



**CITY OF KENTON
HARDIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF KENTON
HARDIN COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Kenton
Hardin County
111 West Franklin Street
P.O. Box 220
Kenton, Ohio 43326

To the Members of Council:

We have audited the accompanying general-purpose financial statements of the City of Kenton, Hardin County, (the City), as of and for the year ended December 31, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Kenton, Hardin County, as of December 31, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, City Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 17, 2001

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CITY OF KENTON
HARDIN COUNTY

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,573,690	\$804,099	\$1,821	\$40,048
Cash and Cash Equivalents in Segregated Accounts	400			
Receivables (Net, where applicable, of allowance for uncollectibles):				
Income Taxes	291,843			
Property Taxes	226,965	52,370		
Accounts	20,981	993		
Special Assessments		18,935		
Accrued Interest		758		
Due from Other Funds	15,134	3,047		
Intergovernmental Receivable	36,083	71,807		
Materials and Supplies Inventory		11,567		
Loans Receivable		125,422		
Prepaid Items	19,033	12,714		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount to be Provided from General Government Resources				
Amount Available for Debt Service				
Total Assets and Other Debits	<u>\$2,184,129</u>	<u>\$1,101,712</u>	<u>\$1,821</u>	<u>\$40,048</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	\$24,198	\$6,487		
Accrued Wages and Benefits	117,168	16,251		
Compensated Absences Payable	23,285	5,754		
Due to Other Funds				
Intergovernmental Payable				
Deferred Revenue	211,578	64,711		
Deposits Held and Due to Others	13,404			
Accrued Interest Payable				
Notes Payable				
Claims Payable				
Fire Pension Liability Payable				
Police Pension Liability Payable				
Capital Leases Payable				
OWDA Loans Payable				
General Obligation Bonds Payable				
OPWC Loan Payable				
Total Liabilities	<u>389,633</u>	<u>93,203</u>		
Fund Equity and Other Credits				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved for Encumbrances	25,827	19,698		74,847
Reserved for Property Taxes	28,572	6,594		
Reserved for Inventory		11,567		
Reserved for Prepaid Items	19,033	12,714		
Reserved for Debt Service			1,821	
Reserved for Loans Receivable		125,422		
Unreserved, Undesignated (Deficit)	1,721,064	832,514		(34,799)
Total Fund Equity and Other Credits	<u>1,794,496</u>	<u>1,008,509</u>	<u>1,821</u>	<u>40,048</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$2,184,129</u>	<u>\$1,101,712</u>	<u>\$1,821</u>	<u>\$40,048</u>

The notes to the Financial Statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets Account Group	General Long-Term Obligations Account Group	
\$1,212,645 600	\$98,134	\$700 47,919			\$3,731,137 48,919
					291,843
					279,335
264,278					286,252
19,797					38,732
					758
					18,181
					107,890
24,574					36,141
					125,422
20,202					51,949
23,550,915			5,923,850		29,474,765
				3,087,505	3,087,505
				1,821	1,821
<u>\$25,093,011</u>	<u>\$98,134</u>	<u>\$48,619</u>	<u>\$5,923,850</u>	<u>\$3,089,326</u>	<u>\$37,580,650</u>
\$28,717					\$59,402
65,797				121,696	320,912
98,682				307,729	435,450
		18,181			18,181
		19,576			19,576
19,797					296,086
63,515		10,862			87,781
19,305					19,305
620,000				77,400	697,400
	38,080				38,080
				159,210	159,210
				159,210	159,210
				487,081	487,081
14,605,777					14,605,777
280,000				1,777,000	2,057,000
51,230					51,230
<u>15,852,820</u>	<u>38,080</u>	<u>48,619</u>		<u>3,089,326</u>	<u>19,511,681</u>
			5,923,850		5,923,850
3,687,079					3,687,079
5,553,112	60,054				5,613,166
					120,372
					35,166
					11,567
					31,747
					1,821
					125,422
					2,518,779
<u>9,240,191</u>	<u>60,054</u>		<u>5,923,850</u>		<u>18,068,969</u>
<u>\$25,093,011</u>	<u>\$98,134</u>	<u>\$48,619</u>	<u>\$5,923,850</u>	<u>\$3,089,326</u>	<u>\$37,580,650</u>

**CITY OF KENTON
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum) Only</u>
Revenues:					
Municipal Income Tax	\$2,396,590				\$2,396,590
Property and Other Taxes	256,110	54,434			310,544
Charges for Services	61,306	90,329			151,635
Licenses and Permits	41,535	1,440			42,975
Fines and Forfeitures	247,589	87,655			335,244
Intergovernmental	508,984	305,134		152,968	967,086
Special Assessments		5,564			5,564
Interest	226,315	13,370			239,685
Other	5,488	15,020			20,508
Total Revenues	<u>3,743,917</u>	<u>572,946</u>		<u>152,968</u>	<u>4,469,831</u>
Expenditures:					
Current:					
General Government	865,497	40,723			906,220
Security of Persons and Property	1,655,012	5,345			1,660,357
Public Health and Welfare	55,000				55,000
Transportation		629,706			629,706
Community Environment	46,484	6,300			52,784
Leisure Time Activities		207,112			207,112
Capital Outlay	585,335	66,936		124,328	776,599
Debt Service:					
Principal Retirement		15,190	258,308		273,498
Total Expenditures	<u>3,207,328</u>	<u>971,312</u>	<u>258,308</u>	<u>124,328</u>	<u>4,561,276</u>
Excess of Revenues Over (Under) Expenditures	<u>536,589</u>	<u>(398,366)</u>	<u>(258,308)</u>	<u>28,640</u>	<u>(91,445)</u>
Other Financing Sources (Uses):					
Sale of Fixed Assets	1,710	4,700			6,410
Inception of Capital Lease	435,335	66,936			502,271
Operating Transfers - In		525,000	258,308		783,308
Operating Transfers - Out	(675,142)	(108,166)			(783,308)
Total Other Sources (Uses)	<u>(238,097)</u>	<u>488,470</u>	<u>258,308</u>		<u>508,681</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	298,492	90,104	0	28,640	417,236
Fund Balance at Beginning of Year	1,496,004	916,660	1,821	11,408	2,425,893
Increase in Reserve for Inventory		1,745			1,745
Fund Balances at End of Year	<u>\$1,794,496</u>	<u>\$1,008,509</u>	<u>\$1,821</u>	<u>\$40,048</u>	<u>\$2,844,874</u>

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

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**CITY OF KENTON
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Municipal Income Tax	\$2,150,000	\$2,330,025	\$180,025			
Property and Other Taxes	218,937	246,595	27,658	46,216	52,238	6,022
Charges for Services	61,500	61,306	(194)	89,200	90,329	1,129
Licenses and Permits	36,800	42,490	5,690	100	1,440	1,340
Fines and Forfeitures	246,000	250,690	4,690	91,900	88,022	(3,878)
Intergovernmental	399,400	508,043	108,643	310,500	277,442	(33,058)
Special Assessments				5,000	5,564	564
Interest	125,000	226,370	101,370	6,400	13,404	7,004
Other	5,100	5,433	333	29,240	46,167	16,927
Total Revenues	3,242,737	3,670,952	428,215	578,556	574,606	(3,950)
Expenditures:						
Current:						
General Government						
Legislative and Executive	775,868	600,871	174,997			
Judicial	333,494	291,660	41,834	120,017	44,523	75,494
Security of Persons and Property	1,966,019	1,830,282	135,737	18,176	5,521	12,655
Public Health and Welfare	58,000	55,000	3,000			
Transportation				905,818	657,633	248,185
Community Environment	74,160	46,484	27,676	85,000	6,300	78,700
Leisure Time Activities				328,409	226,862	101,547
Capital Outlay						
Debt Service:						
Principal Retirement						
Interest and Fiscal Charges						
Total Expenditures	3,207,541	2,824,297	383,244	1,457,420	940,839	516,581
Excess of Revenues Over (Under) Expenditures	35,196	846,655	811,459	(878,864)	(366,233)	512,631
Other Financing Sources (Uses):						
Payments to Refund Debt Escrow Agent						
Proceeds of Refunding Debt						
Proceeds of Bonds						
Sale of Fixed Assets	100	1,710	1,610	100	4,700	4,600
Operating Transfers - In				778,167	525,000	(253,167)
Operating Transfers - Out	(928,309)	(675,142)	253,167	(108,200)	(108,166)	34
Total Other Sources (Uses)	(928,209)	(673,432)	254,777	670,067	421,534	(248,533)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(893,013)	173,223	1,066,236	(208,797)	55,301	264,098
Fund Balances (Deficit) at Beginning of Year	1,191,863	1,191,863		652,681	652,681	
Prior Year Encumbrances Appropriated	97,104	97,104		59,484	59,484	
Fund Balances (Deficit) at End of Year	\$395,954	\$1,462,190	\$1,066,236	\$503,368	\$767,466	\$264,098

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

Debt Service Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			1,088,900	152,968	(935,932)
200		(200)			
200		(200)	1,088,900	152,968	(935,932)
			600,307	199,175	401,132
258,308	258,308				
258,308	258,308		600,307	199,175	401,132
(258,108)	(258,308)	(200)	488,593	(46,207)	(534,800)
258,308	258,308				
258,308	258,308				
200		(200)	488,593	(46,207)	(534,800)
1,821	1,821		11,407	11,407	
\$2,021	\$1,821	(\$200)	\$500,000	(\$34,800)	(\$534,800)

**CITY OF KENTON
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating Revenues:			
Charges for Services	\$2,486,899	\$243,934	\$2,730,833
Other	4,303		4,303
Total Operating Revenues	2,491,202	243,934	2,735,136
Operating Expenses:			
Personal Services	926,126		926,126
Contractual Services	349,253	239,416	588,669
Materials and Supplies	533,058		533,058
Other	55		55
Depreciation	428,661		428,661
Total Operating Expenses	2,237,153	239,416	2,476,569
Operating Income	254,049	4,518	258,567
Non-Operating Revenues (Expenses):			
Interest on Investments	20,175		20,175
Loss on Disposal of Fixed Assets	(24,393)		(24,393)
Special Assessments	2,548		2,548
Interest and Fiscal Charges	(367,006)		(367,006)
Total Non-Operating Revenues (Expenses)	(368,676)		(368,676)
Net Income (Loss)	(114,627)	4,518	(110,109)
Depreciation on Fixed Assets Acquired by Contributed Capital	34,275		34,275
Retained Earnings at Beginning of Year (restated Note 3)	5,633,464	55,536	5,689,000
Retained Earnings at End of Year	5,553,112	60,054	5,613,166
Contributed Capital at Beginning of Year	3,721,354		3,721,354
Depreciation on Fixed Assets Acquired by Contributed Capital	(34,275)		(34,275)
Contributed Capital at End of Year	3,687,079		3,687,079
Total Fund Equity at End of Year	\$9,240,191	\$60,054	\$9,300,245

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

**CITY OF KENTON
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES-BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	Enterprise Funds			Internal Service Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Charges for Services	\$2,266,500	\$2,528,710	\$262,210	\$205,000	\$243,934	\$38,934
Interest Income		20,075	20,075			
Other Operating Revenues	2,200	4,303	2,103			
Total Revenues	<u>2,268,700</u>	<u>2,553,088</u>	<u>284,388</u>	<u>205,000</u>	<u>243,934</u>	<u>38,934</u>
Expenses:						
Current:						
Personal Services	975,060	913,392	61,668			
Contractual Services	484,594	384,909	99,685	231,321	210,846	20,475
Materials and Supplies	1,067,716	722,132	345,584			
Other	3,985	55	3,930			
Capital Outlay	3,277,277	3,282,140	(4,863)			
Debt Service	1,768,891	1,761,334	7,557			
Total Expenses	<u>7,577,523</u>	<u>7,063,962</u>	<u>513,561</u>	<u>231,321</u>	<u>210,846</u>	<u>20,475</u>
Excess of Revenues Over (Under) Expenses	(5,308,823)	(4,510,874)	797,949	(26,321)	33,088	59,409
Nonoperating Revenues (Expenses)						
Sale of Fixed Assets		2,025	2,025			
Special Assessments	2,000	2,548	548			
Security Deposits	35,000	30,500	(4,500)			
Security Deposits Applied	(99,810)	(31,795)	68,015			
Loan Proceeds	3,665,000	3,444,151	(220,849)			
Total Nonoperating Revenues (Expenses)	<u>3,602,190</u>	<u>3,447,429</u>	<u>(154,761)</u>			
Excess of Revenues Over (Under) Expenses and Operating Transfers	(1,706,633)	(1,063,445)	643,188	(26,321)	33,088	59,409
Retained Earnings at Beginning of Year	(956,041)	(956,041)		55,536	55,536	
Prior Year Encumbrances Appropriated	2,989,884	2,989,884		1,321	1,321	
Fund Equity at End of Year	<u>\$327,210</u>	<u>\$970,398</u>	<u>\$643,188</u>	<u>\$30,536</u>	<u>\$89,945</u>	<u>\$59,409</u>

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

CITY OF KENTON
HARDIN COUNTY

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Enterprise Funds</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Increase (Decrease) in Cash and Cash Equivalents:			
Cash flows from operating activities:			
Cash Received from Customers	\$2,533,013		\$2,533,013
Cash Received from Quasi-External Transactions with Other Funds		243,934	\$243,934
Cash Payments for Materials and Supplies	(550,701)		(550,701)
Cash payments to employees for services	(893,467)		(893,467)
Cash Payments for Contractual Services	(359,997)		(359,997)
Cash Payments for Claims		(202,657)	(202,657)
Customer Deposits Received	30,500		30,500
Customer Deposits Applied	(31,795)		(31,795)
Net Cash Provided by Operating Activities	<u>727,553</u>	<u>41,277</u>	<u>768,830</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(1,053,639)		(1,053,639)
Principal Payments	(1,369,544)		(1,369,544)
Interest Payments	(391,790)		(391,790)
Interest Receipts	20,075		20,075
Proceeds From Loans	1,521,572		1,521,572
Proceeds From Special Assessments	2,548		2,548
Proceeds from the Sales of Fixed Assets	2,025		2,025
Net Cash Used for Capital and Related Financing Activities	<u>(1,268,753)</u>		<u>(1,268,753)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(541,200)	41,277	(499,923)
Cash and Cash Equivalents at Beginning of Year	<u>1,754,445</u>	<u>56,857</u>	<u>1,811,302</u>
Cash and Cash Equivalents at End of Year	<u><u>1,213,245</u></u>	<u><u>98,134</u></u>	<u><u>1,311,379</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income	254,049	4,518	258,567
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Depreciation	428,661		428,661
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	41,811		41,811
Increase (Decrease) in Special Assessments Receivable	2,548		2,548
(Increase) Decrease in Inventory	7,657		7,657
(Increase) Decrease in Prepaid Expenses	363		363
Increase (Decrease) in Accounts Payable	(36,352)		(36,352)
Increase (Decrease) in Accrued Wages	11,668		11,668
Increase (Decrease) in Compensated Absences	20,991		20,991
Increase (Decrease) in Claims Payable		36,759	36,759
Increase (Decrease) in Deferred Revenue	(2,548)		(2,548)
Increase (Decrease) in Customer Deposits	(1,295)		(1,295)
Net Cash Provided by Operating Activities	<u><u>\$727,553</u></u>	<u><u>\$41,277</u></u>	<u><u>\$768,830</u></u>

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000**

1. DESCRIPTION OF REPORTING ENTITY

A. 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 officials consist of the auditor, treasurer and law director who are elected to four-year terms. The City provides the following services: police and fire safety; street maintenance and sanitation; parks and recreation; water and sewer utilities, and a staff to provide essential support to these services. These activities comprise the primary government of the City and whose activities are directly responsible to Council and the Mayor. They are, therefore, included in the reporting entity.

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

The following potential component units have been excluded from the reporting entity because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes or the issuance of debt for these organizations:

Kenton City School District

The Kenton City School District, including the City of Kenton and surrounding rural areas, is a distinct political subdivision of the State of Ohio operated under the direction of an elected school board possessing its own budgeting and taxing authority.

Grove Cemetery Association

The Grove Cemetery Association is an organization which is defined as a jointly governed organization. A jointly governed organization is an organization that is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest in or responsibility by the participating governments. This organization is described in Note 23 of the general purpose financial statements.

The City is also associated with the Ohio Municipal League Worker's Compensation Group Rating Program which is group purchasing pool. This organization is discussed in Note 24 to the general purpose financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the provisions of GASB Statement No. 20 the City has elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989, to its proprietary activities. Election of this approach to accounting for proprietary activities by the City has required no change from prior years. The more significant of the City's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories of governmental, proprietary and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund

This fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Ordinances of the City of Kenton and/or the general laws of Ohio.

Special Revenue Funds

These funds are limited by state and/or federal law for the financing of certain governmental functions (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund

These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, and trust funds).

2. Proprietary Fund Types:

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The following is the City's proprietary fund types:

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis (water and sewer) be financed or recovered primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund

This fund is used to account for the financing, on a cost-reimbursement basis, of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments.

3. Fiduciary Fund Types:

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 agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for fixed assets, other than those accounted for in the proprietary funds.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the City, except those accounted for in proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Agency Funds have a basis of accounting similar to Governmental Funds.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with this activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the governmental fund types and agency funds. Revenues are recognized when they become both measurable and available, while expenditures are generally recognized when the related fund liability is incurred, with the exception of unmatured interest on general long-term debt which is recognized when due. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The available period for the City is thirty-one days after year end.

In applying the susceptible to accrual concept under the modified accrual basis of accounting, the following major revenue sources are deemed both measurable and available: city income tax estimates by individuals and withheld by employers, utility billings unpaid and unbilled, state-levied shared revenues and interest on investments. Major revenue sources not susceptible to accrual include licenses, permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues which are not considered measurable until received.

The accrual basis of accounting is followed in the proprietary fund types. Accordingly, revenues are recognized when they are earned and expenses, including depreciation, are recognized when they are incurred. Unbilled service charges receivable are recognized as revenue at year end.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise in governmental funds when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability of deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 2000, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance the current year, have also been recorded as deferred revenue as further described in Note 9.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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.

1. 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.

2. 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 2000.

3. 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. 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.

5. Lapsing of Appropriations

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

6. 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 on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis for governmental funds in order to demonstrate legal compliance. Proprietary fund encumbrances are reported in the notes to the financial statements. 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.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2000. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes.

STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2000.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Under these provisions, City funds required to receive interest allocations are the General Fund, Street Fund, State Highway Fund and Revolving Loan Fund. Interest revenue credited to the General Fund during fiscal year 2000 amounted to \$226,315.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents held by the City but outside of the City treasury for the Municipal Court is presented on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

For purposes of the Combined Statement of Cash Flows and for presentation of the Combined Balance Sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

F. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported material and supplies inventory in governmental funds is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. At December 31, 2000, the Street Fund, Water Fund and Sewer Fund maintained significant inventories.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2000, are recorded as expenditures in the governmental fund type when paid and as expenses in the proprietary fund types when used. Reported prepaid items in governmental funds are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

H. Fixed Assets and Depreciation

The fixed asset values were initially determined at December 31, 1988, assigning original acquisition costs for the majority of assets. For certain assets where the original costs were not practicably determinable, other methods were used to assign costs. For certain fixed assets, estimates were determined by indexing cost back to the estimated year of acquisition. Interest costs are not included in capitalized amounts. Donated fixed assets are stated at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized.

Public domain ("infrastructure") general fixed assets consisting of streets, sidewalks and storm sewers are not capitalized by the City since they are immovable and of value only to the City.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets used in governmental type operations are not capitalized in the funds used to acquire or construct them. They are reflected as expenditures in the governmental funds and are reported in a General Fixed Assets Account Group. The City has elected to report the General Fixed Assets Account Group net of depreciation in accordance with generally accepted accounting principles for governmental entities. Fixed assets associated with proprietary fund activity are accounted for in those funds. Depreciation is recorded in the proprietary fund types using the straight-line basis over the estimated useful lives of the related assets. Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Life</u>
Buildings	40 Years
Utility Plant in Service	40 - 80 Years
Improvements Other than Buildings	20 - 50 Years
Machinery, Equipment and Vehicles	3 - 20 Years

I. Contributed Capital

Contributed capital represents donations by developers, grants restricted for capital construction, contributions made by the City, and assets whose construction was financed by special assessments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. It has been the policy of the City to construct and acquire capital assets used in operations of the enterprise funds with resources of the capital projects funds or by transferring assets to the enterprise funds from the general fixed assets account group. These assets are recorded as contributed capital in the accompanying combined financial statements.

J. Compensated Absences

Vested or accumulated sick leave that is expected to be liquidated with expendable financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested accumulated sick leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Vested sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Accounting Standard No. 16, Accounting for Compensated Absences, the liability for compensated absences includes benefit payments that are probable, not just those that are vested.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Any accrued vacation time exceeding vacation earned in one year, six months is lost. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources.

Payments made more than one month after year end are generally considered not to have been paid with current available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds. Under Ohio law, a debt retirement fund must be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the activity of the City's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Reserves and Designations of Fund Equity

Reserves of fund equity indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. Governmental fund balances are reserved for encumbrances, inventory items, prepaid items, property taxes, debt service, and loans receivable (community development block grant moneys loaned to local businesses).

M. Intergovernmental Revenues

In governmental funds, federal grants awarded on a non-reimbursement basis and state-shared levied revenues are recorded as intergovernmental receivables and revenues when measurable and available. State and federal reimbursable-type grants are recorded as intergovernmental receivables and revenues when the related liabilities are incurred.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. RESTATEMENT OF PRIOR YEAR'S RETAINED EARNINGS

The Enterprise Sewer Fund's retained earnings was overstated by \$966,442 in the prior year. The 1999 audited financial statements recognized construction in progress which did not agree with the City's policy for not booking an asset until reimbursing grant monies are received.

The effect of these changes on retained earnings for the Enterprise Sewer Fund as previously reported for the year ended December 31, 1999, are as follows:

Retained earnings as previously reported	\$6,599,906
Restatement	<u>966,442</u>
Restated Amount for the year ended December 31, 1999	\$5,633,464

4. ACCOUNTABILITY

The following fund had a negative year-end fund balance on the non-GAAP budgetary basis:

Capital Projects Fund: Community Development Block Grant Fund \$34,800

This negative balance was the result of the practice of appropriating for, and encumbering the entire contract amounts in the year awarded rather than in the year(s) actually performed. These projects are dependent upon future revenues, primarily in the form of loan proceeds and/or grant funds.

5. DEPOSITS AND INVESTMENTS

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 moneys may be invested in the following securities:

- A. 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;
- B. 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 services shall be direct issuances of federal government agencies or instrumentalities;
- C. 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;
- D. Bonds and other obligations of the State of Ohio;
- E. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- F. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

- A. Bonds of the State of Ohio;
- B. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
- C. Obligations of the City.

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Treasurer, by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

At year end, the City had \$1,000 in cash on hand which is included on the balance sheet. The carrying amount of the City's deposits was (\$52,155) and the bank balance was \$193,478. Of the bank balance \$151,951 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the securities were held by the pledging financial institutions trust departments in the City's name and all state statutory requirements for the investment of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements," requires that local governments disclose the fair value of investments, classified by risk. The City's investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Star Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Fair Value	Category 3
STAR Ohio	3,553,773	
Repurchase Agreement		277,438
Total	\$3,553,773	277,438

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Funds included within the city-wide cash management pool, which are used essentially as demand deposit accounts for the various City funds, and investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) and investments for purposes of the note above is based on criteria set forth in GASB Statement No. 3. A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$ 3,780,056	\$0
Cash on Hand	(1,000)	
Investments:		
Repurchase Agreement	(277,438)	277,438
STAR Ohio	(3,553,773)	3,553,773
GASB Statement 3	\$ (52,155)	\$3,831,211

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

6. DUE TO/DUE FROM OTHER FUNDS RECEIVABLES AND PAYABLES

At year end the Due to and Due from Other Fund receivable and payable balances consisted of Municipal Court fines and costs that had not been distributed at December 31, 2000. The Agency fund had a balance of \$18,281 due to other funds.

General Fund	\$ 15,134
Indigent Drivers Alcohol Fund	167
Police Dept. Arresting Fund	140
Court Special Projects Fund	1,364
Court Computerization Fund	<u>1,376</u>
Total	<u>\$ 18,181</u>

7. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Balances-Budget(Non-GAAP Basis)-All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The major differences between the budget basis and the GAAP basis are:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- C. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure/expense (budget basis) as opposed to a reservation of fund balance for governmental funds, and note disclosure for proprietary funds (GAAP basis).
- D. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- E. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
- F. The City repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

7. BUDGETARY BASIS OF ACCOUNTING (Continued)

It is the City's policy to formally budget and appropriate those funds which derive their primary revenues from levied taxes, other governments or user charges. Budgeted control is exercised at the line item level. Reported budgeted amounts are as originally adopted and amended by appropriation ordinances by City Council. Line item budgets are represented by appropriations and can only be modified by Council ordinance. Seven supplemental appropriations were made during the year for a total of \$744,710.

The following tables summarize the adjustments to reconcile GAAP and the budgetary basis statements by fund type:

**Excess of Revenues and Other Sources
Over/(Under) Expenditures and Other Financing Uses
Governmental Fund Types**

	General Fund	Special Revenue	Debt Service	Capital Project Funds
Budget Basis	\$173,223	\$55,301	\$0	(\$46,207)
Increase (decrease) due to:				
Change in accrued receivables not recognized in budget	(48,513)	(828)	0	0
Change in accrued liabilities not recognized in budget	62,282	(999)	0	0
Adjustment for encumbrances	<u>111,500</u>	<u>36,630</u>	<u>0</u>	<u>74,847</u>
GAAP Basis	<u>\$298,492</u>	<u>\$90,104</u>	<u>\$0</u>	<u>\$28,640</u>

**Net Income (Loss)/Excess of Revenues Over
(Under) Expenses and Operating Transfers
Proprietary Fund Types**

	Enterprise Fund	Internal Service Fund
Budget Basis	(\$1,063,445)	\$33,088
Increase (decrease) due to:		
Change in accrued receivables not recognized in budget	(44,159)	0
Change in accrued liabilities not recognized in budget	470,731	(36,759)
Adjustment for encumbrances	<u>522,246</u>	<u>8,189</u>
GAAP Basis	<u>(\$114,627)</u>	<u>\$4,518</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

8. TAXES

A. Property Tax

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25 percent of its true value.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

The full tax rate for all City operations for the year ended December 31, 2000, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$45,889,670
Commercial/Industrial	23,953,670
Public Utilities	33,980
Tangible Personal	21,548,055
Public Utility	4,074,510
Total	<u><u>\$95,499,885</u></u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

8. TAXES (Continued)

B. City Income Tax

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

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

9. RECEIVABLES

The City's receivables at December 31, 2000, by fund type consist of the following:

	General	Special Revenue	Enterprise	Total
City Income Tax				
Withholding	\$276,701	\$ 0	\$ 0	\$ 276,701
Estimates	<u>15,142</u>	<u>0</u>	<u>0</u>	<u>15,142</u>
Total Income Taxes Receivable	<u>291,843</u>	<u>0</u>	<u>0</u>	<u>291,843</u>
Property Taxes				
Current	221,657	51,146	0	272,803
Delinquent	<u>5,308</u>	<u>1,224</u>	<u>0</u>	<u>6,532</u>
Total Property Taxes Receivable	<u>226,965</u>	<u>52,370</u>	<u>0</u>	<u>279,335</u>
Accounts Receivable				
General	20,981	993	0	21,974
Utilities (Water/Sewer)	<u>0</u>	<u>0</u>	<u>264,278</u>	<u>264,278</u>
Total Accounts Receivable	<u>20,981</u>	<u>993</u>	<u>264,278</u>	<u>285,252</u>
Special Assessments				
Street - Curbs/Gutters	0	18,935	0	18,935
Sewer	<u>0</u>	<u>0</u>	<u>19,797</u>	<u>19,797</u>
Total Special Assessments	<u>0</u>	<u>18,935</u>	<u>19,797</u>	<u>38,732</u>
Loans Receivable	<u>0</u>	<u>125,422</u>	<u>0</u>	<u>125,422</u>
TOTAL	<u>\$539,789</u>	<u>\$197,720</u>	<u>\$284,075</u>	<u>\$1,021,584</u>

The above receivable amounts are net of the applicable allowance for uncollectibles which are not material in relation to the respective receivable balances.

City income taxes are accrued at December 31, 2000, to the extent of individual estimates and employee withholdings paid in the first month of 2001, which are due by April 30, 2001.

Property tax and special assessment receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes. The ability to collect the amounts due on the remaining receivables may be effected by economic fluctuations in the local economy.

Residents are billed on a bi-monthly basis for water and sewer service based upon the actual cycle billings, prorated by the various reading dates at the end of the year.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

10. TRANSFER TO/FROM OTHER FUNDS

The transfers indicated below include transfers from the General Fund to the Street and Park Funds for operating expenses; General Fund, Street Fund and R.S.P.O. Fund to the Debt Service Fund for bond and note payments.

		Transfer From Other Funds	Transfer To Other Funds
General Fund		\$0	\$675,142
Special Revenue Funds	Street Fund	300,000	15,585
	Park and Recreation Fund	225,000	92,581
Debt Service Fund	Bond Retirement Fund	249,708	0
	Note Retirement Fund	<u>8,600</u>	<u>0</u>
TOTAL		<u>\$783,308</u>	<u>\$783,308</u>

11. PROPERTY, PLANT AND EQUIPMENT

All costs associated with the construction and acquisition of general fixed assets are included in the Capital Outlay amount within the accompanying financial statements. Costs associated with the construction of infrastructure fixed assets are not capitalized in the General Fixed Assets Account Group in accordance with the City's accounting policy and, accordingly, are not reflected as additions in the General Fixed Assets Account Group. A summary of general fixed assets at December 31, 2000, by class and the changes therein during 2000, is as follows:

	Balance 1/1/00	Additions	Retirements	Balance 12/31/00
Land	\$1,194,293	\$0	\$0	\$1,194,293
Buildings	2,309,803	2,500	143,830	2,168,473
Land Improvements	2,336,187	15,094	202,552	2,148,729
Construction In Progress	16,083	0	0	16,083
Mach./Equip./Vehicles	<u>1,791,423</u>	<u>802,266</u>	<u>75,400</u>	<u>2,518,289</u>
TOTAL	<u>\$7,647,789</u>	<u>\$819,860</u>	<u>\$421,782</u>	<u>\$8,045,867</u>
Accumulated Depreciation				<u>(2,122,017)</u>
Net General Fixed Assets				<u>\$5,923,850</u>

A summary of proprietary fund property, plant and equipment at December 31, 2000, by class and by individual fund is as follows:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Water	Sewer	Total
Land	\$ 89,814	\$ 4,600	\$ 94,414
Buildings	3,707,179	2,300,405	6,007,584
Utility Plant in Service	1,431,449	6,896,053	8,327,502
Mach./Equip./Vehicles	490,121	468,309	958,430
Construction In Progress	<u>82,256</u>	<u>13,324,407</u>	<u>13,406,663</u>
Total	<u>5,800,819</u>	<u>22,993,774</u>	<u>28,794,593</u>
Less Accumulated Depreciation	<u>(3,017,894)</u>	<u>(2,225,784)</u>	<u>(5,243,678)</u>
Net Property, Plant, and Equipment	<u>\$2,782,925</u>	<u>\$20,767,990</u>	<u>\$23,550,915</u>

12. LEASES

During calendar year 2000, the City entered into three equipment leases. A fire truck was leased for ten years, and a backhoe and a skid loader were leased for five years. The debt associated with these leases will be paid out of the General Fund for the fire truck and the Special Revenue Fund type for the back hoe and skid loader. The City made an initial down payment of \$150,000 for the fire truck.

Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases, net of down payments, are reflected in the accounts "Capital Outlay" and "Inception of Capital Leases" for governmental funds.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$652,271, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

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, 2001.

<u>Fiscal Year Ending December 31,</u>	<u>General Long-Term Obligations</u>
2001	\$72,478
2002	72,477
2003	72,478
2004	72,477
2005	57,287
2006-2010	<u>\$286,437</u>
Total Minimum Lease Payments	633,634
Less: amount representing interest	<u>(\$146,553)</u>
Present Value of minimum lease payments	<u><u>\$487,081</u></u>

The City leases land under a noncancellable operating lease. Total cost for such lease was \$6,000 for the year ended December 31, 2000. The future minimum lease payments for the lease are as follows:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

12. LEASES (Continued)

Fiscal Year Ending December 31,	Amount
2001	\$6,000
2002	6,000
2003	6,000
2004	6,000
2005	6,000
2006-2051	353,036
Total minimum lease payments	\$383,336

13. DEBT OBLIGATIONS

A listing of the changes in the debt of the City for the year ended December 31, 2000 follows:

	Balance 1/1/00	Additions	Retirement	Balance 12/31/00
General Obligation Issues:				
1994 Street Improvement Bond	\$ 27,500	\$ 0	\$5,500	\$22,000
1999 Municipal Building Bond	765,000	0	115,000	650,000
1999 Swimming Pool Const Bond	1,145,000	0	40,000	1,105,000
1999 OPWC Loan - Street	86,000	0	8,600	77,400
Capital Leases	0	652,271	165,190	487,081
Other:				
Police and Fire Pension Liability	322,444	0	4,024	318,420
Accrued Wages and Benefits	86,403	121,696	86,403	121,696
Compensated Absences	289,748	17,981	0	307,729
Total General Long Term Debt Account Group	<u>2,722,095</u>	<u>791,948</u>	<u>424,717</u>	<u>3,089,326</u>
Enterprise Issues:				
1980 Series B Sanitary Sewer Bonds	15,000	0	15,000	0
1987 Sewer Bonds	320,000	0	40,000	280,000
1994 OPWC Loan	64,035	0	12,808	51,230
1998 OWDA Loans (WWI)	12,369,724	2,824,151	662,066	14,531,801
1999 OWDA (DWAF) Loan (WWI)	93,646	0	19,670	73,976
1999 Franklin St. Waterline Notes	120,000	120,000	120,000	120,000
1999 WTP Improvement Notes	500,000	500,000	500,000	500,000
Total Enterprise Debt	<u>13,482,406</u>	<u>3,444,151</u>	<u>1,369,544</u>	<u>15,557,013</u>
TOTAL DEBT	<u><u>\$16,204,501</u></u>	<u><u>\$4,236,099</u></u>	<u><u>\$1,794,261</u></u>	<u><u>\$18,646,339</u></u>

Outstanding general obligation bonds and notes consist of municipal complex, 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.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

13. DEBT OBLIGATIONS (Continued)

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

The City began the first phase towards meeting the requirements of the Ohio Environmental Protection Agency regarding improvements needed at the Wastewater Treatment Plant when they began the design for the North Interceptor Sewer during 1996. Funding for the design and construction phase of this project came from loans granted by the Ohio Water Development Authority (OWDA) during 1998. The City began the construction phase of the Wastewater Treatment Plant Expansion Project during 1998. Again, funding for the design and construction phase of this project came from loans granted by the OWDA and from a bank note. These obligations will be repaid solely by user charges. These loans mature over a period from 2004 through 2019 and have interest rates of 2.2% to 3.2%.

During 1999, the City issued various purpose bonds to pay off bond anticipation notes used for the construction of a municipal swimming pool, and to pay off outstanding debt on the municipal building. The total amount of these various purpose bonds was \$2,090,000. The bonds for the municipal building have an interest rate of 5.4% and mature in 2005. The municipal bonds have an interest rate of 5.4% and mature during 2018.

Compensated Absences and Wages and Benefits will be paid from the funds where the wages were generated. The City has the ability to issue \$4,120,901 of additional debt without obtaining voter approval.

An accrual has been set up for a legal liability for past service cost for the Police and Fireman Disability and Pension Fund which arose when the Fund was established in 1968. The remaining unfunded pension liability is to be amortized in semi-annual installments, including interest, of \$17,687 through the year 2035.

A summary of the City's future debt service requirements, excluding compensated absences, wages, and benefits, and capital leases, as of December 31, 2000 follows:

Future Payment Due In	General Obligation Bonds/Notes		Police and Fire Pension Liability		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2001	174,100	83,253	4,197	13,489	1,357,802	386,483
2002	184,100	76,556	4,377	13,308	753,161	335,342
2003	189,100	69,204	4,565	13,120	768,866	317,088
2004	194,100	61,557	4,761	12,924	773,671	298,478
2005	198,600	53,520	4,965	12,720	765,487	280,050
2006-2010	309,400	201,400	28,217	60,211	3,694,249	1,120,704
2011-2035	<u>605,000</u>	<u>154,600</u>	<u>267,338</u>	<u>165,166</u>	<u>7,182,646</u>	<u>847,413</u>
TOTAL	<u>\$1,854,400</u>	<u>\$700,090</u>	<u>\$318,420</u>	<u>\$299,939</u>	<u>\$15,557,013</u>	<u>\$3,585,558</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

13. DEBT OBLIGATIONS (Continued)

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

<u>Year</u>	<u>Principal Amount</u>
2013	\$70,000
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 mature.

The Bonds maturing on December 1, 2009 and thereafter are subject to optional redemption, in whole or in 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 Dates</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

14. DEFEASED DEBT

On April 1, 1999, the City of Kenton issued serial bonds of \$890,000 (par value) with an interest rate of 5.40% to advance refund serial bonds previously issued June 1, 1990, with an interest rate of 7% and a par value of \$1,400,000. The refunded bonds were paid off December 1, 2000.

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City operates a Water Fund and a Sewer Fund. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment information for the year ended December 31, 2000, is as follows:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	Water	Sewer	Total Enterprise Funds
Operating Revenues	1,119,232	1,371,970	\$2,491,202
Operating Expenses - Before Depreciation	1,038,773	769,719	1,808,492
Depreciation Expense	226,541	202,120	428,661
Operating Income (Loss)	(146,082)	400,131	254,049
Nonoperating Revenues	20,323	2,400	22,723
Nonoperating (Expenses)	(47,879)	(343,520)	(391,399)
Net Income (Loss)	(173,638)	59,011	(114,627)
Fixed Asset Additions	102,908	950,731	1,053,639
Fixed Asset Deletions	7,627	18,791	26,418
Total Assets	3,632,898	21,460,113	25,093,011
Bonds and Other Long-term Liabilities	693,976	14,863,031	15,557,007
Total Equity	2,744,348	6,495,843	9,240,191
Net Working Capital	655,399	590,884	1,246,283

16. ACCUMULATED UNPAID EMPLOYEE BENEFITS

During November, 1992, the Governmental Accounting Standards Board issued Statement No. 16, "Accounting for Compensated Absences" which is effective for fiscal years beginning after June 15, 1993. The City has recorded a liability for compensated absences that include benefit payments that are probable, not just those that are vested.

Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Sick leave is accumulated and may be converted into cash upon retirement in accordance with the following schedule:

<u>Employee Service</u>	<u>Severed Sick Leave</u>	<u>Firefighter's Sick Leave</u>
10 thru 15 years	480 hours maximum	670 hours maximum
15 thru 20 years	720 hours maximum	1,065 hours maximum
Over 20 years	1,000 hours maximum	1,400 hours maximum

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Employee Hours Earned/Bi-weekly</u>
1 thru 8 years	3.1 hours
8 thru 15 years	4.6 hours
15 thru 25 years	6.2 hours
Over 25 years	7.7 hours

Unpaid compensated absences of \$307,729 were reported as an accrued liability in the General Long-Term Debt Fund. Unpaid compensated absences of \$69,041 and \$29,641 were reported as an accrued liability in the Water Fund and Sewer Fund, respectively.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

17. FEDERAL FINANCIAL ASSISTANCE

For the period January 1, 2000 through December 31, 2000 the City received Federal financial assistance in the amount of \$152,969. This amount was posted to the Community Development Block Grant Fund for grants to homeowners for home repairs.

Also, the City continues to collect on economic development loans made in prior years with federally provided money. As of December 31, 2000, the outstanding Revolving Loan Fund cash balance is \$141,130, and the amount of loans outstanding is \$125,422.

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2000.

18. CONTRIBUTED CAPITAL

During the year, contributed capital changed by the following amounts:

<u>Source</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Contributed Capital, January 1	\$ 287,366	\$3,433,988
Depreciation on Fixed Assets Acquired by Contributed Capital	<u>(5,756)</u>	<u>(28,519)</u>
Contributed Capital, December 31	<u>\$ 281,610</u>	<u>\$3,405,469</u>

19. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 1, 1988, the City joined the Public Entities Pool of Ohio (PEP), a local governmental risk pool providing risk management services and risk sharing facilities to its members and member's employees. As of December 31, 2000 PEP had 223 members throughout the State of Ohio. The City pays an annual premium to the Pool for its comprehensive insurance coverage, including real property, building contents and vehicles. Real property and contents are covered at replacement cost.

Types of coverage and their deductible requirements are listed below:

<u>Type of Coverage</u>	<u>Deductible</u>
Municipal General Liability & Public Officials	\$ 1,000
Municipal Automobile Coverage---Comprehensive	250
Municipal Automobile Coverage---Collision	500
Law Enforcement Professional Liability	2,000
Property Coverage	1,000
Boiler and Machinery	1,000

There have been no settlements exceeding insurance coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

19. RISK MANAGEMENT (Continued)

For the year 2000, the City participated in the Ohio Municipal League Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 24). The intent of the GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating municipalities is calculated as one experience and a common premium rate is applied to all municipalities in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to municipalities that can meet the GRP's selection criteria. The firm of Gates-McDonald and Company provides administrative, cost control and actuarial services to the GRP.

The City of Kenton began providing medical/surgical benefits to employees through a partially self-funded insurance internal service fund on April 1, 1997. All funds of the City participate in the program and make payments to the self-insurance internal service fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. The medical self-insurance fund provides coverage for up to a maximum of \$7,500 for each individual.

The City utilizes a third party administrator to review all claims which are then paid by the City to the administrator, who in turn, pays the claimant. The City purchases stop-loss coverage which provides a maximum of \$2,000,000 per individual for claims in excess of coverage provided by the Fund. The claims liability of \$38,080 reported in the internal service fund at December 31, 2000 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board No. 10 which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. Claims activity for fiscal years 1997, 1998, 1999 and 2000 are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
1997	\$ 0	\$148,303	\$129,144	\$19,159
1998	\$19,159	\$175,524	\$154,238	\$40,445
1999	\$40,445	\$151,746	\$190,870	\$ 1,321
2000	<u>\$ 1,321</u>	<u>\$239,416</u>	<u>\$202,657</u>	<u>\$38,080</u>

20. DEFINED BENEFIT PENSION PLANS

The employees of the City of Kenton are covered by either the Public Employees' Retirement System of Ohio or the Police and Fireman's Disability and Pension Fund. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

20. DEFINED BENEFIT PENSION PLANS (Continued)

A. Public Employees' Retirement System (PERS)

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000 PERS instituted a temporary employer rate rollback for state and local governments. The 2000 employer pension contribution rate for the City was 6.54 percent of covered payroll, reduced from 9.35 percent in 1999. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2000, 1999 and 1998 were \$89,932, \$185,328 and \$112,808 respectively. The full amount has been contributed for 1999 and 1998. Seventy-five percent has been contributed for 2000 with the remainder being reported as a liability in the general long-term obligations account group.

Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records.

B. Police and Firemen's Disability and Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. 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 by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215 - 5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12.25 percent for police and 16.75 percent for firefighters. For 1999, the City contributions were 12.5 percent for police and 17 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$61,706 and \$72,399 for the year ended December 31, 2000, \$99,058 and \$103,826 for the year ended December 31, 1999, and \$61,132 and \$70,220 for the year ended December 31, 1998. The full amount has been contributed for 1999 and 1998. Seventy-five percent has been contributed for 2000 with the remainder being reported as a liability in the general long-term obligations account group.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2000, the unfunded liability of the City was \$318,420, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

21. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care based on authority granted by State statute. The 2000 employer contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.55 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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.

The number of active contributing participants was 401,339. The City's actual contributions for 2000 which were used to fund postemployment benefits were \$59,130. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

For 2000 PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

B. Ohio Police and Firemen's Disability and Pension Fund

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent of covered payroll was applied to the postemployment health care program during 2000. For 1999 the percent used to fund healthcare was 7 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2000 that were used to fund postemployment benefits were \$36,520 for police and \$31,337 for fire. The OP&F's total health care expenses for the year ended December 31, 1999, (the latest information available) were \$95,004,633, which was net of member contributions of \$5,518,098. The number of OP&F participants eligible to receive health care benefits as of December 31, 1999, was 12,467 for police and 9,807 for firefighters.

22. EMPLOYEE BENEFITS

The City provides major medical insurance, life insurance and a drug card for prescription drugs to all full-time employees once they have completed a 90 day probationary period. Beginning April 1, 2000, those employees that requested family coverage contribute \$30.00 per month towards the cost of the major medical insurance by payroll deduction.

23. JOINTLY GOVERNED ORGANIZATION

The Grove Cemetery Association is a jointly governed organization consisting of three townships (Buck, Pleasant and Goshen) and the City of Kenton, Hardin County, Ohio. The Association is governed by a board of directors consisting of one representative from each township and the City. The degree of control exercised by any participating entity is limited to its representation on the board. Operating funds for the Association are provided from property taxes assessed against property owners located within the townships and the City making up the Association and charges assessed for services of the Association. The City provides no other funds to the Association. Financial information may be obtained from Clerk/Treasurer, Joe Cook, at 116 North Detroit Street, Kenton, Ohio 43326.

24. INSURANCE PURCHASING POOL

The City participates in the Ohio Municipal League Worker's Compensation Group Rating Program, an insurance purchasing pool. The Ohio Municipal League has retained Gates McDonald and Company as its Plan Administrator. Each year the participating municipalities pay an enrollment fee to the GRP to cover the costs of administering the program.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE GENERAL- PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

25. CONTRACTS OUTSTANDING

As of December 31, 2000, the City had several contracts outstanding for various construction-in-progress projects throughout the City. Those of significance included the following for services associated with the Wastewater Treatment Plant Expansion Project: Thomas and Marker Construction Company, primary contractor, in the amount of \$184,765 and Sidney Electric Company, electrical contractor, in the amount of \$155,265. The Wastewater Treatment Plant Expansion Project will be paid from the Sewer Fund and the amounts of the contracts have been encumbered as of December 31, 2000.

26. 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 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. Incurred but Not Reported Claims

There is no information to determine the dates which health care claims were incurred, consequently there is no reasonable method to estimate a liability for claims incurred but not reported.

27. SUBSEQUENT EVENTS

The City has entered into commitments for improvements at the water treatment plant for approximately \$1,127,400. Of this amount, the City's share is \$627,400 with total Issue II money in the amount of \$500,000 (\$188,615 loan and \$311,385 grant).



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL
CONTROLS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Kenton
Hardin County
111 West Franklin Street,
P.O. Box 220
Kenton, Ohio 43326

To the Members of City Council:

We have audited the financial statements of the City of Kenton, Hardin County (the City) as of and for the year ended December 31, 2000, and have issued our report thereon dated July 17, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated July 17, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 17, 2001.

City of Kenton
Hardin County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the finance committee, management, and Members of Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 17, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
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Facsimile 614-466-4490

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 14, 2001**