



Mary Taylor, CPA
Auditor of State

**CITY OF KENTON
HARDIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets and Activities – Cash Basis As of and for the Year Ended December 31, 2006	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, 2006	12
Statement of Cash Basis 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, 2006	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, 2006	14
Notes to the Basic Financial Statements.....	15
Required Supplementary Information	
Budgetary Comparison Schedule – Cash Basis - General Fund – For the Year Ended December 31, 2006	35
Budgetary Comparison Schedule – Cash Basis - Street Fund – For the Year Ended December 31, 2006	36
Notes to Required Supplementary Information	37
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Required By <i>Government Auditing Standards</i>	39
Schedule of Findings.....	41
Schedule of Prior Audit Findings	44

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

August 7, 2007

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The discussion and analysis of the City of Kenton's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the cash basis financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's total expenditures exceeded total receipts by \$377,546 for the year, resulting in a decrease in total net assets of 13.4 percent from the previous year. The decrease is attributed to the City's operation of business-type activities.
- The City completed the majority of the replacement of the City's water meters with "radio-read" meters. This project had begun in 2005 with the replacement of approximately 500 meters. The second phase of the project was to replace the remaining approximately 3,000 meters.
- Construction was completed on the Storm Water Collections System Improvements Project – a continuation of the storm water collection/separation project ongoing in the northern part of the City. The City had pledged funds approved through Issue II to assist in the funding of this project.

Using this Annual Report

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

This annual report consists of four parts as follows:

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

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

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

Required Supplementary Information: This Management's Discussion and Analysis and the General and Street Funds Budgetary Comparison Schedules (starting on page 35 represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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 the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

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

Reporting the City as a Whole

The City's Reporting Entity Presentation

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

The Government-Wide Statement of Net Assets and Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 8 and provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds – governmental, proprietary and fiduciary – use different accounting approaches.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City considers the General Fund and Street Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other governmental funds.

Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported as Business-type activities in the Statement of Net Assets and Activities. The City has two enterprise funds – the Water and Sewer Funds.

Fiduciary funds – These funds are often used to account for assets that are held in a trustee or fiduciary capacity. The City's only fiduciary funds are the Unclaimed Money Fund and the Municipal Court Fund which are both Agency Funds.

A Financial Analysis of the City as a Whole

Net Assets – Cash Basis

The City's combined net assets, resulting from cash basis transactions, decreased from \$2,810,388 to \$2,432,842 between fiscal years 2005 and 2006. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$229,791 and business-type activities had a decrease of \$607,337 in net assets between 2005 and 2006. The overall decrease in net assets was primarily due to the City's project to replace the remaining 3,000 water meters with "radio-read" meters.

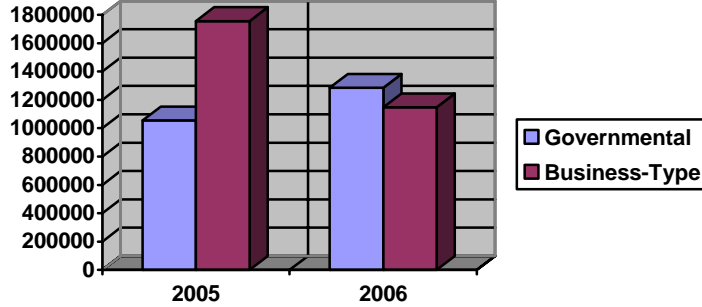
	Governmental Activities		Business-Type Activities		Totals	
	2005	2006	2005	2006	2005	2006
Assets						
Cash	\$1,055,223	\$1,285,015	\$1,755,164	\$1,147,827	\$2,810,387	\$2,432,842
Total Assets	1,055,223	1,285,015	1,755,164	1,147,827	2,810,387	2,432,842
Net Assets						
Restricted:						
Pension Obligations	16,132	22,622			16,132	22,622
Revolving Loans	173,714	117,224			173,714	117,224
Customer Deposits			80,875	83,420	80,875	83,420
Other Purposes	301,960	386,855			301,960	386,855
Unrestricted:	563,417	758,314	1,674,289	1,064,407	2,237,706	1,822,721
Total Net Assets	\$1,055,223	\$1,285,015	\$1,755,164	\$1,147,827	\$2,810,387	\$2,432,842

Net assets of the City's governmental activities increased 21.8 percent to \$1,285,015 primarily due to reductions in expenses. However, \$526,701 of those net assets is restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed \$758,314 at the end of this year.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

Net Assets – Cash Basis



Changes from 2005 to 2006 reflect a net change of (13.4) percent for all activities with an increase of 21.8 percent for governmental activities and a decrease of (34.6) percent for business-type activities.

Changes in Net Assets – Cash Basis

For the year ended December 31, 2006, net assets of the primary government changed as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2005	2006	2005	2006	2005	2006
Revenues						
Program Revenues						
Charges for Services	\$535,729	\$626,693	\$3,303,055	\$3,247,817	\$3,838,784	\$3,874,510
Operating Grants & Contributions	363,468	389,972			363,468	389,972
Capital Grants	169,317	142,939			169,317	142,939
General Revenues						
Property Taxes	410,888	451,864			410,888	451,864
Income Taxes	2,388,377	2,443,307			2,388,377	2,443,307
Grants or Contributions Not Restricted to Specific Programs	507,139	444,688			507,139	444,688
Interest Income	94,991	149,779			94,991	149,779
Miscellaneous	132,269	60,117	91,577	95,464	223,846	155,581
Debt Proceeds		183,600	300,000	495,000	300,000	678,600
Total Revenues	<u>4,602,178</u>	<u>4,892,959</u>	<u>3,694,632</u>	<u>3,838,281</u>	<u>8,296,810</u>	<u>8,731,240</u>
Expenses						
General Government	1,266,279	1,112,541			1,266,279	1,112,541
Public Safety	2,147,902	2,232,965			2,147,902	2,232,965
Streets and Public Works	720,933	899,686			720,933	899,686
Health and Welfare	76,500	73,500			76,500	73,500
Economic Development	88,538	113,740			88,538	113,740
Culture and Recreation	164,622	135,454			164,622	135,454
Intergovernmental Expenditures	90,305	95,282			90,305	95,282
Water			1,642,373	2,129,800	1,642,373	2,129,800
Sewer			1,984,750	2,315,818	1,984,750	2,315,818
Total Expenses	<u>4,555,079</u>	<u>4,663,168</u>	<u>3,627,123</u>	<u>4,445,618</u>	<u>8,182,202</u>	<u>9,108,786</u>
Increase/(Decrease) in Net Assets	<u>\$47,099</u>	<u>\$229,791</u>	<u>\$67,509</u>	<u>(\$607,337)</u>	<u>\$114,608</u>	<u>(\$377,546)</u>

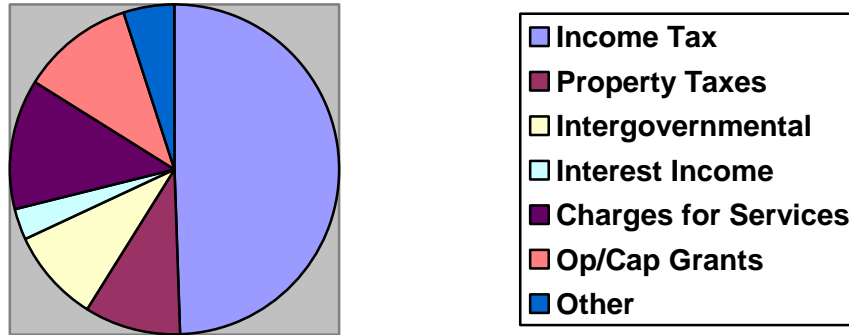
**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

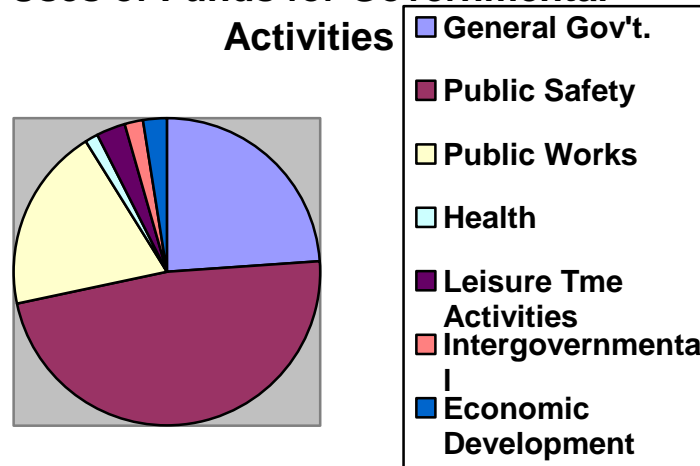
Governmental Activities

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

Sources of Funds for Governmental Activities



Uses of Funds for Governmental Activities



For the year ended December 31, 2006, total expenses for governmental activities, resulting from cash basis transactions, amounted to \$4,663,168. Of those total expenses, taxpayers and other general revenues funded \$3,503,564, while those directly benefiting from the program funded only \$532,911 from grants and other contributions and \$626,693 from charges for services.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

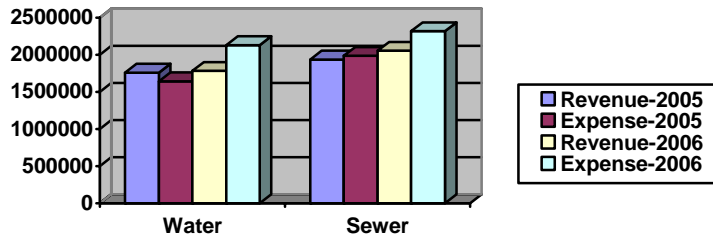
Net Cost of City of Kenton's Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2005	2006	% Change	2005	2006	% Change
General Government	\$1,266,279	\$1,112,541	-12.14%	\$776,858	\$466,279	-39.98%
Public Safety	2,147,902	2,232,965	3.96%	2,147,902	2,232,965	3.96%
Public Works	720,933	899,686	24.79%	232,435	462,144	98.83%
Health	76,500	73,500	-3.92%	76,500	73,500	-3.92%
Economic Development	88,538	113,740	28.46%	88,538	113,740	28.46%
Leisure Time Activities	164,622	135,454	-17.72%	74,027	59,654	-19.42%
Intergovernmental	90,305	95,282	5.51%	90,305	95,282	5.51%
Totals	\$4,555,079	\$4,663,168	2.37%	\$3,486,565	\$3,503,564	0.49%

Business-Type Activities

In reviewing the business-type activities' net (expense)/revenue resulting from cash basis transactions, there are certain activities that need to be examined more closely. Both water and sewer service activities reported net disbursement in excess of receipts (loss) with a combined loss of \$607,337 for 2006. The Water Fund had net disbursements in excess of receipts (loss) of \$346,487 which included reducing \$150,000 of debt and contributing over \$300,000 towards the "Radio-Read Meter" project. The Sewer Fund had net disbursements in excess of receipts (loss) of \$260,850 which included contributing over \$150,000 towards the "Radio-Read Meter" project.

Business-Type Activities - Revenue and Expense



A Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,285,015, which is \$229,792 more than the year before. An increase of \$194,897 in the City's General Fund made up a significant part of this gain. The primary reasons for the General Fund's gain mirror those highlighted in the analysis of governmental activities.

General Fund Budgetary Highlights

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

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in October 2005).
- Appropriation transfers within departments to reflect changes in departmental needs.
- Increases in appropriations to prevent budget overruns and to reflect unexpected increases in anticipated revenues.

For the year ended December 31, 2006 General Fund expenditures were \$172,289 below final appropriations while actual resources available for appropriations were \$399,306 above the final budgeted amount.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

Capital Assets and Debt Administration

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 approximately \$12.5 million in long-term debt outstanding – a decrease of 5.1 percent from last year. Governmental activities accounted for \$1,255,460 and \$11,214,750 were related to business-type activities.

City of Kenton Long-Term Debt						
	Governmental		Business-Type		Totals	
	Activities		Activities			
	2005	2006	2005	2006	2005	2006
Capital Leases	\$254,044	\$208,248			\$254,044	\$208,248
Bond Obligations	880,000	875,000	\$80,000	\$85,000	960,000	960,000
OPWC Loans	47,412	172,212	100,148	94,257	147,560	266,469
OWDA Loans			11,772,287	11,035,493	11,772,287	11,035,493
Totals	\$1,181,456	\$1,255,460	\$11,952,435	\$11,214,750	\$13,133,891	\$12,470,210

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2007, the City's budget is fairly consistent with this year. The 2007 original appropriations budget is 4.6% less than the original 2006 appropriations budget.

Contacting the City's Financial Management

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET ASSETS AND ACTIVITIES - CASH BASIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

	Cash	Program Cash Receipts		
		Disbursements	Charges for Services	Operating Grants and Contributions
Governmental Activities:				
General Government	(\$1,112,541)	\$547,308		\$98,954
Public Safety	(2,232,965)			
Public Works	(899,686)	3,585	\$389,972	43,985
Health	(73,500)			
Economic Development	(113,740)			
Leisure Time Activities	(135,454)	75,800		
Intergovernmental Expenditures	(95,282)			
Total Governmental Activities	(4,663,168)	626,693	389,972	142,939
Business-Type Activities:				
Waterworks	(2,129,800)	1,387,980		
Sewer	(2,315,818)	1,859,837		
Total Business-Type Activities	(4,445,618)	3,247,817		
Total Activity	(\$9,108,786)	\$3,874,510	\$389,972	\$142,939

General Receipts:

Taxes

Property taxes for:

 General purposes

 Police pension

 Fireman's pension

 Grove Cemetery

Income

Grants or Contributions Not

 Restricted to Specific Programs

Investment Income

Debt Proceeds

Miscellaneous

Total General Receipts

Increase (Decrease) in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

Assets

Equity in Pooled Cash and Cash Equivalents

Net Assets

Restricted for:

 Pension Obligations

 Revolving Loans

 Customer Water Deposits

 Other Purposes

Unrestricted

Total Net Assets

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

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Funds	Business-Type Funds	Totals Funds
(\$466,279)		(\$466,279)
(2,232,965)		(2,232,965)
(462,144)		(462,144)
(73,500)		(73,500)
(113,740)		(113,740)
(59,654)		(59,654)
(95,282)		(95,282)
<u>(3,503,564)</u>		<u>(3,503,564)</u>
	(\$741,820)	(741,820)
	(455,981)	(455,981)
	<u>(1,197,801)</u>	<u>(1,197,801)</u>
(\$3,503,564)	(\$1,197,801)	(\$4,701,365)
297,458		297,458
34,322		34,322
34,322		34,322
85,762		85,762
2,443,307		2,443,307
444,688		444,688
149,779		149,779
183,600	495,000	678,600
60,117	95,464	155,581
<u>3,733,355</u>	<u>590,464</u>	<u>4,323,819</u>
229,791	(607,337)	(377,546)
1,055,224	1,755,164	2,810,388
<u>1,285,015</u>	<u>1,147,827</u>	<u>2,432,842</u>
<u>1,285,015</u>	<u>1,147,827</u>	<u>2,432,842</u>
22,622		22,622
117,224		117,224
	83,420	83,420
386,855		386,855
758,314	1,064,407	1,822,721
<u>\$1,285,015</u>	<u>\$1,147,827</u>	<u>\$2,432,842</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, 2006**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
Property Taxes	\$2,768,901		\$154,406	\$2,923,307
Charges for Services	66,857		75,800	\$142,657
Licenses and Permits	43,355	\$1,320		\$44,675
Fines and Forfeitures	348,979		68,064	\$417,043
Intergovernmental	399,024	334,989	235,503	\$969,516
Special Assessments		2,265		\$2,265
Interest on Investments	137,878	4,401	7,500	\$149,779
Miscellaneous Receipts	4,934	38,442	7,573	\$50,949
Total Cash Receipts	<u>3,769,928</u>	<u>381,417</u>	<u>548,846</u>	<u>4,700,191</u>
Cash Disbursements:				
General Government				
Legislative and Executive	604,375			604,375
Judicial	330,288		26,884	357,172
Public Safety	2,068,186		72,615	2,140,801
Public Works		551,729	292,596	844,325
Health	73,500			73,500
Economic Development	4,585		109,155	113,740
Leisure Time Activities			133,879	133,879
Intergovernmental Expenditures			95,282	95,282
Capital Outlay	99,182	55,361	35,643	190,186
Debt Service:				
Bond Principal Payment			50,000	50,000
Note Principal Payment			13,800	13,800
Interest and Fiscal Charges			46,108	46,108
Total Cash Disbursements	<u>3,180,116</u>	<u>607,090</u>	<u>875,962</u>	<u>4,663,168</u>
Receipts Over/(Under) Disbursements	589,812	(225,673)	(327,116)	37,023
Other Financing Sources/(Uses)				
Operating Transfers - In		230,000	239,247	469,247
Operating Transfers - (Out)	(399,908)		(69,339)	(469,247)
Debt Proceeds		45,000	138,600	183,600
Other Financing Sources	4,993	3,325	850	9,168
Total Other Financing Sources/(Uses)	<u>(394,915)</u>	<u>278,325</u>	<u>309,358</u>	<u>192,768</u>
Cash Receipts and Other Financing Sources Sources Over/(Under) Cash Disbursements and Other Financing Uses	194,897	52,652	(17,758)	229,791
Fund Balances - Beginning of Year	<u>563,417</u>	<u>63,860</u>	<u>427,947</u>	<u>1,055,224</u>
Fund Balances - End of Year	<u>\$758,314</u>	<u>\$116,512</u>	<u>\$410,189</u>	<u>\$1,285,015</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$758,314</u>	<u>\$116,512</u>	<u>\$410,189</u>	<u>\$1,285,015</u>
Fund Balances				
Reserved for Encumbrances	87,653	4,250	119,892	211,795
Unreserved	670,661	112,262	290,297	1,073,220
Total Fund Balances	<u>\$758,314</u>	<u>\$116,512</u>	<u>\$410,189</u>	<u>\$1,285,015</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, 2006**

	Water Fund	Sewer Fund	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$1,387,980	\$1,859,837	\$3,247,817
Other Operating Revenues	333	50,131	50,464
Total Operating Cash Receipts	1,388,313	1,909,968	3,298,281
Operating Cash Disbursements:			
Personnel Services	646,247	517,408	1,163,655
Contract Services	186,562	329,460	516,022
Materials and Supplies	892,724	356,530	1,249,254
Capital Outlay	46,421	74,483	120,904
Total Operating Cash Disbursements	1,771,954	1,277,881	3,049,835
Operating Income	(383,641)	632,087	248,446
Non-Operating Cash Receipts/(Disbursements)			
Bond Retirement		(40,000)	(40,000)
Bond/Note Proceeds	350,000	145,000	495,000
Note Retirement	(300,000)		(300,000)
Loan Retirement	(5,891)	(736,793)	(742,684)
Interest Expense	(9,420)	(261,008)	(270,428)
Other Non-Operating Receipts	45,000		45,000
Other Non-Operating Disbursements	(42,535)	(136)	(42,671)
Total Non-Operating Cash Receipts/(Disbursements)	37,154	(892,937)	(855,783)
Excess of Cash Receipts Over/(Under) Cash Disbursements	(346,487)	(260,850)	(607,337)
Net Assets - Beginning of Year	1,269,250	485,914	1,755,164
Net Assets - End of Year	\$922,763	\$225,064	\$1,147,827
Assets			
Equity in Pooled Cash and Cash Equivalents	\$922,763	\$225,064	\$1,147,827
Net Assets			
Unreserved	\$922,763	\$225,064	\$1,147,827

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, 2006

Cash Receipts	\$1,131,317
Cash Disbursements	<u>1,110,804</u>
Changes in Net Assets	20,513
Net Assets - Beginning of Year	<u>48,069</u>
Net Assets - End of Year	<u><u>68,582</u></u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>68,582</u></u>
Net Assets	
Unrestricted	<u><u>\$68,582</u></u>

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE REPORTING ENTITY

The City of Kenton (the City) is a home rule municipal corporation established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four-year term. The legislative authority is vested in a seven-member Council, with a presiding President of Council, who are elected to two-year terms. Other elected officials consist of the auditor, treasurer and law director who are elected to four-year terms. The City provides the following services: police and fire safety; street maintenance and sanitation; parks and recreation; water and sewer utilities, and a staff to provide essential support to these services. These activities comprise the primary government of the City and whose activities are directly responsible to Council and the Mayor. They are, therefore, included in the reporting entity. The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading.

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

The City participates in three jointly governed organizations and an insurance pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, BKP Ambulance District, and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 10 and 11 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the City chooses to prepare its financial statements on a comprehensive basis of accounting (OCBOA) formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. 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.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

1. Government-Wide Financial Statement

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

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

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. The focus of governmental and enterprise fund/business type activity financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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.

3. Governmental Funds:

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Proprietary Funds/Business Type Activities:

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

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

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

5. Fiduciary Funds:

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City's Fiduciary Funds are Agency Funds to account for unclaimed money and the activity of the Municipal Court. These Funds are not included in the City's government wide financial statements.

C. Cash and Investments

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

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

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

The City invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price at which the investment could be sold at December 31, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. For calendar year 2006, interest receipts amounted to \$149,779 in which \$137,878 was recorded in the General Fund (\$75,501 assigned from other funds); \$4,401 was recorded in the Street Fund, \$807 in the State Highway Fund, \$647 in the CDBG Fund and \$6,046 in the Revolving Loan Fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Health Care

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

E. Intergovernmental Revenues

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

F. Capital Assets

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

G. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Compensated Absences

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

I. Long-Term Obligations

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

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

J. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements. During the course of normal operations, the City has numerous transactions between funds. The most significant include:

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Cash Assets

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

L. Fund Balance Reserves

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

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$576,300 of the City's bank balance of \$776,300 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

B. Investments

At December 31, 2006, the City invested \$1,887,657 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 investment policy restricts the City Auditor from investing in anything other than as identified in the Ohio Revised Code.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

4. TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed in 2005.

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2006 was \$4.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.00 per \$1,000 of assessed valuation for all other real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.9093 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.9722 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended December 31, 2006 was 18.75% of true value for inventory and 18.75% of true value for machinery and equipment.

The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 63,271,340
Commercial/Industrial	27,337,780
Public Utilities	30,410
Tangible Personal	19,670,556
Public Utility Personal	3,740,490
Total	\$114,050,576

Real property taxes for tax year 2006 are payable annually or semi-annually. If paid annually, payment is due February 14, 2007. If paid semi-annually, the first payment is due February 14, 2007 with the remainder payable by July, 2007. 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 11, through a tax levy. The levy for the Cemetery is voted millage. During 2006, the Cemetery received \$95,282 in tax revenue, and related homestead and rollback revenue, from the residents of the City. This money is reported as property tax revenue, intergovernmental revenue, and intergovernmental expenditures on the City's financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

4. TAXES (Continued)

B. City Income Tax

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

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

5. LEASES

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 the fire truck 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.

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, 2006.

<u>Fiscal Year Ending December 31</u>	<u>Fire Truck</u>	<u>911 Recorder Equipment</u>	<u>Total Capital Leases</u>
2007	\$57,287	\$2,220	\$59,507
2008	57,287	2,220	59,507
2009	57,287	2,220	59,507
2010	57,287	925	58,212
Total Minimum Lease Payments	<u>229,148</u>	<u>7,585</u>	<u>236,733</u>
Less: amount representing interest	<u>(27,466)</u>	<u>(1,019)</u>	<u>(28,485)</u>
Present Value of minimum lease payments	<u>\$201,682</u>	<u>\$6,566</u>	<u>\$208,248</u>

B. Operating Lease

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

5. LEASES (Continued)

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

Fiscal Year Ending December 31	Operating Lease
2007	\$ 6,300
2008	6,300
2009	6,300
2010	6,615
2011	6,615
2012-2016	33,736
2017-2021	35,423
2022-2026	37,195
2027-2031	39,054
2032-2036	41,007
2037-2041	43,057
2042-2046	45,210
2047-2049	27,924
Total Minimum Lease Payments	\$334,736

6. SHORT TERM DEBT

The City's note transactions for the year ended December 31, 2006, were as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Water Treatment Plant Improvement Bond Anticipation Note	4.24%	\$300,000	\$150,000	\$300,000	\$150,000
Radio-Read Meter Bond Anticipation Note	5.19%		\$300,000		\$300,000

According to Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. On June 16, 2006, the City renewed a bond anticipation note (seventh renewal) for \$150,000 due June 17, 2008, at 4.24 percent interest for water treatment plant improvements. The note will be retired from user charges in the water fund and will be reissued until paid in full or bonds are issued. The City intends to pay this note in full in 2007. The City also issued a bond anticipation note in the amount of \$300,000 on April 21, 2006, for the replacement of the City's approximately 3,000 water meters with "radio-read" meters. This note will be retired from user charges in both the Water and Sewer Funds and will be reissued until paid in full or bonds are issued.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

7. LONG TERM DEBT

The City's long-term debt transactions for the year ended December 31, 2006, are summarized below:

	Principal Outstanding January 1, 2006	Debt Issued in 2006	Principal Retired in 2006	Principal Outstanding December 31, 2006
Governmental Activities				
General Obligation Issues:				
1999 SW Pool Const. Bond	\$ 880,000		\$ 50,000	\$ 830,000
2006 Street Sweep Bond		\$ 45,000		45,000
Total Gen. Oblig. Bonds	<u>880,000</u>	<u>45,000</u>	<u>50,000</u>	<u>875,000</u>
1999 OPWC Loan - Street	34,400		8,600	25,800
2003 OPWC Loan - Street	13,012		1,735	11,277
2006 OPWC Loan - Street		138,600	3,465	135,135
Total Gen.Oblig. Loans	<u>47,412</u>	<u>138,600</u>	<u>13,800</u>	<u>172,212</u>
Capital Leases	<u>254,044</u>		<u>45,796</u>	<u>208,248</u>
Total Governmental Activity:	<u><u>1,181,456</u></u>	<u><u>183,600</u></u>	<u><u>109,596</u></u>	<u><u>1,255,460</u></u>
Business Type Activities				
Sewer Fund				
1987 Sewer Funds	80,000		40,000	40,000
2006 Street Sweep Bond		45,000		45,000
Total Bonds	<u>80,000</u>	<u>45,000</u>	<u>40,000</u>	<u>85,000</u>
1996 OWDA Wastewater Improvement Loan	854,767		62,975	791,792
1998 OWDA Wastewater Improvement Loan	10,917,520		673,819	10,243,701
Total Sewer Fund Loans	<u>11,772,287</u>	<u>-</u>	<u>736,794</u>	<u>11,035,493</u>
Water Fund				
2003 OPWC Waterworks Loan	<u>100,148</u>		<u>5,891</u>	<u>94,257</u>
Total Business Type Activity:	<u><u>11,952,435</u></u>	<u><u>45,000</u></u>	<u><u>782,685</u></u>	<u><u>11,214,750</u></u>
Total Debt	<u><u>\$13,133,891</u></u>	<u><u>\$228,600</u></u>	<u><u>\$892,281</u></u>	<u><u>\$12,470,210</u></u>

1999 Various Purpose Bonds

During 1999, the City issued various purpose bonds in the amount of \$1,200,000 to retire bond anticipation notes issued for the construction of a municipal swimming pool. The bonds have stated interest rates between 3.3 and 5.4 percent and will mature in 2018.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

7. LONG TERM DEBT (Continued)

<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%

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

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 Sewer Fund.

1999 Ohio Public Works Commission Loan (OPWC)

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

2003 Ohio Public Works Commission Loan (OPWC)

During 2003, the City obtained a 0% interest 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.

2006 Ohio Public Works Commission Loan (OPWC)

The City obtained a 0% 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 debt service fund.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

7. LONG TERM DEBT (Continued)

1987 Sewer Bonds

On January 1, 1987 the City issued \$750,000 general obligation bonds at 6.375 percent interest for a sewer project. These bonds are being repaid with sewer fund revenue and will mature in 2007.

1996 Ohio Water Development Authority Loan (OWDA)

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

1998 Ohio Water Development Authority Loan (OWDA)

During 1998 the City began the construction phase of the Wastewater Treatment Plant Expansion Project with funding for this project provided by an estimated \$14,665,000 loan at 2.2 percent interest for 20 years granted by the OWDA. Additional \$72,944 debt principal has not been disbursed to the City as of December 31, 2006. This loan will be repaid from user charges.

2003 Ohio Public Works Commission Loan (OPWC)

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

The annual requirements to amortize all long term debt outstanding as of December 31, 2006, including interest payments of \$2,046,003 are as follows:

	Bonds	Capital Leases	OWDA Loans	OPWC Loans	Total
2007	\$161,951	\$59,507	\$991,753	\$23,156	\$1,236,367
2008	116,095	59,507	991,753	23,156	1,190,511
2009	112,735	59,507	991,753	23,156	1,187,151
2010	114,319	58,212	991,753	14,556	1,178,840
2011	115,603		991,753	14,556	1,121,912
2012-2016	473,075		4,958,767	66,708	5,498,550
2017-2021	189,310		2,812,390	64,105	3,065,805
2022-2026				37,077	37,077
Total	1,283,088	236,733	12,729,922	266,470	14,516,213
Less Interest	(323,088)	(28,485)	(1,694,430)		(2,046,003)
Principal	\$ 960,000	\$208,248	\$11,035,492	\$266,470	\$12,470,210

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

8. PENSION OBLIGATIONS

A. Ohio Public Employees Retirement System (OPERS)

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans described as follows: (1) The Traditional Pension Plan (TP) – a cost sharing multiple-employer defined benefit pension plan; (2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon; and (3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TO, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The member contribution rate for 2006 was 9% for members in state and local classifications. The 2006 employer contribution rate for local government employers was 13.70% of covered payroll, 9.2% for pension obligations. The City's contributions for pension obligations to OPERS for the years ended December 31, 2006, 2005 and 2004 were \$139,057, \$147,785, and \$145,406, respectively; 100% has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

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.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters, 11.75% and 16.25% respectively for pension obligations. The City's contributions to OP&F were \$70,743 and \$81,265 for the year ended December 31, 2006, \$72,913 and \$85,473 for the year ended December 31, 2005 and \$70,069 and \$80,170 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. Approximately 74% has been contributed for 2006. The unpaid contributions for 2006 are \$29,838 and \$31,467, respectively.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

9. POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

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

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2006, local government employer units contributed at 13.70% of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.50 percent. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

Benefits are advance-funded using the entry age normal actuarial cost method. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5 percent to 6 percent for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund other post-employment benefits were \$68,017.

The amount of \$11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005 (the latest information available). The Actuarial Valuation as of December 31, 2005, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB, based on actuarial cost method used, at \$31.3 billion and \$20.2 billion, respectively.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate.

The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2005 and 2006. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2005, the date of the last actuarial valuation available, was 13,922 for police and 10,537 for firefighters. The City's actual contributions for 2006 that were used to fund post employment benefits were \$46,661 for police and \$38,757 for firefighters. OP&F's total health care expense for the year ended December 31, 2005, (the date of the last actuarial valuation available), was \$108,039,449, which was net of member contributions of \$55,271,881.

10. RISK MANAGEMENT

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

10. RISK MANAGEMENT (Continued)

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

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, 2006 and 2005.

Casualty Coverage	2006	2005
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>
Property Coverage	2006	2005
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

10. RISK MANAGEMENT (Continued)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$279,000. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

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

2004	\$126,695
2005	\$149,057
2006	\$140,756

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.

11. 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 in Hardin County, and the City of Kenton. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board.

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

B. Hardin County Regional Planning Commission

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

12. TRANSFERS

During 2006, the General Fund made transfers to other governmental funds, in the amount of \$399,908, to Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund, and the Note Retirement Fund to subsidize various programs and to pay debt obligations.

The City transferred \$60,000 from the Revolving Loan Fund to the Issue II Fund. An unused amount of \$9,339 was transferred back the Revolving Loan Fund. The Ohio Department of Development approved this transfer.

13. CONTINGENT LIABILITIES

A. Grants

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

B. Litigation

On February 12, 2003, the City commenced a declaratory judgment action in the Hardin County Common Pleas Court, Case No. 30021029 CVH, against Thomas & Marker Construction Co. Thomas & Marker was the general contractor employed to construct the City's new wastewater treatment plant, which was substantially completed in March 2000. Thomas & Marker claimed damages in the amount of \$2,120,837.01 because the City allegedly required it to accelerate construction of the plant to meet EPA-mandated deadlines, and had counterclaimed for that amount. The City denied that it owed any amount to Thomas & Marker, and specifically alleged that Thomas & Marker failed to timely assert its claim. Thomas & Marker impleaded the City's design/construction manager, R.D. Zande & Associates, Inc. and asserted the same claim against it.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

13. CONTINGENT LIABILITIES (Continued)

Although this case was not resolved as of December 31, 2006, in early 2007 the City of Kenton has agreed to settle the litigation for \$250,000. The termination of the litigation and payment of the settlement by the City of Kenton to Thomas & Marker of the \$250,000 settlement figure is contemplated to be completed during 2007.

The City is named as a defendant in another lawsuit involving an injury. Although management cannot presently determine the outcome of this suit, they believe the resolution of this matter will not materially adversely affect the City's financial condition.

14. SUBSEQUENT EVENTS

On March 26, 2007, the City approved the first reading Ordinance 07-005 providing for the issuance of \$177,500 of Wastewater Treatment Plant Improvement Bond Anticipation Notes in anticipation of the issuance of bonds.

On April 9, 2007, the City approved Ordinance 07-007 providing for the issuance of \$100,000 of Radio-Read Water Meter Conversion Bond Anticipation Note.

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**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$563,418	\$563,418	\$563,418	
Resources (Inflows):				
Taxes	2,565,917	2,565,917	2,768,901	\$202,984
Charges for Services	61,000	61,000	66,857	5,857
Licenses and Permits	42,000	42,000	43,355	1,355
Fines and Forfeitures	280,000	280,000	348,979	68,979
Intergovernmental	346,698	346,698	399,024	52,326
Interest on Investments	70,000	70,000	137,878	67,878
Miscellaneous Receipts	10,000	10,000	4,934	(5,066)
Other Financing Sources			4,993	4,993
Total Resources	<u>3,375,615</u>	<u>3,375,615</u>	<u>3,774,921</u>	<u>399,306</u>
Amounts Available for Appropriation:	3,939,033	3,939,033	4,338,339	399,306
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	677,954	678,359	615,215	63,144
Judicial	368,549	367,349	338,387	28,962
Public Safety	2,189,205	2,207,470	2,136,201	71,269
Health	73,500	73,500	73,500	
Economic Development	4,585	4,585	4,585	
Capital Outlay	98,988	104,488	99,882	4,606
Other Financing Uses				
Transfers Out	399,401	404,216	399,908	4,308
Total Charges to Appropriations:	<u>3,812,182</u>	<u>3,839,967</u>	<u>3,667,678</u>	<u>172,289</u>
Ending Budgetary Balance:	<u>\$126,851</u>	<u>\$99,066</u>	<u>\$670,661</u>	<u>\$571,595</u>

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$63,859	\$63,859	\$63,859	
Resources (Inflows):				
Special Assessments	2,266	2,266	2,266	
Licenses and Permits	1,000	1,000	1,320	\$320
Intergovernmental	305,000	305,000	334,989	29,989
Interest on Investments	1,500	1,500	4,401	2,901
Miscellaneous Receipts	2,500	35,500	38,442	2,942
Other Financing Sources			3,325	3,325
Proceeds of Bonds		45,000	45,000	
Transfers In	233,110	233,110	230,000	(3,110)
Total Resources	545,376	623,376	659,743	
Amounts Available for Appropriation:	609,235	687,235	723,602	36,367
Charges to Appropriations (Outflows):				
Public Works	595,268	627,143	555,979	71,164
Capital Outlay	5,000	55,500	55,361	139
Total Charges to Appropriations:	600,268	682,643	611,340	71,303
Ending Budgetary Balance:	\$8,967	\$4,592	\$112,262	\$107,670

See accompanying notes to Required Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2006**

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 2006.

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2006
(Continued)**

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



Mary Taylor, CPA

Auditor of State

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

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

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2007 wherein we noted the City uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted certain matters that we reported to the City's management in a separate letter dated August 8, 2007.

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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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 7, 2007.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 7, 2007

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Findings for Recovery / Repaid Under Audit

The Agreement Between The City of Kenton, Ohio and Firefighters Local Union #2648, International Association of Firefighters, effective February 1, 2004 until December 31, 2006 (the Agreement), Section 9.4 states that in the event it becomes necessary to call back employees from their off-duty time due to staffing shortages, such employees shall be paid overtime for a minimum of two (2) hours at a rate equal to one and one-half (1 ½) times the employee's regular hourly rate figured by dividing the employee's annual rate by two thousand nine hundred twelve (2,912) hours.

In the event it becomes necessary to call back employees from their off-duty time to fight fires and/or handle other emergencies, such employees shall be paid overtime for a minimum of two (2) hours at a rate equal to one and one-half (1 ½) times the employee's regular hourly rate figured by dividing the employee's annual rate by two thousand eighty (2,080) hours.

Section 9.5 states all employees covered by this Agreement who are required to work overtime shall be paid at a rate equal to one and one-half (1 ½) times the employee's regular hourly rate figured by dividing the employees' annual rate by two thousand nine hundred twelve (2,912) hours, for a minimum of not less than two (2) hours.

During 2006, the overtime rate established by the negotiated agreement for fighting fires and/or handling other emergencies was the rate used for all overtime paid to the City's firefighters. As a result, all non-emergency overtime worked by firefighters was paid at a higher rate than established by the negotiated agreement. This resulted in the following City firefighters being overpaid in 2006:

Fire Captain Timothy L. Striker received payment in the amount of \$897.39 (31 non-emergency overtime hours @ the emergency overtime rate of \$28.9482) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$654.95 (4 non-emergency overtime hours @ the non-emergency overtime rate of \$20.4465 + 27 hours @ \$21.2282), which is a total overpayment in the amount of \$242.44 (\$897.39 - \$654.95).

Assistant Fire Chief Thomas G. Roberts received payment in the amount of \$646.50 (2 non-emergency overtime hours @ the emergency overtime rate of \$29.7550 + 19 @ \$30.8944) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$474.13 (2 non-emergency overtime hours @ the non-emergency overtime rate of \$21.8204 + 19 hours @ \$22.6571), which is a total overpayment in the amount of \$172.37 (\$646.50 - \$474.13).

Fire Captain Roger E. Crowe received payment in the amount of \$607.91 (21 non-emergency overtime hours @ the emergency overtime rate of \$28.9482) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$444.23 (2 non-emergency overtime hours @ the non-emergency overtime rate of \$20.4465 + 19 hours @ \$21.2282), which is a total overpayment in the amount of \$163.68 (\$607.91 - \$444.23).

Fire Fighter James F. Ramge received payment in the amount of \$327.09 (12 non-emergency overtime hours @ the emergency overtime rate of \$27.2571) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$239.84 (12 non-emergency overtime hours @ the non-emergency overtime rate of \$19.9866), which is a total overpayment of \$87.25 (\$327.09 - \$239.84).

**FINDING NUMBER 2006-001
 (Continued)**

Fire Fighter Anthony D. Hastings received payment in the amount of \$327.09 (12 non-emergency overtime hours @ the emergency overtime rate of \$27.2571) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$239.84 (12 non-emergency overtime hours @ the non-emergency overtime rate of \$19.9866), which is a total overpayment in the amount of \$87.25 (\$327.09 - \$239.84).

Fire Fighter Bruce D. Donnelly received payment in the amount of \$220.11 (6 non-emergency overtime hours @ the emergency overtime rate of \$24.2170 + 3 @ \$24.9352) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$165.54 (6 non-emergency overtime hours @ the non-emergency overtime rate of \$18.2172 + 3 hours @ \$18.7445), which is a total overpayment in the amount of \$54.57 (\$220.11 - \$165.54).

Fire Fighter Thomas D. Wies received payment in the amount of \$163.54 (6 non-emergency overtime hours @ the emergency overtime rate of \$27.2571) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$119.92 (6 non-emergency overtime hours @ the non-emergency overtime rate of \$19.9866), which is a total overpayment in the amount of \$43.62 (\$163.54 - \$119.92).

Fire Fighter Robert E. Wilson received payment in the amount of \$74.54 (3 non-emergency overtime hours @ the emergency overtime rate of \$24.8470) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$54.65 (3 non-emergency overtime hours @ the non-emergency overtime rate of \$18.2175), which is a total overpayment in the amount of \$19.89 (\$74.54 - \$54.65).

Fire Fighter Kevin E. Murphy received payment in the amount of \$44.35 (2 non-emergency overtime hours @ the emergency overtime rate of \$22.1739) for non-emergency overtime hours worked during 2006. His 2006 non-emergency overtime payments should have been \$34.36 (2 non-emergency overtime hours @ the non-emergency overtime rate of \$17.1797), which is a total overpayment in the amount of \$9.99 (\$44.35 - \$34.36).

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, Findings for Recovery for public money that has been illegally expended, are hereby rendered against City Auditor Nathan Brooks and his bonding company, The Ohio Casualty Insurance Company, City Treasurer Terri Downey and her bonding company, Ohio Farmers Insurance Co., and the following individuals, jointly and severally, and in favor of the City's General Fund: Fire Captain Timothy L. Striker, \$242.44; Assistant Fire Chief Thomas G. Roberts, \$172.37; Fire Captain Roger E. Crowe, \$163.68; Fire Fighter James F. Ramge, \$87.25; Fire Fighter Anthony D. Hastings, \$87.25; Fire Fighter Bruce D. Donnelly, \$54.57; Fire Fighter Thomas D. Wies, \$43.62; Fire Fighter Robert E. Wilson, \$19.89; and Fire Fighter Kevin E. Murphy, \$9.99.

These findings were repaid during the course of the audit, as follows:

Name	Repayment Date	Receipt #	Amount
Timothy L. Striker	6/22/07	39206	\$242.44
Thomas G. Roberts	7/3/07	39285	172.37
Roger E. Crowe	6/26/07	39229	163.68
James F. Ramge	7/18/07	39373	87.25
Anthony D. Hastings	7/18/07	39374	87.25
Bruce D. Donnelly	6/29/07	39258	54.57
Thomas D. Wies	7/3/07	39284	43.62
Robert E. Wilson	7/18/07	39372	19.89
Kevin E. Murphy	7/26/07	39408	9.99

**FINDING NUMBER 2006-001
(Continued)**

OFFICIALS' RESPONSE

In the past, the Fire Department payroll summary had been presented to the Auditor's Office with one column for the total overtime hours. This has been corrected and now emergency and non-emergency overtime hours are separated on the payroll summary and paid at the different rates as specified in the contract. All monies indicated in the finding as having been overpaid have been repaid to the City's General Fund.

FINDING NUMBER 2006-002

Noncompliance Citation

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

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

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

OFFICIALS' RESPONSE

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

**CITY OF KENTON
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – The City did not prepare financial statements in accordance with (GAAP)	No	Repeated as finding 2006-002



Mary Taylor, CPA
Auditor of State

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 4, 2007**