



Dave Yost • 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, 2010	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, 2010	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, 2010	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, 2010	14
Notes to the Basic Financial Statements.....	15
Required Supplementary Information	
Budgetary Comparison Schedule – Budget Basis - General Fund – For the Year Ended December 31, 2010	35
Budgetary Comparison Schedule – Budget Basis – Community Development Block Grant Fund – For the Year Ended December 31, 2010	36
Budgetary Comparison Schedule – Budget Basis – Revolving Loan Fund – For the Year Ended December 31, 2010	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.



Dave Yost • 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, 2010 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis 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 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, 2010, 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 April 6, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis and required budgetary comparison schedules* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

April 6, 2011

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
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, 2010, 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 2010 are as follows:

- In response to the significant decrease in net assets of governmental activities for 2009, the City was forced to institute several cost-cutting measures for 2010. These involved laying off (3) full-time police officers and (3) part-time police dispatchers; mandatory furloughs for all (13) full-time firefighters and additional mandatory furloughs for the (6) full-time and (1) part-time employees in the administration, council, income tax and auditor departments. In addition, several elected officials voluntarily reduced their compensation for the year. With these adjustments and careful spending by all employees, the net assets of governmental activities increased \$132,718 or 14.3 percent. The General Fund accounted for \$72,468 of the increase. The City's general receipts are primarily property and income taxes. These receipts represent respectively 7.5 and 50.1 percent of the total cash received for governmental activities during the year. Income tax receipts for 2010 were 5% more than 2009 due to increased business tax collections.
- Net assets of the City's business-type activities increased \$107,271, or 6.9 percent primarily as a result of a decrease in Water Fund expenditures.

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, 2010
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 2010, within the limitations of cash basis accounting. The statement of net assets presents the cash balances 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, 2010
UNAUDITED
(Continued)**

The City as a Whole

The table below provides a summary of the City's net assets for 2010 compared to 2009 on a cash basis.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Assets:						
Cash	\$1,063,403	\$930,685	\$1,662,541	\$1,555,270	\$2,725,944	\$2,485,955
Total Assets	<u>1,063,403</u>	<u>930,685</u>	<u>1,662,541</u>	<u>1,555,270</u>	<u>2,725,944</u>	<u>2,485,955</u>
Net Assets:						
Restricted:						
Pension Obligations	12,571	8,374			12,571	8,374
Revolving Loans	137,161	133,216			137,161	133,216
Customer Deposits			100,390	95,690	100,390	95,690
Other Purposes	483,314	431,206			483,314	431,206
Unrestricted	<u>430,357</u>	<u>357,889</u>	<u>1,562,151</u>	<u>1,459,580</u>	<u>1,992,508</u>	<u>1,817,469</u>
Total Net Assets	<u>\$1,063,403</u>	<u>\$930,685</u>	<u>\$1,662,541</u>	<u>\$1,555,270</u>	<u>\$2,725,944</u>	<u>\$2,485,955</u>

As mentioned previously, net assets of governmental activities increased \$132,718 or 14.3 percent during 2010. The primary reasons contributing to the increases in cash balances are as follows:

- Income tax collections were 5.0% more in 2010 compared to 2009 as a result of increased business tax collections.
- Fines and costs collected by the Hardin County Municipal Court and distributed to the City's General Fund were 3.4 percent more in 2010 compared to 2009.
- Interest income received by the City for its investments in 2010 totaled \$12,829 as compared to \$8,534 received for 2009.
- Total cash disbursements in the governmental funds were 6.7 percent less in 2010, compared to 2009.

The next table reflects the changes in net assets on cash basis in 2010 and 2009 for governmental activities, business-type activities and total primary government.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Receipts:						
Program Receipts:						
Charges for Services	\$ 569,737	\$598,142	\$3,160,385	\$3,212,155	\$3,730,122	\$3,810,297
Operating Grants & Contributions	361,375	349,174			361,375	349,174
Capital Grants & Contributions	659,610	190,810			659,610	190,810
Total Program Receipts	1,590,722	1,138,126	3,160,385	3,212,155	4,751,107	4,350,281
General Receipts:						
Property Taxes	362,846	351,008			362,846	351,008
Income Taxes	2,436,571	2,319,491			2,436,571	2,319,491
Hotel/Motel Taxes	8,593	12,526			8,593	12,526
Grants or Contributions Net						
Restricted to Specific Programs	421,706	440,424			421,706	440,424
Interest Income	12,829	8,534			12,829	8,534
Miscellaneous	26,786	23,742	127,687	99,013	154,473	122,755
Debt Proceeds		367,714				367,714
Total General Receipts	3,269,331	3,523,439	127,687	99,013	3,397,018	3,622,452
Total Receipts	4,860,053	4,661,565	3,288,072	3,311,168	8,148,125	7,972,733
Disbursements:						
General Government	1,174,127	1,222,620			1,174,127	1,222,620
Public Safety	2,175,876	2,424,214			2,175,876	2,424,214
Streets and Public Works	514,986	987,028			514,986	987,028
Health Services	81,500	77,500			81,500	77,500
Economic Development	638,561	137,208			638,561	137,208
Leisure-time Activities	40,848	125,424			40,848	125,424
Intergovernmental Expense	101,437	91,440			101,437	91,440
Water			1,239,129	1,354,065	1,239,129	1,354,065
Sewer			1,941,672	1,946,109	1,941,672	1,946,109
Total Disbursements	4,727,335	5,065,434	3,180,801	3,300,174	7,908,136	8,365,608
Increase/(Decrease) in Net Assets	132,718	(403,869)	107,271	10,994	239,989	(392,875)
Net Assets, January 1, 2010	930,685	1,334,554	1,555,270	1,544,276	2,485,955	2,878,830
Net Assets, December 31, 2010	\$1,063,403	\$ 930,685	\$1,662,541	\$1,555,270	\$2,725,944	\$2,485,955

Program receipts for Governmental and Business activities represent 58.3 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 41.7 percent of the City's total receipts, and of this amount 82.4 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.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

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.

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 public works and public safety, which account for 10.9 and 46.0 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 24.8 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 (Disbursement) Receipt 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			
	2010		2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$1,174,127	\$ 624,422	\$1,222,620	\$ 684,095
Public Safety	2,175,876	2,175,516	2,424,214	2,422,854
Public Works	514,986	117,322	987,028	590,674
Health Services	81,500	81,500	77,500	77,500
Economic Development	638,561	14,925	137,208	(5,632)
Leisure Time Activities	40,848	21,491	125,424	66,377
Intergovernmental	101,437	101,437	91,440	91,440
Totals	\$4,727,335	\$3,136,613	\$5,065,434	\$3,927,308

The dependence upon property taxes, income taxes, and hotel/motel taxes is apparent as these receipts provide support for 59.4 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 \$4,859,452 and disbursements of \$4,727,335. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$72,468 as a result of the increased collections in business income tax receipts, court fines and costs and interest income. Administration and department heads were very careful with their spending in 2010.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
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.

Final disbursements were budgeted at \$3,751,275 while actual disbursements were \$3,486,793 – a difference of \$264,481 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 \$9,298,953 in long-term debt outstanding – a decrease of 10.0 percent from last year. Governmental activities accounted for \$1,075,694 and business-type activities accounted for the remaining \$8,223,259 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	
	2010	2009	2010	2009	2010	2009
Capital Leases	\$ 18,999	\$ 92,085			\$ 18,999	\$ 92,085
Bond Obligations	614,000	683,000	\$ 231,000	\$ 267,750	845,000	950,750
OPWC Loans	442,695	488,131	70,693	76,584	513,388	564,715
OWDA Loans			7,921,566	8,725,737	7,921,566	8,725,737
Totals	\$1,075,694	\$1,263,216	\$8,223,259	\$9,070,071	\$9,298,953	\$10,333,287

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. The year 2010 brought many challenges and necessary adjustments including personnel lay-offs and mandatory furloughs. With hard work and cooperation between administration and all employees, the City finished 2010 with more cash on hand than at the beginning of the year. The 2011 budget, as passed by Council, does include eliminating all furloughs, but at this time does not include bringing back those laid off.

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.

This page intentionally left blank.

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

	Cash	Program Cash Receipts		
		Disbursements	Charges for Services	Operating Grants and Contributions
Governmental Activities:				
General Government	(\$1,174,127)	\$549,705		
Public Safety	(2,175,876)			\$360
Public Works	(514,986)	675	\$361,375	35,614
Health	(81,500)			
Economic Development	(638,561)			623,636
Leisure Time Activities	(40,848)	19,357		
Intergovernmental Expenditures	(101,437)			
Total Government Activities	(4,727,335)	569,737	361,375	659,610
Business-Type Activities:				
Waterworks	(1,239,129)	1,218,638		
Sewer	(1,941,672)	1,941,747		
Total Business-Type Activities	(3,180,801)	3,160,385		
Total Activity	(7,908,136)	3,730,122	361,375	659,610

General Receipts:

Taxes

Property Taxes For:

General Purposes

Police Pension

Fire Pension

Grove Cemetery

Income

Hotel/Motel

Grants or Contributions Not

Restricted to Specific Programs

Investment Income

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
(\$624,422)		(\$624,422)
(2,175,516)		(2,175,516)
(117,322)		(117,322)
(81,500)		(81,500)
(14,925)		(14,925)
(21,491)		(21,491)
(101,437)		(101,437)
<u>(3,136,613)</u>		<u>(3,136,613)</u>
	(\$20,491)	(20,491)
	75	75
	<u>(20,416)</u>	<u>(20,416)</u>
<u>(3,136,613)</u>	<u>(20,416)</u>	<u>(3,157,029)</u>
235,849		235,849
27,214		27,214
27,214		27,214
72,569		72,569
2,436,571		2,436,571
8,593		8,593
421,706		421,706
12,829		12,829
26,786	127,687	154,473
<u>3,269,331</u>	<u>127,687</u>	<u>3,397,018</u>
132,718	107,271	239,989
930,685	1,555,270	2,485,955
<u>\$1,063,403</u>	<u>\$1,662,541</u>	<u>\$2,725,944</u>
\$1,063,403	\$1,662,541	\$2,725,944
12,571		12,571
137,161		137,161
	100,390	100,390
483,314		483,314
430,357	1,562,151	1,992,508
<u>\$1,063,403</u>	<u>\$1,662,541</u>	<u>\$2,725,944</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, 2010**

	<u>General Fund</u>	<u>Community Dev. Block Grant Fund</u>	<u>Revolving Loan Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
Cash Receipts:					
Property and Other Taxes	\$244,442			\$126,997	\$371,439
Income Taxes	2,436,571				2,436,571
Charges for Services	66,262			19,357	85,619
Licenses and Permits	47,974			675	48,649
Fines and Forfeitures	342,133			57,871	400,004
Intergovernmental	371,187	\$659,250		447,719	1,478,156
Interest on Investments	10,860	140	\$1,184	645	12,829
Miscellaneous Receipts	10,767	4,727	3,432	7,259	26,185
Total Cash Receipts	<u>3,530,196</u>	<u>664,117</u>	<u>4,616</u>	<u>660,523</u>	<u>4,859,452</u>
Cash Disbursements:					
General Government:					
Legislative and Executive	597,050				597,050
Judicial	364,376			56,615	420,991
Public Safety	2,043,204			74,115	2,117,319
Public Works		35,614		459,277	494,891
Health	81,500				81,500
Economic Development	4,585	633,305	671		638,561
Leisure Time Activities				40,848	40,848
Intergovernmental Expenditures				101,437	101,437
Capital Outlay	58,841			25,725	84,566
Debt Service:					
Bond Principal Payment				69,000	69,000
Note Principal Payment				45,436	45,436
Interest and Fiscal Charges				35,736	35,736
Total Cash Disbursements	<u>3,149,556</u>	<u>668,919</u>	<u>671</u>	<u>908,189</u>	<u>4,727,335</u>
Receipts Over/(Under) Disbursements	380,640	(4,802)	3,945	(247,666)	132,117
Other Financing Sources/(Uses):					
Operating Transfers - In				308,172	308,172
Operating Transfers - (Out)	(308,172)				(308,172)
Other Financing Sources				601	601
Total Other Financing Sources/(Uses)	<u>(308,172)</u>			<u>308,773</u>	<u>601</u>
Cash Receipts and Other Financing Sources:					
Over/(Under) Cash Disbursements and Other Financing (Uses)	72,468	(4,802)	3,945	61,107	132,718
Fund Balances - Beginning of Year	<u>357,889</u>	<u>32,986</u>	<u>133,216</u>	<u>406,594</u>	<u>930,685</u>
Fund Balances - End of Year	<u>430,357</u>	<u>28,184</u>	<u>137,161</u>	<u>467,701</u>	<u>1,063,403</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	<u>430,357</u>	<u>28,184</u>	<u>137,161</u>	<u>467,701</u>	<u>1,063,403</u>
Fund Balances:					
Reserved for Encumbrances	29,065		240	39,253	68,558
Unreserved	401,292	28,184	136,921	428,448	994,845
Total Fund Balances	<u>\$430,357</u>	<u>\$28,184</u>	<u>\$137,161</u>	<u>\$467,701</u>	<u>\$1,063,403</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, 2010**

	Water Fund	Sewer Fund	Totals (Memorandum Only)
Operating Receipts:			
Charges for Services	\$1,218,638	\$1,941,747	\$3,160,385
Other Operating Receipts	1,418	70,919	72,337
Total Operating Receipts	1,220,056	2,012,666	3,232,722
Operating Disbursements:			
Personnel Services	686,054	532,925	1,218,979
Contract Services	173,085	301,932	475,017
Materials and Supplies	303,738	65,560	369,298
Capital Outlay	19,622	2,627	22,249
Total Operating Disbursements	1,182,499	903,044	2,085,543
Operating Income	37,557	1,109,622	1,147,179
Non-Operating Receipts/(Disbursements):			
Bond Retirement		(36,750)	(36,750)
Bond/Note Proceeds			
Note Retirement			
Loan Retirement	(5,891)	(804,171)	(810,062)
Interest Expense		(197,459)	(197,459)
Other Non-Operating Receipts	55,350		55,350
Other Non-Operating (Disburse.)	(50,739)	(248)	(50,987)
Total Non-Operating Rec./(Disb.)	(1,280)	(1,038,628)	(1,039,908)
Receipts (Under) Disbursements	36,277	70,994	107,271
Total Net Assets - Beginning of Year	1,427,839	127,431	1,555,270
Total Net Assets - End of Year	1,464,116	198,425	1,662,541
Assets:			
Equity in Pooled Cash & Cash Equivalents	1,464,116	198,425	1,662,541
Net Assets:			
Unreserved	1,464,116	198,425	1,662,541
Total Net Assets	\$1,464,116	\$198,425	\$1,662,541

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, 2010

Cash Receipts	\$1,240,662
Cash Disbursements	<u>1,230,029</u>
Changes in Net Assets	10,633
Net Assets - Beginning of Year	<u>84,620</u>
Net Assets - End of Year	<u><u>95,253</u></u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>95,253</u>
Net Assets:	
Unrestricted	<u><u>\$95,253</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, 2010**

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, 2010
(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:

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community Development Block Grant Fund – The C.D.B.G. Fund accounts for grant monies received through the State of Ohio for community improvement projects such as street paving, the Community Housing Improvement Program and “Brownfield” cleanup projects.

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.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2010, the City invested in nonnegotiable certificates of deposit, money market account, and STAR Ohio. Investments are reported at cost, except for the money market funds and STAR Ohio. The City's nonnegotiable certificates of deposit and money market accounts are recorded at the cost reported by the respective bank or savings and loan on December 31, 2010. 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, 2010.

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 2010 was \$10,860 which includes \$8,000 assigned from other City funds.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. The City did not have restricted assets at year end.

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 police and fire protection, streets, and economic development. The City did not have any net assets restricted by enabling legislation.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Community Development Block Grant 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 \$29,065 for the General fund, -0- for the Community Development Block Grant fund and \$240 for the Revolving Loan fund.

5. DEPOSITS AND INVESTMENTS

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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.

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, \$816,104 of the City's bank balance of \$2,918,234 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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, 2010, the City had \$2,693 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. 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.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2010 was \$4.00 per \$1,000 of assessed valuation for all real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback deductions is reimbursed to the City through the County by the State of Ohio.

The assessed values of real property, public utility property, and tangible personal property upon which 2010 property tax receipts were based are as follows:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

7. PROPERTY TAXES (Continued)

<u>Category</u>	<u>Assessed Value</u>
Real Estate:	
Residential/Agricultural	\$ 67,233,380
Commercial/Industrial	31,631,710
Public Utilities	26,530
Tangible Personal	57,190
Public Utility Personal	4,135,030
Total	<u>\$103,083,840</u>

Real property taxes for tax year 2010 are payable annually or semi-annually. If paid annually, payment is due February 9, 2011. If paid semi-annually, the first payment is due February 9, 2011 with the remainder payable by July, 2011. 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 2010, the Cemetery received \$101,437 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.

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, 2009, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

8. RISK MANAGEMENT (Continued)

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, 2009 and 2008 (the latest information available):

	2009	2008
Assets	\$36,374,898	\$35,769,535
Liabilities	(15,256,862)	(15,310,206)
Net Assets	\$21,118,036	\$20,459,329

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, 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 \$114,000.

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	
2008	\$140,582
2009	138,143
2010	121,504

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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 and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll.

The City's 2010 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010.

The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's contributions for pension obligations to OPERS for the years ended December 31, 2010, 2009 and 2008 were \$133,120, \$133,666 and \$130,308, 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.

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. The portion of employer contributions used to fund pension benefits was, 12.75% and 17.25% respectively. The City's contributions to OP&F were \$77,060 and \$95,319 for the year ended December 31, 2010, \$90,075 and \$104,246 for the year ended December 31, 2009 and \$87,285 and \$100,050 for the year ended December 31, 2008. The full amount has been contributed for all three years.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

10. POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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 post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2010, 2009, and 2008 were \$75,953, \$97,478, and \$130,730 respectively. The full amount has been contributed for all three years.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

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. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. 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. Active members do not make contributions to the OPEB plan.

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

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, 2010, 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits of police and firefighters were \$40,805 and \$37,609 for the year ended December 31, 2010, \$47,696 and \$40,782 for the year ended December 31, 2009, and \$46,178 and \$39,102 for the year ended December 31, 2008. The full amount has been contributed for all three years.

11. DEBT

The City's debt transactions for the year ended December 31, 2010, are summarized below:

	Debt Principal Outstanding 1/1/10	Debt Issued in 2010	Debt Principal Retired in 2010	Debt Principal Outstanding 12/31/10
Governmental Activities				
General Obligation Issues:				
1999 SW Pool Const Bond	\$ 665,000		\$ 60,000	\$ 605,000
2006 Street Sweeper Bond	18,000		9,000	9,000
Total General Obligation Bonds	<u>683,000</u>		<u>69,000</u>	<u>614,000</u>
2003 OPWC Loan-Street	6,072		1,735	4,337
2006 OPWC Loan-Street	114,345		6,930	107,415
2009 OPWC Loan-Street	367,714		36,771	330,943
Total General Obligation Loans	<u>488,131</u>		<u>45,436</u>	<u>442,695</u>
Total Governmental Activity	<u>1,171,131</u>		<u>114,436</u>	<u>1,056,695</u>
Business Type Activities				
Sewer Fund				
2006 Street Sweeper Bonds	18,000		9,000	9,000
2008 WWTP/System Imp Bonds	249,750		27,750	222,000
Total Bonds	<u>267,750</u>		<u>36,750</u>	<u>231,000</u>
1996 OWDA Wastewater Improvement Loan (NIS)	594,385		68,735	525,650
1998 OWDA Wastewater Improvement Loan (WWTP, Exp)	8,131,352		735,436	7,395,916
Total Sewer Fund	<u>8,993,487</u>		<u>840,921</u>	<u>8,152,566</u>
Waterworks Fund				
2003 OPWC Waterworks Loan	76,584		5,891	70,693
Total Business Type Activity	<u>9,070,071</u>		<u>846,812</u>	<u>8,223,259</u>
Total Debt	<u>\$10,241,202</u>		<u>\$961,248</u>	<u>\$9,279,954</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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

11. DEBT (Continued)

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.

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.

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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

11. DEBT (Continued)

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. Loan payments will come from the Governmental Debt Retirement Fund.

1996 Ohio Water Development Authority Loan (OWDA)

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

1998 Ohio Water Development Authority Loan (OWDA)

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

2003 Ohio Public Works Commission Loan (OPWC)

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

2008 WWTP/System Improvement Bonds

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

The annual requirements to amortize all long term debt outstanding as of December 31, 2010, including interest payments of \$1,031,272 are listed in the table below:

	G.O. Bonds	OWDA Loans	OPWC Loans	Total
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	49,592	1,170,883
2015	124,406	991,738	49,592	1,165,736
2016-2020	371,263	3,804,084	211,191	4,386,538
2021-2025			46,432	46,432
2026-2028			3,465	3,465
Total	1,035,064	8,762,774	513,388	10,311,226
Less Interest	(190,064)	(841,208)		(1,031,272)
Principal	\$845,000	\$7,921,566	\$513,388	\$9,279,954

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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.

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, 2010.

Fiscal Year Ending December 31	Dump Truck	Total Capital Leases
2011	\$20,095	\$20,095
Total Minimum Lease Payments	20,095	20,095
Less: amount representing interest	(1,096)	(1,096)
Present Value of minimum lease pmts	\$ 18,999	\$18,999

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
2011	\$ 6,615
2012	6,615
2013	6,615
2014	6,615
2015	6,946
2016-2020	35,076
2021-2025	36,830
2026-2030	38,671
2031-2035	40,605
2036-2040	42,365
2041-2045	44,767
2046-2049	37,232
Total minimum lease payments	\$309,222

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

13. INTERFUND TRANSFERS

During 2010, the General Fund made transfers to other governmental funds, in the amount of \$308,172, 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.

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 Roger Crowe, Secretary/Treasurer 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

16. SUBSEQUENT EVENTS

The City has been awarded a grant through the Clean Ohio Revitalization Fund for the demolition and environmental reclamation of the King Ohio Forge property, located on the south edge of the City. A private company is working together with the City as the project developer.

This page intentionally left blank.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$260,587	\$260,587	\$260,587	
Resources (Inflows):				
Taxes	2,659,087	2,659,087	2,681,013	\$21,926
Charges for Services	66,200	66,200	66,262	62
Licenses and Permits	45,000	45,000	47,974	2,974
Fines and Forfeitures	328,500	328,500	342,133	13,633
Intergovernmental	362,873	362,873	371,187	8,314
Interest on Investments	7,500	7,500	10,860	3,360
Miscellaneous Receipts	5,000	5,000	10,767	5,767
Other Financing Sources				
Total Resources (Inflows):	<u>3,474,160</u>	<u>3,474,160</u>	<u>3,530,196</u>	<u>56,036</u>
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	741,456	737,456	608,799	128,657
Judicial	375,927	375,927	365,917	10,010
Public Safety	2,113,112	2,117,112	2,058,194	58,918
Health	81,500	81,500	81,500	
Economic Development	4,585	4,585	4,585	
Capital Outlay	61,038	61,038	59,626	1,412
Other Financing Uses				
Transfers Out	373,656	373,656	308,172	65,484
Total Charges to Appropriations:	<u>3,751,274</u>	<u>3,751,274</u>	<u>3,486,793</u>	<u>264,481</u>
Net Change to Fund Balance	(\$277,114)	(\$277,114)	\$43,403	\$320,517
Prior Year Encumbrances Appropriated	<u>97,302</u>	<u>97,302</u>	<u>97,302</u>	
Ending Budgetary Balance:	<u>\$80,775</u>	<u>\$80,775</u>	<u>\$401,292</u>	<u>\$320,517</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGET BASIS
COMMUNITY DEVELOPMENT BLOCK GRANT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	(\$83,514)	(\$83,514)	(\$83,514)	
Resources (Inflows):				
Intergovernmental	400,160	691,327	659,250	(\$32,077)
Interest on Investments			140	140
Miscellaneous Receipts			4,727	4,727
Total Resources (Inflows):	400,160	691,327	664,117	(27,210)
Charges to Appropriations (Outflows):				
Public Works	43,000	43,000	35,614	7,386
Economic Development	374,773	665,940	633,305	32,635
Total Charges to Appropriations:	417,773	708,940	668,919	40,021
Net Change to Fund Balance	(17,613)	(17,613)	(4,802)	12,811
Prior Year Encumbrances Appropriated	116,500	116,500	116,500	
Ending Budgetary Balance:	<u>\$15,373</u>	<u>\$15,373</u>	<u>\$28,184</u>	<u>\$12,811</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGET BASIS
REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$133,216	\$133,216	\$133,216	
Resources (Inflows):				
Interest on Investments	200	200	1,184	\$984
Miscellaneous Receipts	3,460	3,460	3,432	(28)
Total Resources (Inflows):	<u>3,660</u>	<u>3,660</u>	<u>4,616</u>	<u>956</u>
Charges to Appropriations (Outflows):				
Economic Development	732	957	911	46
Total Charges to Appropriations:	<u>732</u>	<u>957</u>	<u>911</u>	<u>46</u>
Net Change to Fund Balance	2,928	2,703	3,705	1,002
Prior Year Encumbrances Appropriated				
Ending Budgetary Balance:	<u>\$136,144</u>	<u>\$135,919</u>	<u>\$136,921</u>	<u>\$1,002</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, 2010**

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 2010.

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, 2010
(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.



Dave Yost • 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 District) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 6, 2011 wherein we noted the City used a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated April 6, 2011.

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 audit committee, management, City Council and others within the City. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

April 6, 2011

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010

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

FINDING NUMBER 2010-001

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

The City should prepare its financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements.

OFFICIALS' RESPONSE:

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

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	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 2010-01



Dave Yost • Auditor of State

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2011**