Services	621,914	514,961	1,136,875
Contract Services	155,717	274,619	430,336
Materials and Supplies	231,955	62,150	294,105
Capital Outlay	154,630	4,449	159,079
Total Operating Disbursements	1,164,216	856,179	2,020,395
Operating Income	292,790	1,074,853	1,367,643
Non-Operating Receipts/(Disbursements)			
Bond Retirement		(40,000)	(40,000)
Note Proceeds	400,000		400,000
Note Retirement	(500,000)		(500,000)
Loan Retirement	(17,146)	(718,055)	(735,201)
Interest Expense	(7,500)	(296,707)	(304,207)
Other Non-Operating Receipts	47,350	485	47,835
Other Non-Operating Disbursements	(46,791)	(1,226)	(48,017)
Total Non-Operating Receipts/(Disbursements)	(124,087)	(1,055,503)	(1,179,590)
Excess of Receipts Over Disbursements	168,703	19,350	188,053
Net Assets - Beginning of Year	984,479	515,123	1,499,602
Net Assets - End of Year	\$1,153,182	\$534,473	\$1,687,655
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,153,182	\$534,473	\$1,687,655
Net Assets			
Unreserved	\$1,153,182	\$534,473	\$1,687,655

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

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF MODIFIED CASH BASIS NET ASSETS AND, CASH RECEIPTS
CASH DISBURSEMENTS, AND CHANGES IN MODIFIED CASH BASIS NET ASSETS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Agency Funds</u>
Cash Receipts	\$910,514
Cash Disbursements	<u>945,760</u>
Changes in Net Assets	(35,246)
Net Assets - Beginning of Year	<u>92,343</u>
Net Assets - End of Year	<u><u>\$57,097</u></u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$57,097</u></u>
Net Assets	
Unrestricted	<u><u>\$57,097</u></u>

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. DESCRIPTION OF THE 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 City participates in two jointly governed organizations and an insurance pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 9 and 10 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the City chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principals. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation

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

Government-Wide Financial Statement

The statement of activities and net assets displays information about the City as a whole. This statement includes the financial activities of the City, except for fiduciary funds.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

1. Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. The City has two governmental funds classified as major funds:

General Fund – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Street Fund – The Street Fund accounts for state shared motor vehicle license tax and gas tax money for the repair and maintenance of City streets.

2. Proprietary Funds/Business Type Activities:

Enterprise Funds -These funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City has the following major Enterprise Funds:

Water Fund – This fund accounts for the operations of the water distribution system and related expenses, including capital improvements and debt service.

Sewer Fund – This fund accounts for the operations of the sanitary sewer collection and treatment system and related expenses, including capital improvement and debt service.

3. Fiduciary Funds:

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 Fiduciary Funds are not included in the City's government-wide financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

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. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price at which the investment could be sold at December 31, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2004 amounted to \$33,477, which includes \$23,434 assigned from other City funds. For calendar year 2004, interest receipts amounted to \$36,571 in which \$33,477 was recorded in the General Fund; \$1,084 was recorded in the Street Fund, \$157 in the State Highway Fund, \$334 in the CDBG Fund. and \$1,519 in the Revolving Loan Fund.

D. Health Care

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

E. Intergovernmental Revenues

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

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the City.

H. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

Obligations of the governmental funds and business type funds are identified in Notes 6 and 7. Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expense in the reimbursed fund.

J. Net Cash Assets

Net cash assets consist of cash receipts and balances reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants.

3. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim monies 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 securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
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 (FDIC), by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Deposits - At year-end, the carrying amount of the City's deposits was \$285,976 and the bank balance was \$448,030. Of the bank balance, \$266,381 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 be potentially subject the City to a successful claim by the FDIC.

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

As of December 31, 2004, the City's investments were as follows:

STAR Ohio (Uncategorized)	\$2,466,900
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**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

4. TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed in 2002 for tax year 2003.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2004, was \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.89 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.99 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City through the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended December 31, 2004, was 23% of true value.

The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 55,020,490
Commercial/Industrial	26,658,380
Public Utilities	30,330
Tangible Personal	23,587,206
Public Utility Personal	3,621,510
Total	<u>\$108,917,916</u>

Real property taxes for tax year 2004 are payable annually or semi-annually. If paid annually, payment is due February 16, 2005. If paid semi-annually, the first payment is due February 16, 2005, with the remainder payable by July, 2005. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The residents of the City support Grove Cemetery Association (the "Cemetery"), a jointly governed organization described further in note 10, through a tax levy. The levy for the Cemetery is voted millage. During 2004, the Cemetery received \$84,997 in tax revenue from the residents of the City. This money is reported as tax revenue and general government expenditures in the Statement of Net Assets and Activities, and as taxes and intergovernmental expenditures in the Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

4. TAXES (Continued)

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.

5. 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, from the Street Fund for the backhoe and from the RSPO Fund for the 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.

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, 2004.

<u>Fiscal Year Ending December 31</u>	<u>Amount</u>
2005	\$ 57,289
2006	57,287
2007	57,287
2008	57,287
2009	57,298
2010	57,287
Total Minimum Lease Payments	343,724
Less: amount representing interest	(55,812)
Present Value of minimum lease payments	<u>\$287,912</u>

The City leases land under a non-cancelable operating lease. Total cost for such lease was \$6,000 for the year ended December 31, 2004. The lease is for a term of ninety-nine years commencing on August 1, 2000, and ending on July 31, 2099, with lease payments being renegotiable after fifty (50) years. The future minimum lease payments for the lease through 2051 are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Amount</u>
2005	\$ 6,300
2006	6,300
2007	6,300
2008	6,300
2009	6,300
2010-2051	327,836
Total minimum lease payments	<u>\$359,336</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. LONG TERM DEBT

The City's long-term debt transactions for the year ended December 31, 2004, are summarized below:

	Debt Principal Outstanding 1/1/04	Debt Principal Issued in 2004	Debt Principal Retired in 2004	Debt Principal Outstanding 12/31/04
General Obligation Issues:				
1994 Street Improvement Bond	\$5,500		\$5,500	
1999 Municipal Bldg. Bond	275,000		135,000	140,000
1999 SW Pool Const Bond	975,000		45,000	930,000
1999 OPWC Note-Street	51,600		8,600	43,000
2003 OPWC Note-Street	95,506			95,506
Capital Leases	<u>341,586</u>		<u>54,111</u>	<u>287,475</u>
Total General Obligations:	1,744,192		248,211	1,495,981
Enterprise Issues:				
1987 Sewer Bonds	160,000		40,000	120,000
1994 OPWC Loan (Sewer)	12,808		12,808	
1996 and 1998 OWDA Loans (Wastewater Improvement)	12,870,496		705,246	12,165,250
1999 OWDA (DWAF Loan) (Wastewater Improvement)	11,078		11,078	
1999 WTP Improvement Bond	500,000	400,000	500,000	400,000
Anticipation Note				
2003 OPWC Loan (Waterworks)	<u>111,930</u>		<u>5,891</u>	<u>106,039</u>
Total Enterprise Debt	13,666,312	400,000	1,275,023	12,791,289
Total General Obligations	<u>1,744,192</u>		<u>248,211</u>	<u>1,495,981</u>
TOTAL DEBT	\$15,410,504	\$400,000	\$1,523,234	\$14,287,270

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. LONG TERM DEBT (Continued)

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. During 2003, the City obtained another 0% interest loan from the Ohio Public Works Commission for the Water Treatment Plant/System Improvements project. This loan will mature in 2023 and is also a general obligation of the City.

During 2003, the City obtained a 0% interest loan from the Ohio Public Works Commission for the Pattison Avenue Storm Sewer Collections System project – a joint ditch maintenance project between the City and Hardin County in 2003. This loan was part of a \$500,000 Issue II grant received by the City for the project. Payment is to begin on this loan during 2005.

General obligation bond anticipation notes (BAN) for water treatment plant improvements with an interest rate of 1.75% were issued by the City in 2004 and are due in 2005.

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$2,707,862 are as follows:

	General Obligation Bonds	Capital Leases/ BAN's	OWDA Loans	OPWC Loans	Total
2005	\$291,170	\$464,289	\$991,750	\$26,429	\$1,773,638
2006	140,260	57,287	991,750	26,429	1,215,726
2007	140,460	57,287	991,750	26,429	1,215,926
2008	95,380	57,287	991,750	26,429	1,170,846
2009	92,795	57,287	991,750	26,429	1,168,261
2010-2014	478,855	56,848	4,958,751	65,270	5,559,724
2015-2022	<u>375,900</u>	<u> </u>	<u>4,467,981</u>	<u>47,130</u>	<u>4,891,011</u>
Total	1,614,820	750,285	14,385,482	244,545	16,995,132
Less Interest	<u>(424,820)</u>	<u>(62,810)</u>	<u>(2,220,232)</u>	<u> </u>	<u>(2,707,862)</u>
Principal	\$1,190,000	\$687,475	\$12,165,250	\$244,545	\$14,287,270

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:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. LONG TERM DEBT (Continued)

<u>Year</u>	<u>Principal Amount</u>
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 part, on any date in inverse order of maturity and by lot within a maturity, at the option of the City on or after December 1, 2009, as follows:

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

7. PENSION OBLIGATIONS

A. Ohio Public Employees Retirement System (OPERS)

The City of Kenton participates in the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans described as follows: (1) The Traditional Pension Plan (TP) – a cost sharing multiple-employer defined benefit pension plan; (2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon; and (3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TO, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The member contribution rate for 2004 was 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%. For local government employer units the employer rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions the employer contribution rate for 2004 was 16.7%. The City's contributions for pension obligations to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$190,518, \$189,461, and \$181,267, respectively; 92.34% has been contributed for 2004 and 100% for 2003 and 2002. \$15,792 represents the unpaid contribution for 2004.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

7. PENSION OBLIGATIONS (Continued)

B. Ohio Police and Fire Pension Fund

The City of Kenton contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to 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, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F were \$84,423 and \$84,144 for the year ended December 31, 2004, \$83,342 and \$82,953 for the year ended December 31, 2003 and \$92,709 and \$107,445 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. Approximately 72% has been contributed for 2004 and \$31,863 and \$34,260 represent the unpaid contributions for 2004.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Ohio Public Employees Retirement System (OPERS):

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. For local government employer units, the rate was 13.55 percent of covered payroll, and 4.00 percent was used to fund health care for the year. For both the public safety and law enforcement divisions, the 2004 employer rate was 16.7 percent and 4.00 percent was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post-employment benefits were \$60,903. The actual contribution and the actuarially required contribution amounts are the same.

OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage and states that health care cost paid from the fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75% percent was the portion used to fund health care for 2004. 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The number of participants eligible to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, was 13,662 for police and 10,474 for firefighters. The City's actual contributions for 2004 that were used to fund post employment benefits were \$46,216 for police and \$38,235 for firefighters. OP&F's total health care expenses for the year ended December 31, 2003, (the latest information available), were \$150,853,148, which was net of member contributions of \$17,207,506.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters.

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 member's deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

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

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

9. RISK MANAGEMENT (Continued)

Casualty Coverage	2004	2003
Assets	\$30,547,049	\$25,288,098
Liabilities	(16,989,918)	(12,872,985)
Retained earnings	\$13,557,131	\$12,415,113
Property Coverage	2004	2003
Assets	\$3,652,970	\$3,158,813
Liabilities	(544,771)	(792,061)
Retained earnings	\$3,108,199	\$2,366,752

The City carries worker's compensation coverage through the Ohio Bureau of Worker's Compensation. Premiums are paid annually.

The City provides life insurance and medical insurance to all full-time employees once they have completed a 90 day probationary period. The medical insurance includes dental and a drug card for prescription drugs. The employees contribute ten percent of the actual cost of the monthly premiums for the medical insurance through payroll deduction.

10. JOINTLY GOVERNED ORGANIZATIONS

Grove Cemetery Association

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

Hardin County Regional Planning Commission:

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

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

11. CONTINGENT LIABILITIES

A. Grants

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.

B. Litigation

On February 12, 2003, the City commenced a declaratory judgment action in the Hardin County Common Pleas Court, Case No. 30021029 CVH, against Thomas & Marker Construction Co. Thomas & Marker was the general contractor employed to construct the City's new wastewater treatment plant, which was substantially completed in March 2000. Thomas & Marker claims that it was damaged in the amount of \$2,120,837.01 because the City allegedly required it to accelerate construction of the plant to meet EPA-mandated deadlines, and has counterclaimed for that amount. The City denies that it owes any amount to Thomas & Marker, and specifically alleges that Thomas & Marker failed to timely assert its claim. Thomas & Marker has impleaded the City's design/construction manager, R.D. Zande & Associates, Inc. and has asserted the same claim against it. The litigation is still in the initial discovery states, and the outcome and amount of the City's exposure, if any, is uncertain.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$549,528	\$549,528	\$549,528	
Resources (Inflows):				
Taxes	2,529,150	2,529,150	2,655,696	126,546
Charges for Services	61,000	61,000	61,037	37
Licenses and Permits	38,800	38,800	40,691	1,891
Fines and Forfeitures	291,000	291,000	304,295	13,295
Intergovernmental	286,249	330,979	401,765	70,786
Interest on Investments	25,000	25,000	33,477	8,477
Miscellaneous Receipts	5,000	5,000	12,973	7,973
Other Financing Sources	100	100	1,258	1,158
	<u>3,785,827</u>	<u>3,830,557</u>	<u>4,060,720</u>	<u>230,163</u>
Amounts Available for Appropriation:	3,785,827	3,830,557	4,060,720	230,163
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	645,870	658,845	622,387	36,458
Judicial	390,560	387,610	350,712	36,898
Public Safety	1,901,159	1,934,734	1,811,328	123,406
Health	76,500	76,500	76,500	
Economic Development	3,500	3,500	3,334	166
Capital Outlay	69,549	112,779	110,391	2,388
Other Financing Uses				
Transfers Out	617,411	617,411	580,199	37,212
	<u>3,704,549</u>	<u>3,791,379</u>	<u>3,554,851</u>	<u>236,528</u>
Total Charges to Appropriations:	3,704,549	3,791,379	3,554,851	236,528
Ending Budgetary Balance:	<u>\$81,278</u>	<u>\$39,178</u>	<u>\$505,869</u>	<u>\$466,691</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$124,528	\$124,528	\$124,528	
Resources (Inflows):				
Special Assessments	4,700	4,700	4,940	240
Licenses and Permits	500	500	405	(95)
Intergovernmental	735,000	735,000	615,452	(119,548)
Interest on Investments	500	500	1,085	585
Miscellaneous Receipts	1,000	1,000	7,935	6,935
Other Financing Sources	100	100	5,875	5,775
Transfers In	286,914	286,914	250,000	(36,914)
Amounts Available for Appropriation:	1,153,242	1,153,242	1,010,220	(143,022)
Charges to Appropriations (Outflows):				
Public Works	631,090	633,590	575,695	57,895
Capital Outlay	510,770	510,770	344,983	165,787
Total Charges to Appropriations:	1,141,860	1,144,360	920,678	223,682
Ending Budgetary Balance:	<u>\$11,382</u>	<u>\$8,882</u>	<u>\$89,542</u>	<u>\$80,660</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2004**

Basis of Accounting

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

Budgetary Process

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

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

Estimated Resources – Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures/expenses from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about January 1, the certificate is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during 2004.

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

Budgeted Level of Expenditure/Expense – Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures/expenses plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and object levels, which include personal services, materials and supplies, contractual services, other expenditures/expenses, capital outlay and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2004
(Continued)**

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

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 17, 2005, wherein, we noted the City uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 17, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the City's management dated August 17, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and Members of Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 17, 2005

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004

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

FINDING NUMBER 2004-001

Noncompliance

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

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

To help provide the users with more meaningful financial statements, the City should prepare their financial statements according to generally accepted accounting principles.

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – The City did not prepare financial statements in accordance with (GAAP)	No	Repeated as finding 2004-001
2003-002	Article 5, Insurance and Indemnity, paragraph 5.01 of the "Ground Lease" – Payments of insurance premiums for the Hardin County Recreation Foundation	No	The matter was corrected for the second six months of the audit period Will repeat as a management letter comment



**Auditor of State
Betty Montgomery**

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Telephone 614-466-4514
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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 4, 2005**