



Mary Taylor, CPA
Auditor of State

**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 As of and for the Year Ended December 31, 2009	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 – As of and for the Year Ended December 31, 2009	12
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, 2009	13
Statement of Cash Basis Net Assets and Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Net Assets Agency Funds – As of and for the Year Ended December 31, 2009	14
Notes to the Basic Financial Statements.....	15
Required Supplementary Information	
Budgetary Comparison Schedule – Cash Basis - General Fund – For the Year Ended December 31, 2009	35
Budgetary Comparison Schedule – Cash Basis - Street Fund – For the Year Ended December 31, 2009	36
Budgetary Comparison Schedule – Cash Basis – Revolving Loan Fund – For the Year Ended December 31, 2009	37
Notes to the Required Supplementary Information	39
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings	44

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, we cannot determine 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 of Kenton, Hardin County, as of December 31, 2009, 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 May 6, 2010, 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.

Management's discussion and analysis and the respective budgetary comparisons 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, consisting principally of inquiries of management regarding the methods of measuring and presenting 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 6, 2010

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

This discussion and analysis of the City of Kenton's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009, within the limitations of the City's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Highlights

Key highlights for 2009 are as follows:

- Net assets of governmental activities decreased \$403,869, or 30.3 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of decreased revenue in 2009; however decreased revenues affected most funds. The City's general receipts are primarily property and income taxes. These receipts represent respectively 7.5 and 49.8 percent of the total cash received for governmental activities during the year. Income tax receipts for 2009 were 9% less than 2008 as unemployment rates have risen in the area.
- Net assets of the City's business-type activities increased \$10,994, or 0.7 percent for a break-even year.
- Work on the joint highway improvement project with the Ohio Department of Transportation (ODOT) involving the five state routes that converge inside the City limits was completed in the fall of 2009. The financial accounting for the project was not yet completed at year end.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

Reporting the City as a Whole

The statement of net assets and the statement of activities reflect how the City did financially during 2009, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

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

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

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

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

Reporting the City's Most Significant Funds

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

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

The City as a Whole

The table below provides a summary of the City's net assets for 2009 compared to 2008 on a cash basis.

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Assets:						
Cash	\$930,685	\$1,334,554	\$1,555,270	\$1,544,276	\$2,485,955	\$2,878,830
Total Assets	<u>930,685</u>	<u>1,334,554</u>	<u>1,555,270</u>	<u>1,544,276</u>	<u>2,485,955</u>	<u>2,878,830</u>
Net Assets:						
Restricted:						
Pension Obligations	8,374	6,442			8,374	6,442
Revolving Loans	133,26	129,947			133,216	129,947
Customer Deposits			95,690	91,060	95,690	91,060
Other Purposes	431,206	418,697			431,206	418,697
Unrestricted:	<u>357,889</u>	<u>779,468</u>	<u>1,459,580</u>	<u>1,453,216</u>	<u>1,817,469</u>	<u>2,232,684</u>
Total Net Assets	<u>\$930,685</u>	<u>\$1,334,554</u>	<u>\$1,555,270</u>	<u>\$1,544,276</u>	<u>\$2,485,955</u>	<u>\$2,878,830</u>

As mentioned previously, net assets of governmental activities decreased \$403,869 or 30.3 percent during 2009. The primary reasons contributing to the decreases in cash balances are as follows:

- Income tax collections were 9.1 percent less in 2009 compared to 2008 as a result of increased unemployment in the area.
- Fines and costs collected by the Hardin County Municipal Court and distributed to the City's General Fund were 18.5 percent less in 2009 compared to 2008.
- Interest income received by the City for its investments in 2009 totaled only \$8,534 as compared to \$67,708 received for 2008.
- Total cash disbursements in the governmental funds were less than 2008, but still exceeded cash receipts.

The next table reflects the changes in net assets on a cash basis in 2009 and 2008 for governmental activities, business-type activities and total primary government.

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Receipts:						
Program Receipts:						
Charges for Services	\$ 598,142	\$ 690,525	\$3,212,155	\$3,546,254	\$3,810,297	\$4,236,779
Operating Grants & Contributions	349,174	404,396			349,174	404,396
Capital Grants & Contributions	190,810	528,649			190,810	528,649
Total Program Receipts	<u>1,138,126</u>	<u>1,623,570</u>	<u>3,212,155</u>	<u>3,546,254</u>	<u>4,350,281</u>	<u>5,169,824</u>

(Continued)

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

**Changes in Net Assets
(Continued)**

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Receipts:						
General Receipts:						
Property Taxes	351,008	387,829			351,008	387,829
Income Taxes	2,319,491	2,551,533			2,319,491	2,551,533
Grants or Contributions Net						
Restricted to Specific Programs	452,950	481,543			452,950	481,543
Interest Income	8,534	67,708			8,534	67,708
Miscellaneous	23,742	44,153	99,013	88,326	122,755	132,479
Debt Proceeds	367,714			277,500	367,714	277,500
Total General Receipts	<u>3,523,439</u>	<u>3,532,766</u>	<u>99,013</u>	<u>365,826</u>	<u>3,622,452</u>	<u>3,898,592</u>
Total Receipts	4,661,565	5,156,336	3,311,168	3,912,080	7,972,733	9,068,416
Disbursements:						
General Government	1,222,620	1,215,200			1,222,620	1,215,200
Public Safety	2,424,214	2,373,418			2,424,214	2,373,418
Streets and Public Works	987,028	1,344,071			987,028	1,344,071
Health Services	77,500	75,000			77,500	75,000
Economic Development	137,208	46,587			137,208	46,587
Leisure-time Activities	125,424	134,023			125,424	134,023
Intergovernmental Expense	91,440	96,385			91,440	96,385
Water			1,354,065	1,298,577	1,354,065	1,298,577
Sewer			1,946,109	2,250,889	1,946,109	2,250,889
Total Disbursements	<u>5,065,434</u>	<u>5,284,684</u>	<u>3,300,174</u>	<u>3,549,466</u>	<u>8,365,608</u>	<u>8,834,150</u>
Increase/(Decrease) in Net Assets	<u>(403,869)</u>	<u>(128,348)</u>	<u>10,994</u>	<u>362,614</u>	<u>(392,875)</u>	<u>234,266</u>
Net Assets, January 1, 2009	<u>1,334,554</u>	<u>1,462,902</u>	<u>1,544,276</u>	<u>1,181,662</u>	<u>2,878,830</u>	<u>2,644,564</u>
Net Assets, December 31, 2009	<u>\$930,685</u>	<u>\$1,334,554</u>	<u>\$1,555,270</u>	<u>\$1,544,276</u>	<u>\$2,485,955</u>	<u>\$2,878,830</u>

Program receipts for Governmental and Business activities represent 54.6 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and charges for services to water and sewer customers.

General receipts of the Governmental and Business type activities represent 45.4 percent of the City's total receipts, and of this amount, 73.7 percent are local taxes. State and federal grants and entitlements make up the balance of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

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

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

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for streets and public safety, which account for 19.5 and 47.9 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 24 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in the following table.

	Governmental Activities			
	2009		2008	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$1,222,620	\$ 684,095	\$1,215,200	\$585,772
Public Safety	2,424,214	2,422,854	2,373,418	2,372,158
Public Works	987,028	590,674	1,344,071	411,386
Health Services	77,500	77,500	75,000	75,000
Economic Development	137,208	(5,632)	46,587	46,587
Leisure Time Activities	125,424	66,377	134,023	73,826
Intergovernmental	91,440	91,440	96,385	96,385
Totals	\$5,065,434	\$3,927,308	\$5,284,684	\$3,661,114

The dependence upon property and income tax receipts is apparent as these receipts provide support for 52.7 percent of governmental activities.

Business-Type Activities

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

The City's Funds

Total governmental funds had receipts of \$4,292,101 and disbursements of \$5,065,434. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$421,578 as a result of the increased costs for salaries and benefits and not achieving anticipated collections in income tax receipts, court fines and costs and interest income. General Fund receipts being less than disbursements indicates the General Fund is in a deficit spending situation. Administration and department heads were very careful with their spending the second half of 2009, making several adjustments. These adjustments will not eliminate the need for additional funds (or additional cuts) in the future if the collections of property and income taxes remains stagnant.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

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

During 2009, the City amended its General Fund budget several times to reflect changing circumstances. The difference between final budgeted receipts and actual receipts reflects the unexpected decline in tax receipts and reduced collection of court fines and costs and interest income.

Final disbursements were budgeted at \$4,354,240 while actual disbursements were \$3,937.630 (includes encumbrances) – a difference of \$416,610 and a reflection of the careful spending by administration and department heads.

Capital Assets

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

Long-Term Debt

At year-end the City had \$9,965,575 in long-term debt outstanding – a decrease of 8.96 percent from last year. Governmental activities accounted for \$895,502 and business-type activities accounted for the remaining \$9,070,071 of long-term debt. For further information regarding the City's debt, refer to Note 11 to the basic financial statements.

City of Kenton Long-Term Debt

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Capital Leases	\$ 92,085	\$ 162,780			\$ 92,085	\$ 162,780
Bond Obligations	683,000	747,000	\$ 267,750	\$ 304,500	950,750	1,051,500
OPWC Loans	488,131	137,682	76,584	82,475	564,715	220,157
OWDA Loans			8,725,737	9,512,504	8,725,737	9,512,504
Totals	\$1,263,216	\$1,047,462	\$9,070,071	\$9,899,479	\$10,333,287	\$10,946,941

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. Our newly prepared 2010 budget had predicted a deficit. The Finance Committee and administration working together with department heads, made the following adjustments to bring the 2010 budget into balance: rescinding the reciprocity credit (City income tax) for residents working in other municipalities; personnel lay-offs and mandatory furloughs; and reduced funding for some City services in the Street and Recreation departments.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED
(Continued)**

Contacting the City's Financial Management

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

	Cash	Program Cash Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Services	and Contributions	and Contributions
Governmental Activities:				
General Government	(\$1,222,620)	\$538,525		
Public Safety	(2,424,214)			\$1,360
Public Works	(987,028)	570	\$349,174	46,610
Health	(77,500)			
Economic Development	(137,208)			142,840
Leisure Time Activities	(125,424)	59,047		
Intergovernmental Expenditures	(91,440)			
Total Government Activities	(5,065,434)	598,142	349,174	190,810
Business-Type Activities:				
Waterworks	(1,354,065)	1,283,011		
Sewer	(1,946,109)	1,929,144		
Total Business-Type Activities	(3,300,174)	3,212,155		
Total Activity	(\$8,365,608)	\$3,810,297	\$349,174	\$190,810

General Receipts:

Taxes

Property Taxes For:

General Purposes

Police Pension

Fire Pension

Grove Cemetery

Income

Grants or Contributions Not Restricted to Specific Programs

Investment Income

Debt Proceeds

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 Loan

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
(\$684,095)		(\$684,095)
(2,422,854)		(2,422,854)
(590,674)		(590,674)
(77,500)		(77,500)
5,632		5,632
(66,377)		(66,377)
(91,440)		(91,440)
<u>(3,927,308)</u>		<u>(3,927,308)</u>
	(\$71,054)	(71,054)
	<u>(16,965)</u>	<u>(16,965)</u>
	<u>(88,019)</u>	<u>(88,019)</u>
<u>(3,927,308)</u>	<u>(88,019)</u>	<u>(4,015,327)</u>
232,905		232,905
26,874		26,874
26,874		26,874
64,355		64,355
2,319,491		2,319,491
452,950		452,950
8,534		8,534
367,714		367,714
23,742	99,013	122,755
<u>3,523,439</u>	<u>99,013</u>	<u>3,622,452</u>
(403,869)	10,994	(392,875)
<u>1,334,554</u>	<u>1,544,276</u>	<u>2,878,830</u>
<u>930,685</u>	<u>1,555,270</u>	<u>2,485,955</u>
930,685	1,555,270	2,485,955
8,374		8,374
133,216		133,216
	95,690	95,690
431,206		431,206
357,889	1,459,580	1,817,469
<u>\$930,685</u>	<u>\$1,555,270</u>	<u>\$2,485,955</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, 2009**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
Cash Receipts:					
Property and Other Taxes	\$253,364			\$118,103	\$371,467
Income Taxes	2,319,491				2,319,491
Charges for Services	66,292			59,048	125,340
Licenses and Permits	46,773	\$570			47,343
Fines and Forfeitures	330,640			58,881	389,521
Intergovernmental	383,836	311,485		313,092	1,008,413
Interest on Investments	7,757	232	\$420	125	8,534
Miscellaneous Receipts	9,247	7,003	3,742	2,000	21,992
Total Cash Receipts	<u>3,417,400</u>	<u>319,290</u>	<u>4,162</u>	<u>551,249</u>	<u>4,292,101</u>
Cash Disbursements:					
General Government:					
Legislative and Executive	607,269				607,269
Judicial	389,169			57,834	447,003
Public Safety	2,256,225			77,770	2,333,995
Public Works		520,833		446,100	966,933
Health	77,500				77,500
Economic Development	4,585		893	131,730	137,208
Leisure Time Activities				125,424	125,424
Intergovernmental Expenditures				91,440	91,440
Capital Outlay	88,551	20,095		49,986	158,632
Debt Service:					
Bond Principal Payment				64,000	64,000
Note Principal Payment				17,265	17,265
Interest and Fiscal Charges				38,765	38,765
Total Cash Disbursements	<u>3,423,299</u>	<u>540,928</u>	<u>893</u>	<u>1,100,314</u>	<u>5,065,434</u>
Receipts Over/(Under) Disbursements	(5,899)	(221,638)	3,269	(549,065)	(773,333)
Other Financing Sources/(Uses):					
Debt Proceeds				367,714	367,714
Operating Transfers - In		245,000		172,029	417,029
Operating Transfers - (Out)	(417,029)				(417,029)
Other Financing Sources	1,350			400	1,750
Total Other Financing Sources/(Uses)	<u>(415,679)</u>	<u>245,000</u>		<u>540,143</u>	<u>369,464</u>
Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing (Uses)	(421,578)	23,362	3,269	(8,922)	(403,869)
Fund Balances - Beginning of Year	<u>779,467</u>	<u>46,528</u>	<u>129,947</u>	<u>378,612</u>	<u>1,334,554</u>
Fund Balances - End of Year	<u>\$357,889</u>	<u>\$69,890</u>	<u>\$133,216</u>	<u>\$369,690</u>	<u>\$930,685</u>
Assets:					
Equity in Pooled Cash and Cash Equivalents	<u>\$357,889</u>	<u>\$69,890</u>	<u>\$133,216</u>	<u>\$369,690</u>	<u>\$930,685</u>
Fund Balances:					
Reserved for Encumbrances	97,302	2,651		121,012	220,965
Unreserved	260,587	67,239	133,216	248,678	709,720
Total Fund Balances	<u>\$357,889</u>	<u>\$69,890</u>	<u>\$133,216</u>	<u>\$369,690</u>	<u>\$930,685</u>

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, 2009**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals (Memorandum Only)</u>
Operating Receipts:			
Charges for Services	\$1,283,011	\$1,929,144	\$3,212,155
Other Operating Receipts	3,153	42,710	45,863
Total Operating Receipts	<u>1,286,164</u>	<u>1,971,854</u>	<u>3,258,018</u>
Operating Disbursements:			
Personnel Services	662,640	532,347	1,194,987
Contract Services	193,750	319,037	512,787
Materials and Supplies	378,973	52,738	431,711
Capital Outlay	66,064	1,696	67,760
Total Operating Disbursements	<u>1,301,427</u>	<u>905,818</u>	<u>2,207,245</u>
Operating Income	<u>(15,263)</u>	<u>1,066,036</u>	<u>1,050,773</u>
Non-Operating Receipts/(Disbursements):			
Bond Retirement		(36,750)	(36,750)
Bond/Note Proceeds			
Note Retirement			
Loan Retirement	(5,891)	(786,767)	(792,658)
Interest Expense		(216,351)	(216,351)
Other Non-Operating Receipts	52,150	1,000	53,150
Other Non-Operating (Disbursements)	<u>(46,747)</u>	<u>(423)</u>	<u>(47,170)</u>
Total Non-Operating Receipts/(Disbursements)	<u>(488)</u>	<u>(1,039,291)</u>	<u>(1,039,779)</u>
Receipts (Under) Disbursements	<u>(15,751)</u>	<u>26,745</u>	<u>10,994</u>
Total Net Assets - Beginning of Year	<u>1,443,590</u>	<u>100,686</u>	<u>1,544,276</u>
Total Net Assets - End of Year	<u><u>1,427,839</u></u>	<u><u>127,431</u></u>	<u><u>1,555,270</u></u>
Assets:			
Equity in Pooled Cash & Cash Equivalents	1,427,839	127,431	1,555,270
Net Assets:			
Unreserved	<u>1,427,839</u>	<u>127,431</u>	<u>1,555,270</u>
Total Net Assets	<u><u>\$1,427,839</u></u>	<u><u>\$127,431</u></u>	<u><u>\$1,555,270</u></u>

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

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF CASH BASIS NET ASSETS AND CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND NET ASSETS
AGENCY FUNDS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Receipts	\$1,074,602
Cash Disbursements	<u>1,093,548</u>
Changes in Net Assets	(18,946)
Net Assets - Beginning of Year	<u>103,566</u>
Net Assets - End of Year	<u><u>84,620</u></u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>84,620</u>
Net Assets:	
Unrestricted	<u><u>\$84,620</u></u>

The notes to 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, 2009**

1. REPORTING ENTITY

The City of Kenton (the City) is a home rule municipal corporation established under the laws of the State of Ohio. The City operates under the council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four year term. He is responsible for carrying out the policies and ordinances of council, for overseeing the day-to-day operations of the City and for appointing the Safety/Service Director, Income Tax Administrator and various boards and commissions.

The legislative authority is vested in a seven-member Council with a presiding President of Council, who are elected to two-year terms. In addition to establishing City policies, Council is responsible for passing ordinances and adopting the budget. Other elected officials consist of the auditor, treasurer and law director, who are elected to four-year terms.

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

A. Primary Government

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

B. Jointly Governed Organizations and Public Entity Risk Pools

The City participates in three jointly governed organizations and one public entity risk pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, BKP Ambulance District and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 15 and 8 to the financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

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

B. Fund Accounting

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

1. Governmental Funds

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 repayment of existing loans.

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

2. Proprietary Funds

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

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

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

3. Fiduciary Funds

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

C. Basis of Accounting

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

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

During 2009, the City invested in nonnegotiable certificates of deposit, a money market fund, and STAR Ohio. Investments are reported at cost, except for the money market fund and STAR Ohio. The City's money market fund investment is recorded at the amount reported by Liberty National Bank on December 31, 2009. 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 the investment could be sold for on December 31, 2009.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest receipts credited to the General Fund during 2009 was \$7,757 which includes \$6,223 assigned from other City funds.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Long-Term Obligations

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Lease payments are reported when paid. Long-term obligations of the governmental funds and business-type funds are identified in Note 11.

L. Net Assets

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. Interfund Transactions

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

O. Health Care

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

P. Intergovernmental Revenues

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

3. ACCOUNTABILITY AND COMPLIANCE

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

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for the General fund, Street fund and Revolving loan fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$97,302 for the General fund, \$2,651 for the Street fund and \$0 for the Revolving loan fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$801,827 of the City's bank balance of \$2,151,738 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

B. Investments

At December 31, 2009, the City had \$487,229 invested in STAR Ohio.

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 City's investment policy restricts the City Treasurer from investing in anything other than as identified in the Ohio Revised Code.

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

6. INCOME TAXES

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

Residents of the City are granted a full credit for taxes paid other Ohio municipalities. (This credit has been rescinded by resolution of City Council effective 2010.) The receipts of the City Income Tax and the administrative costs associated with their collections are accounted for in the General Fund.

7. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

7. PROPERTY TAXES (Continued)

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2009 was \$4.00 per \$1,000 of assessed valuation for all real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.8753 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.9823 per \$1,000 of assessed valuation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback deductions is reimbursed to the City through the County by the State of Ohio.

The assessed values of real property, public utility property, and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$ 66,996,720
Commercial/Industrial	30,808,540
Public Utilities	22,880
Tangible Personal	43,350
Public Utility Personal	3,822,690
Total	<u>\$101,694,180</u>

Real property taxes for tax year 2009 are payable annually or semi-annually. If paid annually, payment is due February 10, 2010. If paid semi-annually, the first payment is due February 10, 2010 with the remainder payable by July, 2010. 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 15, through a tax levy. The levy for the Cemetery is voted millage. During 2009, the Cemetery received \$91,440 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.

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

8. RISK MANAGEMENT

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

8. RISK MANAGEMENT (Continued)

A. Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2008, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

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

B. Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008 and 2007 (the latest information available):

	2008	2007
Assets	\$35,769,535	\$37,560,071
Liabilities	(15,310,206)	(17,340,825)
Net Assets	\$20,459,329	\$20,219,246

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008, and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$134,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2007	\$139,371
2008	\$140,582
2009	\$138,143

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they 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 contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

9. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan. The 2009 member contribution rates were 10.0% for members in state and local classifications. The 2009 employer contribution rate for state and local employers was 14.0% of covered payroll. For 2009, a portion of the City's contribution equal to 7 percent of covered payroll was allocated to fund the postemployment health care plan from January 1 through March 31 and 5.5 percent was allocated from April 1 through December 31. The City's contributions for pension obligations to OPERS for the years ended December 31, 2009, 2008 and 2007 were \$133,666, \$130,308 and \$135,235, respectively; 100% has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters, 12.75% and 17.25% respectively for pension obligations. For 2009, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment health care plan. The City's contributions to OP&F were \$90,075 and \$104,246 for the year ended December 31, 2008, \$87,285 and \$100,050 for the year ended December 31, 2008 and \$84,297 and \$96,506 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. Approximately 76% has been contributed for 2009. The unpaid contributions for 2009 are \$21,099 and \$25,230, respectively.

10. POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

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

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The post employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2009, 2008, and 2007 were \$97,478, \$130,730, and \$89,054 respectively. The full amount has been contributed for all three years.

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

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2009, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits of police and firefighters were \$47,696 and \$40,782 for the year ended December 31, 2009, \$46,178 and \$39,102 for the year ended December 31, 2008, and \$44,607 and \$37,729 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. Approximately 76% has been contributed for 2009.

11. DEBT

The City's debt transactions for the year ended December 31, 2009, are summarized below:

	Debt Principal Outstanding 1/1/09	Debt Issued in 2009	Debt Principal Retired in 2009	Debt Principal Outstanding 12/31/09
Governmental Activities:				
General Obligation Issues:				
1999 SW Pool Const Bond	\$720,000		\$ 55,000	\$ 665,000
2006 Street Sweeper Bond	27,000		9,000	18,000
Total General Obligation Bonds	<u>747,000</u>		<u>64,000</u>	<u>683,000</u>
1999 OPWC Loan-Street	8,600		8,600	
2003 OPWC Loan-Street	7,807		1,735	6,072
2006 OPWC Loan-Street	121,275		6,930	114,345
2009 OPWC Loan-Street		\$367,714		367,714
Total General Obligation Loans	<u>137,682</u>	<u>367,714</u>	<u>17,265</u>	<u>488,131</u>
Total Governmental Activity:	<u>884,682</u>	<u>367,714</u>	<u>81,265</u>	<u>1,171,131</u> (Continued)

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

11. DEBT (Continued)

	<u>Debt Principal Outstanding 1/1/09</u>	<u>Debt Issued in 2009</u>	<u>Debt Principal Retired in 2009</u>	<u>Debt Principal Outstanding 12/31/09</u>
Business Type Activities:				
Sewer Fund:				
2006 Street Sweeper Bonds	27,000		9,000	18,000
2008 WWTP/System Imp Bonds	277,500		27,750	249,750
Total Bonds	<u>304,500</u>		<u>36,750</u>	<u>267,750</u>
1996 OWDA Wastewater Improvement Loan (NIS)	661,632		67,247	594,385
1998 OWDA Wastewater Improvement Loan (WWTP Exp)	8,850,872		719,520	8,131,352
Total Sewer Fund	<u>9,817,004</u>		<u>823,517</u>	<u>8,993,487</u>
Waterworks Fund:				
2003 OPWC Waterworks Loan	82,475		5,891	76,584
Total Business Type Activity	<u>9,899,479</u>		<u>829,408</u>	<u>9,070,071</u>
Total Debt	<u>\$10,784,161</u>	<u>\$367,714</u>	<u>\$910,673</u>	<u>\$10,241,202</u>

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

1999 Various Purpose Bonds

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

The mandatory sinking fund redemption is to occur on December 1, 2013, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year</u>	<u>Principal Amount</u>
2013	\$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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

11. DEBT (Continued)

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%

2006 Street Sweeper Bonds

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

1999 Ohio Public Works Commission Loan (OPWC)

In 1999, the City obtained a zero percent interest 10 year loan in the amount of \$86,000 from the Ohio Public Works Commission for the West Franklin Street Reconstruction project. This loan matures on January 1, 2010 and is a general obligation of the City. This loan is being paid from the Governmental Debt Retirement Funds.

2003 Ohio Public Works Commission Loan (OPWC)

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

2006 Ohio Public Works Commission Loan (OPWC)

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

2009 Ohio Public Works Commission Loan (OPWC)

During 2009, the City obtained a zero percent interest 10 year loan from the OPWC for the City's matching funds for the joint highway improvement project with the Ohio Department of Transportation involving the five state routes that converge inside the City limits. This loan is in the amount of \$367,714 and will mature in 2020. The loan will be repaid from the Governmental Debt Retirement Fund.

1996 Ohio Water Development Authority Loan (OWDA)

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

11. DEBT (Continued)

1998 Ohio Water Development Authority Loan (OWDA)

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

2003 Ohio Public Works Commission Loan (OPWC)

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

2008 WWTP/System Improvement Bonds

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

The annual requirements to amortize all long term debt outstanding as of December 31, 2009, including interest payments of \$1,264,475 are as follows:

	<u>G.O. Bonds</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2010	\$ 151,386	\$ 991,738	\$ 51,327	\$ 1,194,451
2011	151,574	991,738	51,327	1,194,639
2012	128,840	991,738	51,328	1,171,906
2013	129,429	991,738	50,460	1,171,627
2014	129,552	991,738	49,593	1,170,883
2015-2019	495,660	4,795,822	247,962	5,539,453
2020-2024			52,323	52,323
2025-2028			10,395	10,395
Total	<u>1,186,450</u>	<u>9,754,512</u>	<u>564,715</u>	<u>11,505,677</u>
Less Interest	<u>(235,700)</u>	<u>(1,028,775)</u>		<u>(1,264,475)</u>
Principal	<u>\$ 950,750</u>	<u>\$8,725,737</u>	<u>\$564,715</u>	<u>\$10,241,202</u>

12. LEASES

A. Capital Leases

During calendar year 2000, the City entered into an equipment lease for a fire truck for a period of ten years. The debt associated with this lease will be paid back out of the General Fund. The City made an initial down payment of \$150,000 for the fire truck.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

12. LEASES (Continued)

During 2007, the City entered into an equipment lease for a new dump truck for a period of four years. The debt associated with the dump truck will be paid out of the Street Fund. The City made an initial down-payment of \$32,268.

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, 2009.

Fiscal Year Ending December 31	Fire Truck	911 Recording Equipment	Dump Truck	Total Capital Leases
2010	\$57,287	\$740	\$20,095	\$78,122
2011			20,095	20,095
Total Minimum Lease Payments	57,287	740	40,190	98,217
Less: amount representing interest	(2,889)	(14)	(3,229)	(6,132)
Present Value of minimum lease payments	<u>\$54,398</u>	<u>\$726</u>	<u>\$36,961</u>	<u>\$92,085</u>

B. Operating Lease

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

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

Fiscal Year Ending December 31,	Amount
2010	\$ 6,615
2011	6,615
2012	6,615
2013	6,615
2014	6,615
2015-2019	34,729
2020-2024	36,465
2025-2029	38,288
2030-2034	40,203
2035-2039	42,213
2040-2044	44,324
2045-2049	46,540
Total minimum lease payments	<u>\$315,837</u>

13. INTERFUND TRANSFERS

During 2009, the General Fund made transfers to other governmental funds, in the amount of \$417,029, including the Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund and the Note Retirement Fund. Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

14. CONTINGENT LIABILITIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

15. JOINTLY GOVERNED ORGANIZATIONS

A. Grove Cemetery Association

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

Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk, Roger Crowe at 15443 St. Rt. 309, Kenton, OH 43326.

B. Hardin County Regional Planning Commission

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

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

C. BKP Ambulance District

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

16. SUBSEQUENT EVENTS

The City participated with the Ohio Department of Transportation on a State Highway Repaving Project for 2009. The physical work was completed by the fall of 2009, but as of December 31, 2009 the financial accounting had not been completed. The City received a zero interest loan grant from Ohio Public Works Commission to fund their share of the project cost.

This page intentionally left blank.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$675,942	\$675,942	\$675,942	
Resources (Inflows):				
Taxes	2,687,881	2,687,881	2,572,855	(\$115,026)
Charges for Services	66,200	66,200	66,292	92
Licenses and Permits	45,000	45,000	46,773	1,773
Fines and Forfeitures	383,000	383,000	330,640	(52,360)
Intergovernmental	391,508	391,508	383,836	(7,672)
Interest on Investments	50,000	50,000	7,756	(42,244)
Miscellaneous Receipts	5,000	9,473	9,248	(225)
Other Financing Sources			1,350	1,350
Total Resources (Inflows):	<u>3,628,589</u>	<u>3,633,062</u>	<u>3,418,750</u>	<u>(214,312)</u>
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	703,443	711,943	621,682	90,261
Judicial	446,595	446,595	395,530	51,065
Public Safety	2,485,254	2,490,727	2,332,753	157,974
Health	77,500	77,500	77,500	
Economic Development	4,585	4,585	4,585	
Capital Outlay	110,864	109,864	88,551	21,313
Other Financing Uses:				
Transfers Out	513,026	513,026	417,029	95,997
Total Charges to Appropriations:	<u>4,341,267</u>	<u>4,354,240</u>	<u>3,937,630</u>	<u>416,610</u>
Net Change to Fund Balance	(712,678)	(721,178)	(518,880)	202,298
Prior Year Encumbrances Appropriated	<u>103,525</u>	<u>103,525</u>	<u>103,525</u>	
Ending Budgetary Balance:	<u><u>\$66,789</u></u>	<u><u>\$58,289</u></u>	<u><u>\$260,587</u></u>	<u><u>\$202,298</u></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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$41,176	\$41,176	\$41,176	
Resources (Inflows):				
Licenses and Permits	1,000	1,000	570	(\$430)
Intergovernmental	325,000	325,000	311,485	(13,515)
Interest on Investments	500	500	232	(268)
Miscellaneous Receipts	12,000	12,000	7,003	(4,997)
Transfers In	322,200	322,200	245,000	(77,200)
Total Resources (Inflows):	<u>660,700</u>	<u>660,700</u>	<u>564,290</u>	<u>(96,410)</u>
Charges to Appropriations (Outflows):				
Public Works	665,600	670,952	523,484	147,468
Capital Outlay	20,100	20,100	20,095	5
Total Charges to Appropriations:	<u>685,700</u>	<u>691,052</u>	<u>543,579</u>	<u>147,473</u>
Net Change to Fund Balance	(25,000)	(30,352)	20,711	51,063
Prior Year Encumbrances Appropriated	<u>5,352</u>	<u>5,352</u>	<u>5,352</u>	
Ending Budgetary Balance	<u><u>\$21,528</u></u>	<u><u>\$16,176</u></u>	<u><u>\$67,239</u></u>	<u><u>\$51,063</u></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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$129,947	\$129,947	\$129,947	
Resources (Inflows):				
Interest on Investments	2,500	2,500	420	(\$2,080)
Miscellaneous Receipts	3,458	3,458	3,742	284
Total Resources (Inflows):	<u>5,958</u>	<u>5,958</u>	<u>4,162</u>	<u>(1,796)</u>
Charges to Appropriations (Outflows):				
Economic Development	1,200	1,200	893	307
Total Charges to Appropriations	<u>1,200</u>	<u>1,200</u>	<u>893</u>	<u>307</u>
Net Change to Fund Balance	4,758	4,758	3,269	(1,489)
Prior Year Encumbrances Appropriated	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending Budgetary Balance:	<u><u>\$134,705</u></u>	<u><u>\$134,705</u></u>	<u><u>\$133,216</u></u>	<u><u>(\$1,489)</u></u>

See accompanying notes to Required Supplementary Information.

This page intentionally left blank.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 2009.

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
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Budgetary Process (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.



Mary Taylor, CPA

Auditor of State

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

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

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 6, 2010, wherein we noted the city uses a comprehensive accounting basis 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a significant deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated May 6, 2010.

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

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



Mary Taylor, CPA
Auditor of State

May 6, 2010

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009

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

FINDING NUMBER 2009-001

Noncompliance Citation

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

Ohio Adm. Code Section 117-2-03(B) requires the City to file annual financial reports which are prepared using generally accepted accounting principles. However, the City prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 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 its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE:

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

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Ohio Rev. Code Sec. 117.38 & Ohio Admin. Code Section. 117-2-03(B) – The City did not prepare financial statements in accordance with generally accepted accounting principals (GAAP)	No	Repeated as finding 2009-001



Mary Taylor, CPA
Auditor of State

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 8, 2010**