



**Auditor of State
Betty Montgomery**

CITY OF KENTON
HARDIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets and Activities – Cash Basis.....	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances Governmental Funds	12
Statement of Cash Basis Net Assets and Cash Receipts, Cash Disbursements and Changes in Cash Basis Net Assets Enterprise Funds	13
Statement of Cash Basis Net Assets and Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Net Assets Agency Funds	14
Notes to the Basic Financial Statements.....	15
Required Supplementary Information	
Budgetary Comparison Schedule – Cash Basis - General Fund	33
Budgetary Comparison Schedule – Cash Basis - Street Fund	34
Budgetary Comparison Schedule – Cash Basis – Revolving Loan Fund	35
Notes to Budgetary Comparison Schedules	36
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Required By <i>Government Auditing Standards</i>	39
Schedule of Findings.....	41
Schedule of Prior Audit Findings	42

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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, 2005, 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 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 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, 2005, and the respective changes in 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 25, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis and the respective budgetary comparison for the General Fund, Street Fund, and Revolving Loan 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 25, 2006

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005**

The discussion and analysis of the City of Kenton's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 \$114,608 for the year, resulting in an increase in total net assets of 4.25 percent over the previous year. The increase is attributed to the City's operation of both its governmental and business-type activities.
- Construction was completed on the Pattison Avenue Storm Sewer Collections System Project – a joint ditch maintenance project between the City and Hardin County. The City had 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 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, Street, and Revolving Loan Funds Budgetary Comparison Schedules (starting on page 31 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").

Basis of Accounting

The City has elected to present its financial statements on the 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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

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.

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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

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. The City considers the General Fund, Street Fund, and Revolving Loan Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other governmental 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 as Business-type activities in the Statement of Net Assets and Activities. The City has two enterprise funds – the Water and Sewer Funds.

Fiduciary funds – These funds are often used to account for assets that are held in a trustee or fiduciary capacity such as the unclaimed money fund, municipal court fund, and similar arrangements. The City's only fiduciary funds are agency funds.

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 \$2,695,779 to \$2,810,387 between fiscal years 2004 and 2005. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had an increase of approximately \$47,099 and business-type activities had an increase of approximately \$67,509 in net assets between 2004 and 2005. The increase in net assets was primarily due to the City reducing capital expenditures from 2005.

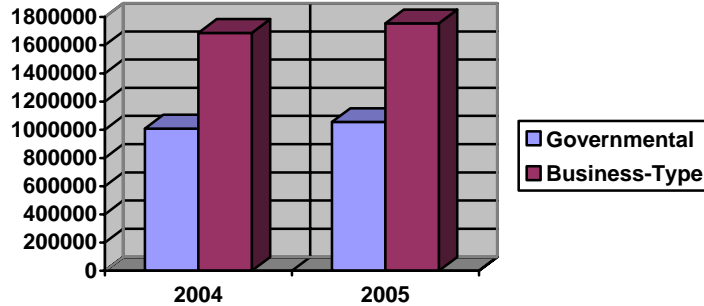
	Governmental Activities		Business-Type Activities		Totals	
	2004	2005	2004	2005	2004	2005
Assets						
Cash	\$1,008,124	\$1,055,223	\$1,687,655	\$1,755,164	\$2,695,779	\$2,810,387
Total Assets	1,008,124	1,055,223	1,687,655	1,755,164	2,695,779	2,810,387
Net Assets						
Restricted:						
Pension Obligations	9,959	16,132			9,959	16,132
Revolving Loans	151,367	173,714			151,367	173,714
Customer Deposits			88,490	80,875	88,490	80,875
Other Purposes	340,929	301,960			340,929	301,960
Unrestricted:	505,869	563,417	1,599,165	1,674,289	2,105,034	2,237,706
Total Net Assets	\$1,008,124	\$1,055,223	\$1,687,655	\$1,755,164	\$2,695,779	\$2,810,387

Net assets of the City's governmental activities increased 4.76 percent to \$1,055,223 primarily due to reductions in expenses. However, \$491,806 of those net assets is restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed only \$563,417 at the end of this year.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

Net Assets – Cash Basis



Changes from 2004 to 2005 reflect a net change of 4.25 percent in total activities with an increase of 4.67 percent for governmental activities and an increase of 4% for business-type activities.

Changes in Net Assets – Cash Basis

For the year ended December 31, 2005, net assets of the primary government changed as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2004	2005	2004	2005	2004	2005
Revenues						
Program Revenues						
Charges for Services	\$508,027	\$535,729	\$3,337,343	\$3,303,055	\$3,845,370	\$3,838,784
Operating Grants & Contributions	375,476	363,468			375,476	363,468
Capital Grants	709,864	169,317			709,864	169,317
General Revenues						
Property Taxes	409,270	410,888			409,270	410,888
Income Taxes	2,358,829	2,388,377			2,358,829	2,388,377
Other Taxes	27,414				27,414	
Grants or Contributions Net						
Restricted to Specific Programs	373,639	507,139			373,639	507,139
Interest Income	36,571	94,991			36,571	94,991
Miscellaneous	52,335	132,269	98,530	91,577	150,865	223,846
Sale of Capital Assets						
Loan Proceeds			400,000	300,000	400,000	300,000
Special Assessments						
Total Revenues	<u>4,851,425</u>	<u>4,602,178</u>	<u>3,835,873</u>	<u>3,694,632</u>	<u>8,687,298</u>	<u>8,296,810</u>
Expenses						
General Government	1,676,729	1,266,279			1,676,729	1,266,279
Public Safety	2,094,583	2,147,902			2,094,583	2,147,902
Streets and Public Works	975,685	720,933			975,685	720,933
Health and Welfare	76,500	76,500			76,500	76,500
Economic Development		88,538				88,538
Culture and Recreation	178,799	164,622			178,799	164,622
Intergovernmental Expenditures		90,305				90,305
Water			1,735,653	1,642,373	1,735,653	1,642,373
Sewer			1,912,167	1,984,750	1,912,167	1,984,750
Total Expenses	<u>5,002,296</u>	<u>4,555,079</u>	<u>3,647,820</u>	<u>3,627,123</u>	<u>8,650,116</u>	<u>8,182,202</u>
Increase/(Decrease) in Net Assets	<u>(\$150,871)</u>	<u>\$47,099</u>	<u>\$188,053</u>	<u>\$67,509</u>	<u>\$37,182</u>	<u>\$114,608</u>

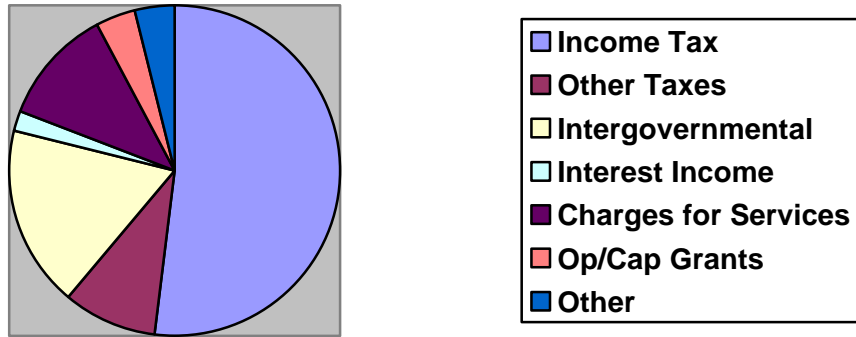
**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

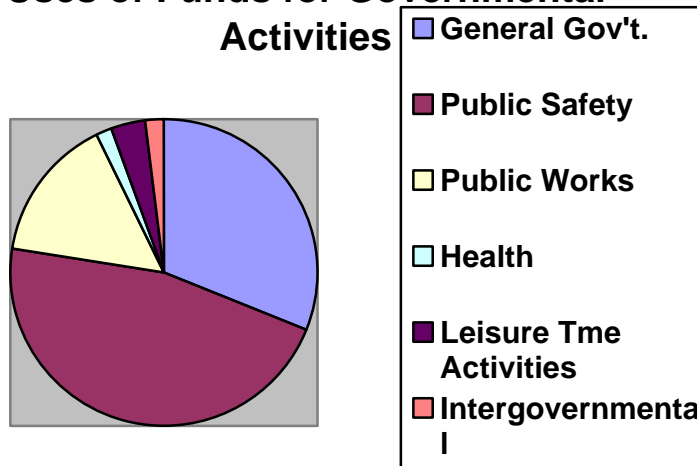
Governmental Activities

To aid in the understanding of the Statement of Net Assets and Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenditures and Changes in Fund Balance. You will notice that expenditures are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expenditure)/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, 2005, total expenses for governmental activities, resulting from cash basis transactions, amounted to \$4,555,079. Of those total expenses, taxpayers and other general revenues funded \$3,486,565, while those directly benefiting from the program funded only \$532,785 from grants and other contributions and \$535,729 from charges for services.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

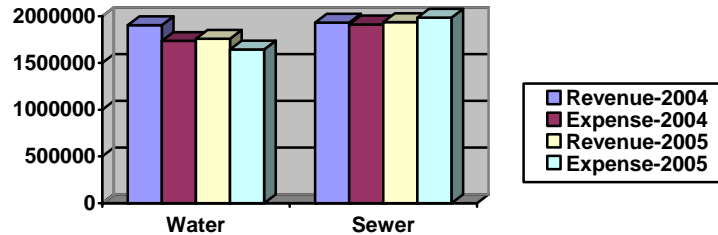
Net Cost of City of Kenton's Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2004	2005	% Change	2004	2005	% Change
General Government	\$1,676,729	\$1,266,279	-24.48%	\$961,262	\$776,858	-19.18%
Public Safety	2,094,583	2,147,902	2.55%	2,048,892	2,147,902	4.83%
Public Works	975,685	720,933	-26.11%	211,672	232,435	9.81%
Health	76,500	76,500	0.00%	76,500	76,500	0.00%
Economic Development	0	88,538	100.00%		88,538	100.00%
Leisure Time Activities	178,799	164,622	-7.93%	110,603	74,027	-33.07%
Intergovernmental	0	90,305	100.00%	0	90,305	100.00%
Totals	\$5,002,296	\$4,555,079	-8.94%	\$3,408,929	\$3,486,565	2.28%

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 \$67,509 for 2005. Water had net revenue of \$116,068 which included reducing \$100,000 of debt. Sewer had net disbursements in excess of revenue (loss) of \$48,559.

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 \$1,055,223, which is \$47,099 more than the year before. An increase of \$57,548 in the City's general fund made up a significant part of this gain. The primary reasons for the general fund's gain 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 \$22,347 from payments made as scheduled in addition to a partial collection of a loan placed on non-accrual status during the year.

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 2004).
- 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, 2005 General Fund expenditures were \$171,219 below final appropriations while actual resources available for appropriations were \$204,458 above the final budgeted amount.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2005
(Continued)**

Debt Administration

Long-Term Debt

At year-end the City had \$13.1 million in long-term debt outstanding – a decrease of 7.3 percent from last year. Governmental activities accounted for \$1,181,456 and \$11,952,435 were related to business-type activities.

General obligations under governmental activities have been restated for the year 2004 as a result of an adjustment in the OPWC liability from the Pattison Ditch Issue II project. The actual cost of the project was less than anticipated, therefore the City's liability for a 0% loan was actually \$13,880 instead of the \$95,506 originally stated. (See table below.)

City of Kenton Long-Term Debt						
	Governmental Activities		Business-Type Activities		Totals	
	2004	2005	2004	2005	2004	2005
Capital Leases	\$287,912	\$254,044			\$287,912	\$254,044
Bond Obligations	1,070,000	880,000	\$120,000	\$80,000	1,190,000	960,000
OPWC Loans	56,880	47,412	106,039	100,148	162,919	147,560
OWDA Loans			12,493,135	11,772,287	12,493,135	11,772,287
Totals	\$1,414,792	\$1,181,456	\$12,719,174	\$11,952,435	\$14,133,966	\$13,133,891

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2006, the City's budget is fairly consistent with this year. The 2006 original appropriations budget is more than the original 2005 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 - CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

	Cash Disbursements	Program Cash Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	(\$1,266,279)	\$442,480		\$46,941
Public Safety	(2,147,902)			
Public Works	(720,933)	2,654	363,468	122,376
Health	(76,500)			
Economic Development	(88,538)			
Leisure Time Activities	(164,622)	90,595		
Intergovernmental Expenditures	(90,305)			
Total Governmental Activities	(4,555,079)	535,729	363,468	169,317
Business-Type Activities:				
Waterworks	(1,642,373)	1,416,364		
Sewer	(1,984,750)	1,886,691		
Total Business-Type Activities	(3,627,123)	3,303,055		
Total Activity	(\$8,182,202)	\$3,838,784	\$363,468	\$169,317

General Receipts:

Taxes

Property taxes for:

General purposes

Police pension

Fireman's pension

Grove Cemetery

Income

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

Equity in Pooled Cash and Cash Equivalents

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
(\$776,858)		(\$776,858)
(2,147,902)		(2,147,902)
(232,435)		(232,435)
(76,500)		(76,500)
(88,538)		(88,538)
(74,027)		(74,027)
(90,305)		(90,305)
<u>(3,486,565)</u>		<u>(3,486,565)</u>
	(226,009)	(226,009)
	(98,059)	(98,059)
	<u>(324,068)</u>	<u>(324,068)</u>
<u>(3,486,565)</u>	<u>(324,068)</u>	<u>(3,810,633)</u>
267,078		267,078
30,816		30,816
30,816		30,816
82,178		82,178
2,388,377		2,388,377
507,139		507,139
94,991		94,991
	300,000	300,000
132,269	91,577	223,846
<u>3,533,664</u>	<u>391,577</u>	<u>3,925,241</u>
47,099	67,509	114,608
<u>1,008,124</u>	<u>1,687,655</u>	<u>2,695,779</u>
<u>1,055,223</u>	<u>1,755,164</u>	<u>2,810,387</u>
<u>\$1,055,223</u>	<u>\$1,755,164</u>	<u>\$2,810,387</u>
16,132		16,132
173,714		173,714
	80,875	80,875
301,960		301,960
563,417	1,674,289	2,237,706
<u>\$1,055,223</u>	<u>\$1,755,164</u>	<u>\$2,810,387</u>

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:					
Taxes	\$2,685,224			\$143,810	\$2,829,034
Charges for Services	61,030			90,595	151,625
Licenses and Permits	41,728	1,125			42,853
Fines and Forfeitures	306,411			58,386	364,797
Intergovernmental	419,103	310,564		254,288	983,955
Special Assessments		2,654			2,654
Interest on Investments	86,333	2,885	4,852	921	94,991
Miscellaneous Receipts	57,170	33,252	41,612	7,500	139,534
Total Cash Receipts	3,656,999	350,480	46,464	555,500	4,609,443
Cash Disbursements:					
General Government					
Legislative and Executive	611,757				611,757
Judicial	330,644			43,326	373,970
Public Safety	2,008,218			63,124	2,071,342
Public Works		547,723		169,771	717,494
Health	76,500				76,500
Economic Development	3,334		24,117	68,587	96,038
Leisure Time Activities				164,249	164,249
Intergovernmental Expenditures				90,305	90,305
Capital Outlay	65,485	3,439		39,012	107,936
Debt Service:					
Bond Principal Payment				190,000	190,000
Note Principal Payment				9,468	9,468
Interest and Fiscal Charges				53,520	53,520
Total Cash Disbursements	3,095,938	551,162	24,117	891,362	4,562,579
Receipts Over/(Under) Disbursements	561,061	(200,682)	22,347	(335,862)	46,864
Other Financing Sources/(Uses)					
Operating Transfers - In		175,000		328,748	503,748
Operating Transfers - (Out)	(503,748)				(503,748)
Other Financing Sources	235				235
Total Other Financing Sources/(Uses)	(503,513)	175,000		328,748	235
Cash Receipts and Other Financing Sources Sources Over/(Under) Cash Disbursements and Other Financing Uses	57,548	(25,682)	22,347	(7,114)	47,099
Fund Balances - Beginning of Year	505,869	89,542	151,367	261,346	1,008,124
Fund Balances - End of Year	\$563,417	\$63,860	\$173,714	\$254,232	\$1,055,223
Assets					
Equity in Pooled Cash and Cash Equivalents	\$563,417	\$63,860	\$173,714	\$254,232	\$1,055,223
Fund Balances					
Reserved for Encumbrances	88,870	4,891	777	10,358	104,896
Unreserved	474,547	58,969	172,937	243,874	950,327
Total Fund Balances	\$563,417	\$63,860	\$173,714	\$254,232	\$1,055,223

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS FUND NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND NET ASSETS
ENTERPRISE FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water Fund	Sewer Fund	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$1,416,364	\$1,886,691	\$3,303,055
Other Operating Revenues	370	49,440	49,810
Total Operating Cash Receipts	1,416,734	1,936,131	3,352,865
Operating Cash Disbursements:			
Personnel Services	644,781	522,682	1,167,463
Contract Services	157,332	303,902	461,234
Materials and Supplies	344,663	112,200	456,863
Capital Outlay	33,040	6,156	39,196
Total Operating Cash Disbursements	1,179,816	944,940	2,124,756
Operating Income	236,918	991,191	1,228,109
Non-Operating Cash Receipts/(Disbursements)			
Bond Retirement		(40,000)	(40,000)
Note Proceeds	300,000		300,000
Note Retirement	(400,000)		(400,000)
Loan Retirement	(5,891)	(720,847)	(726,738)
Interest Expense	(6,981)	(278,556)	(285,537)
Other Non-Operating Receipts	41,707	60	41,767
Other Non-Operating Disbursements	(49,685)	(407)	(50,092)
Total Non-Operating Cash Receipts/(Disbursements)	(120,850)	(1,039,750)	(1,160,600)
Excess of Cash Receipts Over/(Under) Cash Disbursements	116,068	(48,559)	67,509
Net Assets - Beginning of Year	1,153,182	534,473	1,687,655
Net Assets - End of Year	\$1,269,250	\$485,914	\$1,755,164
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,269,250	\$485,914	\$1,755,164
Net Assets			
Unreserved	\$1,269,250	\$485,914	\$1,755,164

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS NET ASSETS AND, CASH RECEIPTS
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS NET ASSETS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Agency Funds</u>
Cash Receipts	\$963,521
Cash Disbursements	<u>972,549</u>
Changes in Net Assets	(9,028)
Net Assets - Beginning of Year	<u>57,097</u>
Net Assets - End of Year	<u><u>\$48,069</u></u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$48,069</u></u>
Net Assets	
Unrestricted	<u><u>\$48,069</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, 2005**

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

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 three jointly governed organizations and an insurance pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, BKP Ambulance District, and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 11 and 12 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 on an other comprehensive basis of accounting (OCBOA) formerly prescribed or permitted by the Auditor of State. 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). As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 three 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.

Revolving Loan Fund – The Revolving Loan Fund accounts for repayments of Community Development Block Grant (CDBG) revolving loans issued and issuance of new loans made from repayments of existing loans.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 services.

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 City's Fiduciary Funds are Agency Funds to account for unclaimed money and the activity of the Municipal Court. These Funds are not included in the City's government wide financial statements.

C. Cash and Investments

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

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

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

During 2005, the City invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2005. 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, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. For calendar year 2005, interest receipts amounted to \$94,991 in which \$86,333 was recorded in the General Fund (\$51,158 assigned from other funds); \$2,885 was recorded in the Street Fund, \$413 in the State Highway Fund, \$508 in the CDBG Fund and \$4,852 in the Revolving Loan Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. 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.

I. 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 8 and 9. Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest.

J. 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 expenditure/expense in the reimbursed fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. Fund Balance Reserves

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

3. CHANGE IN ACCOUNTING PRINCIPLE

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosure" which establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the City's financial statements.

4. 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook 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;

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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. Bond and other obligations of the State of Ohio or other local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);

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

Investments may only be made through specified dealers and institutions. 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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$299,355 of the City's bank balance of \$478,066 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

B. Investments

At December 31, 2005, the City invested \$2,556,196 in STAR Ohio with an average maturity of 39.41 days.

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the City Auditor from investing in anything other than as identified in the Ohio Revised Code.

STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. 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 appraisal was completed in 2005.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2005 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 \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. Real property 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 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, 2005 was 23% of true value for inventory and 25% of true value for machinery and equipment.

The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 55,427,030
Commercial/Industrial	26,752,090
Public Utilities	30,610
Tangible Personal	25,160,437
Public Utility Personal	3,747,940
Total	\$111,118,107

Real property taxes for tax year 2005 are payable annually or semi-annually. If paid annually, payment is due February 15, 2006. If paid semi-annually, the first payment is due February 15, 2006 with the remainder payable by July, 2006. 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 12, through a tax levy. The levy for the Cemetery is voted millage. During 2005, the Cemetery received \$90,305 in tax revenue, and related homestead and rollback revenue, from the residents of the City. This money is reported as tax revenue and intergovernmental expenditures on the financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. 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.

6. LEASES

A. Capital 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 final payments for the backhoe and skid loader were made in 2005. The debt associated with the fire truck will be paid back out of the General Fund.

During 2005, the City entered into a capital lease for 911 recorder equipment for five years. The lease payments will be made from the General Fund Police Department account.

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, 2005.

<u>Fiscal Year Ending December 31</u>	<u>Fire Truck</u>	<u>911 Recorder Equipment</u>	<u>Total Capital Leases</u>
2006	\$ 57,287	\$2,220	\$ 59,507
2007	57,287	2,220	59,507
2008	57,287	2,220	59,507
2009	57,287	2,220	59,507
2010	57,287	925	58,212
Total Minimum Lease Payments	<u>286,435</u>	<u>9,805</u>	<u>296,240</u>
Less: amount representing interest	<u>(40,524)</u>	<u>(1,672)</u>	<u>(42,196)</u>
Present Value of minimum lease payments	<u>\$245,911</u>	<u>\$8,133</u>	<u>\$254,044</u>

B. Operating Lease

The City leases land under a non-cancelable operating lease. The lease is for a term of ninety-nine years commencing on August 1, 2000, and ending on July 31, 2099, with lease payments being renegotiable after fifty (50) years. Lease payments for the first five years were \$6,000 per year and increase five percent for each subsequent five year period for the first 50 years. The lease payments are being paid from the Water Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

6. LEASES (Continued)

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

Fiscal Year Ending December 31	Operating Lease
2006	\$ 6,300
2007	6,300
2008	6,300
2009	6,300
2010	6,615
2011-2015	33,406
2016-2020	35,076
2021-2025	36,830
2026-2030	38,671
2031-2035	40,605
2036-2040	42,635
2041-2045	44,767
2046-2049	37,232
Total Minimum Lease Payments	\$341,037

7. SHORT TERM DEBT

The City's note transactions for the year ended December 31, 2005, were as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Water Treatment Plant Improvement Bond Anticipation Note	3.14%	\$400,000	\$300,000	\$400,000	\$300,000

According to Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. On June 17, 2005 the City renewed a bond anticipation note (sixth renewal) for \$300,000 due June 16, 2007 at 3.14 percent interest for water treatment plant improvements. The note will be retired from user charges in the water fund and will be reissued until paid in full or bonds are issued. The City renewed this note on June 16, 2006 for \$150,000 at 4.24 percent

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. LONG TERM DEBT

The City's long-term debt transactions for the year ended December 31, 2005, are summarized below:

	Debt Principal Outstanding 1/1/05	Debt (Leases) Issued in 2005	Debt Principal Retired in 2005	Debt Principal Outstanding 12/31/05
Governmental Activities				
General Obligation Issues:				
1999 Municipal Bldg. Bond	\$ 140,000		\$ 140,000	
1999 SW Pool Const Bond	930,000		50,000	\$ 880,000
Total G.O. Bonds	1,070,000		190,000	880,000
1999 OPWC Loan-Street	43,000		8,600	34,400
2003 OPWC Loan-Street	13,880		868	13,012
Total G.O. Loans	56,880		9,468	47,412
Capital Leases	287,912	\$8,995	42,863	254,044
Total Governmental Activity:	1,414,792	8,995	242,331	1,181,456
Business Type Activities				
Sewer Fund				
1987 Sewer Bonds	120,000		40,000	80,000
1996 OWDA Wastewater Improvement Loan	916,379		61,612	854,767
1998 OWDA Wastewater Improvement Loan	11,576,756		659,236	10,917,520
Total Sewer Fund Loans	12,493,135		720,848	11,772,287
Water Fund				
2003 OPWC Waterworks Loan	106,039		5,891	100,148
Total Business Type Activity	12,719,174		766,739	11,952,435
TOTAL DEBT	\$14,133,966	\$8,995	\$1,009,070	\$13,133,891

Outstanding general obligation bonds and loans 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.

1997 Sewer Bonds

On January 1, 1987 the City issued \$750,000 6 3/8 percent interest general obligation bonds for a sewer project. These bonds are being repaid with sewer fund revenue and will mature in 2007.

1996 Ohio Water Development Authority Loan (OWDA)

In 1996 the City began the first phase towards meeting the requirements of the Ohio Environmental Protection Agency regarding improvements needed at the Wastewater Treatment Plant with the design for the North Interceptor Sewer. Funding for the design and construction phase of this project came from a loan in the amount of \$1,307,587 at 2.2 percent interest for 20 years granted by the (OWDA). This loan will be repaid from user charges.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. LONG TERM DEBT (Continued)

1998 Ohio Water Development Authority Loan (OWDA)

During 1998 the City began the construction phase of the Wastewater Treatment Plant Expansion Project with funding for this project provided by an estimated \$14,665,000 loan at 2.2 percent interest for 20 years granted by the OWDA. Additional \$72,944 debt principal has not been disbursed to the City as of December 31, 2005. This loan will be repaid from user charges.

1999 Various Purpose Bonds

During 1999, the City issued various purpose bonds in the total amount of \$2,090,000 of which \$1,200,000 was used to retire bond anticipation notes issued for the construction of a municipal swimming pool, and \$890,000 to retire outstanding bonds for the municipal building. The bonds have stated interest rates between 3.3 and 5.4 percent with the \$890,000 refunding portion of the bonds maturing in 2005 and the municipal swimming pool portion maturing in 2018.

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

<u>Year</u>	<u>Principal Amount</u>
2013	\$75,000
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 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%

1999 Ohio Public Works Commission Loan (OPWC)

In 1999, the City obtained a 0% interest 10 year loan in the amount of \$86,000 from the Ohio Public Works Commission (OPWC) for the West Franklin Street Reconstruction project. This loan matures on January 1, 2010 and is a general obligation of the City.

2003 Ohio Public Works Commission Loan (OPWC)

During 2003, the City obtained a 0% interest 20 year loan in the amount of \$117,821 from the OPWC for the water treatment plant and water system improvements projects. This loan will mature on January 1, 2023 and will be retired utilizing utility charges.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. LONG TERM DEBT (Continued)

2003 Ohio Public Works Commission Loan (OPWC)

During 2003, the City obtained a 0% interest 8 year loan from the OPWC for the Pattison Avenue Storm Sewer Collections System project – a joint ditch maintenance project between the City and Hardin County. Initially this loan was approved in the amount of \$95,506, however the actual project cost was less than originally anticipated, so the final loan amount was \$13,880. This debt is a general obligation of the City and loan repayments from the debt service funds began during 2005. This loan matures on July 1, 2113.

The annual requirements to amortize all long term debt outstanding as of December 31, 2005, including interest payments of \$2,284,731 are as follows:

	<u>G.O. Bonds</u>	<u>Capital Leases</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2006	\$ 140,260	\$ 59,507	\$ 991,753	\$ 16,226	\$ 1,207,746
2007	140,460	59,507	991,753	16,226	1,207,946
2008	95,380	59,507	991,753	16,226	1,162,866
2009	92,795	59,507	991,753	16,226	1,160,281
2010	95,155	58,212	991,753	7,626	1,152,746
2011-2015	476,520		4,958,767	33,793	5,469,080
2016-2020	274,575		3,804,145	29,455	4,108,175
2021-2022				11,782	11,782
Total	1,315,145	296,240	13,721,677	147,560	15,480,622
Less Interest	(355,145)	(42,196)	(1,949,390)		(2,346,731)
Principal	\$ 960,000	\$254,044	\$11,772,287	\$147,560	\$13,133,891

9. PENSION OBLIGATIONS

A. Ohio Public Employees Retirement System (OPERS)

The City of Kenton participates in the Ohio Public Employees Retirement System (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, OPERS invests employer contributions 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

9. PENSION OBLIGATIONS (Continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, 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 2005 was 8.5% for members in state and local classifications. The 2005 employer contribution rate for local government employers was 13.55% of covered payroll, 9.55% for pension obligations. The City's contributions for pension obligations to OPERS for the years ended December 31, 2005, 2004 and 2003 were \$147,785, \$145,406, and \$126,059, respectively; 100% has been contributed for all three years.

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 information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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, 11.75% and 16.25% respectively for pension obligations. The City's contributions to OP&F were \$72,913 and \$85,473 for the year ended December 31, 2005, \$70,069 and \$80,170 for the year ended December 31, 2004 and \$83,342 and \$77,256 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. Approximately 77% has been contributed for 2005. The unpaid contributions for 2005 are \$28,714 and \$31,057, respectively.

10. POST-EMPLOYMENT 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 post-employment 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 meets the definition of an Other Post-employment 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. In 2005, local government employer units contributed at 13.55% of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.00 percent. 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, 2005
(Continued)**

10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, 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 costs 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% of unrealized market appreciation or depreciation on investment assets annually.

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund other post-employment benefits were \$61,898.

The amount of \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004 (the latest information available). The Actuarial Valuation as of December 31, 2004, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB, based on actuarial cost method used, at \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides access to post retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. 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 two-thirds 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 that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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. The portion to fund post-employment benefits was 7.75%. The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters. The City's actual contributions for 2005 that were used to fund post employment benefits were \$48,039 for police and \$40,775 for firefighters. OP&F's total health care expense for the year ended December 31, 2004, (the date of the last actuarial valuation available), was \$102,173,796, which was net of member contributions of \$55,665,341.

11. RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees. The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. 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, including claim 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 \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

11. RISK MANAGEMENT (Continued)

The aggregate stop-loss limit for 2005 was \$1,682,589.

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 township.

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

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	(1,068,245)	(540,073)
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The City's share of these unpaid claims is approximately \$281,512.

12. JOINTLY GOVERNED ORGANIZATIONS

Grove Cemetery Association

The Grove Cemetery Association (the "Association") is a jointly-governed organization consisting of Buck, Pleasant, and Goshen Townships in Hardin County, and the City of Kenton. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board.

Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk/Treasurer, Joe Cook, at P.O. Box 153, Kenton, Ohio 43326.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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. Financial information can be obtained from Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326.

BKP Ambulance District

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

13. 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 damages 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. This case is scheduled for mediation on September 27, 2006. The City's exposure, if any, is uncertain.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. SUBSEQUENT EVENTS

On July 1, 2005, the City entered into a loan agreement with the Ohio Public Works Commission to fund the storm water collection system improvement project. This money was received during 2006 and the first payment will be due on July 1, 2007.

On March 13, 2006, the City issued a \$90,000 bond to help pay the costs of a street sweeper.

On April 10, 2006, the City issued a \$300,000 bond anticipation note for the radio read water meter conversion project.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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:	\$505,869	\$505,869	\$505,869	
Resources (Inflows):				
Taxes	2,704,887	2,704,887	2,675,065	(29,822)
Charges for Services	60,800	60,800	61,030	230
Licenses and Permits	40,750	40,750	41,728	978
Fines and Forfeitures	297,500	297,500	306,411	8,911
Intergovernmental	310,839	310,839	429,262	118,423
Interest on Investments	27,500	27,500	86,333	58,833
Miscellaneous Receipts	10,000	10,000	43,290	33,290
Other Financing Sources	500	500	14,115	13,615
	<u>3,452,776</u>	<u>3,452,776</u>	<u>3,657,234</u>	<u>204,458</u>
Total Resources				
Amounts Available for Appropriation:	3,958,645	3,958,645	4,163,103	204,458
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	609,393	688,948	626,092	62,856
Judicial	387,947	378,212	332,207	46,005
Public Safety	2,078,232	2,115,053	2,081,190	33,863
Health	76,500	76,500	76,500	
Economic Development	3,500	3,500	3,334	166
Capital Outlay	72,924	74,398	65,485	8,913
Other Financing Uses				
Transfers Out	526,164	523,164	503,748	19,416
	<u>3,754,660</u>	<u>3,859,775</u>	<u>3,688,556</u>	<u>171,219</u>
Total Charges to Appropriations:				
Ending Budgetary Balance:	<u>\$203,985</u>	<u>\$98,870</u>	<u>\$474,547</u>	<u>\$375,677</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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:	\$89,542	\$89,542	\$89,542	
Resources (Inflows):				
Special Assessments	2,266	2,266	2,654	388
Licenses and Permits	1,000	1,000	1,125	125
Intergovernmental	303,000	303,000	310,564	7,564
Interest on Investments	500	500	2,885	2,385
Miscellaneous Receipts	5,000	16,552	33,252	16,700
Other Financing Sources	1,000	1,000		(1,000)
Transfers In	180,644	186,344	175,000	(11,344)
Total Resources	<u>493,410</u>	<u>510,662</u>	<u>525,480</u>	
Amounts Available for Appropriation:	582,952	600,204	615,022	14,818
Charges to Appropriations (Outflows):				
Public Works	562,114	594,506	552,614	41,892
Capital Outlay	5,000	3,900	3,439	461
Total Charges to Appropriations:	<u>567,114</u>	<u>598,406</u>	<u>556,053</u>	<u>42,353</u>
Ending Budgetary Balance:	<u>\$15,838</u>	<u>\$1,798</u>	<u>\$58,969</u>	<u>\$57,171</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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:	\$151,367	\$151,367	\$151,367	
Resources (Inflows):				
Interest on Investments	500	500	4,852	4,352
Miscellaneous Receipts	20,295	20,295	41,612	21,317
Total Resources	<u>20,795</u>	<u>20,795</u>	<u>46,464</u>	
Amounts Available for Appropriation:	172,162	172,162	197,831	25,669
Charges to Appropriations (Outflows):				
Economic Development	8,700	23,478	17,394	6,084
Transfer Out	12,000	7,500	7,500	
Total Charges to Appropriations:	<u>20,700</u>	<u>30,978</u>	<u>24,894</u>	<u>6,084</u>
Ending Budgetary Balance:	<u>\$151,462</u>	<u>\$141,184</u>	<u>\$172,937</u>	<u>\$31,753</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2005**

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.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2005
(Continued)**

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 25, 2006, 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 25, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 2005-001. In a separate letter to the City's management dated August 26, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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 25, 2006

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

OFFICIALS' RESPONSE

We did not receive a response from Officials to this finding.

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	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 2005-001



**Auditor of State
Betty Montgomery**

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CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 5, 2006**