

CITY OF KENTON

HARDIN COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2016





Dave Yost • Auditor of State

City Council
City of Kenton
PO Box 220
Kenton, Ohio 43326-0220

We have reviewed the *Independent Auditor's Report* of the City of Kenton, Hardin County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Kenton is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 11, 2017

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CITY OF KENTON
HARDIN COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2016

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City of Kenton
Hardin County
111 W Franklin Street
Kenton, Ohio 43326

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County, Ohio, as of December 31, 2016, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole. The City presents budgetary comparison schedules for the General and Street funds. These Schedules provide additional analysis and are not a required part of the basic financial statements.

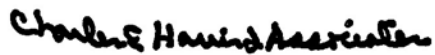
The Schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the Schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these Schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
May 26, 2017

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED**

This discussion and analysis of the City of Kenton's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016, within the limitations of the City's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Highlights

Key highlights for 2016 are as follows:

The net position of governmental activities decreased \$414,518 or 22 percent. The General Fund balance decreased by \$504,571 and the Street Fund balance decreased by \$751, while the other governmental funds increased \$90,804. The City's general receipts for the governmental funds are primarily property and income taxes. These receipts represent respectively 6 and 58 percent of the total cash received for governmental activities during the year. Income tax receipts for 2016 were 6 percent more than 2015 due to an increase in withholding tax and individual tax collections.

Net position of the City's business-type activities increased \$189,555.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

Reporting the City as a Whole

The statement of net position and the statement of activities reflect how the City did financially during 2016, within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

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

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

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

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

Reporting the City's Most Significant Funds

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

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

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds.

When the services are provided to the general public, the activity is reported as an enterprise fund. The City has two enterprise funds – the water fund and sewer fund.

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

The City as a Whole

The table below provides a summary of the City's net position for 2016 compared to 2015 on a cash basis.

	Net Position					
	Governmental Activities		Business-Type Activities		TOTALS	
	2016	2015	2016	2015	2016	2015
ASSETS						
Cash	\$ 1,441,182	\$ 1,855,700	\$ 1,602,035	\$ 1,412,480	\$ 3,043,217	\$ 3,268,180
Total Assets	1,441,182	1,855,700	1,602,035	1,412,480	3,043,217	3,268,180
NET POSITION						
Restricted:						
Pension Obligations	17,748	14,920			17,748	14,920
Revolving Loans	37,669	37,469			37,669	37,469
Customer Deposits			117,856	115,560	117,856	115,560
Other Purposes	584,749	497,724			584,749	497,724
Unrestricted	801,016	1,305,587	1,484,179	1,296,920	2,285,195	2,602,507
Total Net Position	\$ 1,441,182	\$ 1,855,700	\$ 1,602,035	\$ 1,412,480	\$ 3,043,217	\$ 3,268,180

As mentioned previously, net position of governmental activities decreased \$414,518 or 22 percent during 2016 and net position of business-type activities increased \$189,555. The primary reasons contributing to the changes in cash balances are as follows:

- Governmental Activities: Total cash disbursements in the governmental funds exceeded cash receipts in 2016.
- Business-Type: Water and Sewer Funds received \$370,962 in debt proceeds in 2016.

The next table reflects the changes in net position on cash basis in 2016 and 2015 for governmental activities, business-type activities and total primary government.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

Changes in Net Position

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Receipts:						
Program Receipts:						
Charges for Services	\$ 433,946	\$ 557,384	\$ 3,524,630	\$ 3,542,660	\$ 3,958,576	\$ 4,100,044
Operating Grants & Contributions	356,402	397,249			356,402	397,249
Capital Grants & Contributions	328,735	498,187			328,735	498,187
Total Program Receipts	1,119,083	1,452,820	3,524,630	3,542,660	4,643,713	4,995,480
General Receipts:						
Property Taxes	375,339	363,320			375,339	363,320
Income Taxes	3,414,950	3,208,215			3,414,950	3,208,215
Hotel/Motel Taxes	13,299	14,915			13,299	14,915
Grants andr Contributions Net						
Restricted to Specific Programs	654,716	214,431			654,716	214,431
Interest Income	11,723	10,909			11,723	10,909
Loan Proceeds			-	-	-	-
Debt Proceeds	185,537	126,500	370,962		556,499	126,500
Miscellaneous	97,044	80,253	124,853	114,606	221,897	194,859
Debt Proceeds	-	-			-	-
Total General Receipts	4,752,608	4,018,543	495,815	114,606	5,248,423	4,133,149
Total Receipts	5,871,691	5,471,363	4,020,445	3,657,266	9,892,136	9,128,629
Disbursements:						
General Government	1,246,671	1,249,810			1,246,671	1,249,810
Public Safety	2,545,766	2,288,262			2,545,766	2,288,262
Public Works	673,770	712,139			673,770	712,139
Health Services	81,500	81,500			81,500	81,500
Economic Development	229,948	89,568			229,948	89,568
Leisure-time Activities	150,078	158,187			150,078	158,187
Intergovernmental Expenditures	860,300	545,175			860,300	545,175
Capital Outlay	341,039	276,395			341,039	276,395
Debt Service	157,137	130,034			157,137	130,034
Waterworks			1,466,557	1,252,435	1,466,557	1,252,435
Sewer			2,364,333	2,166,859	2,364,333	2,166,859
Total Disbursements	6,286,209	5,531,070	3,830,890	3,419,294	10,117,099	8,950,364
Increase/(Decrease) in Net Position	(414,518)	(59,707)	189,555	237,972	(224,963)	178,265
Net Position, January 1	1,855,700	1,915,407	1,412,480	1,174,508	3,268,180	3,089,915
Net Position, December 31	\$ 1,441,182	\$ 1,855,700	\$ 1,602,035	\$ 1,412,480	\$ 3,043,217	\$ 3,268,180

Program receipts for Governmental and Business activities represent 47 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and charges for services to water and sewer customers.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

General receipts of the Governmental and Business type activities represent 53 percent of the City's total receipts. Local property and income taxes are 80 percent of the Governmental general receipts. Grants and entitlements not restricted to specific programs make up the balance of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable receipts sources.

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

Public Safety is the cost of police and fire protection; Health Services is the health department; Leisure-time Activities are the costs of maintaining the parks and municipal pool; Economic Development promotes the City to industry and commerce as well as working with other governments in the area to attract new business, Public Works is the cost of maintaining the roads, and Intergovernmental represents property tax support for Grove Cemetery.

Governmental Activities

If you look at the Statement of Activities on page 11 you will see that the first column lists the major services provided by the City. The major program disbursement for governmental activities is for Public Safety which accounts for 40 percent of all governmental disbursements. General government also represents a significant cost, about 20 percent. The next three columns of the statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The Net (Cash Disbursements) Receipts column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in the following table.

	Governmental Activities			
	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 1,246,671	\$ 895,218	\$ 1,249,810	\$ 746,725
Public Safety	2,545,766	2,545,766	2,288,262	2,238,240
Public Works	673,770	68,939	712,139	311,638
Health Services	81,500	81,500	81,500	81,500
Economic Development	229,948	148,922	89,568	(355,990)
Leisure Time Activities	150,078	68,305	158,187	104,533
Intergovernmental	860,300	860,300	545,175	545,175
Capital Outlay	341,039	341,039	276,395	276,395
Debt Service	152,164	152,164	123,701	123,701
Interest Expense	4,973	4,973	6,333	6,333
Totals	\$ 6,286,209	\$ 5,167,126	\$ 5,531,070	\$ 4,078,250

The dependence upon property, income tax receipts, and hotel/motel taxes is apparent as these receipts provide 65 percent of governmental revenue.

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

Business-Type Activities

The operation of the City's water and sewer treatment plants along with maintaining the infrastructure is a significant part of the City's activities. These business-type activities routinely report receipts and cash disbursements that are relatively equal.

The infrastructure is aging and the City has begun discussing the need for major repairs (such as valve replacements, dead end looping and water main repair) and how these will be funded.

The City's Funds

Total governmental funds had receipts and other financing sources (excluding transfers and advances) of \$5,871,691 and disbursements of \$6,286,209 (excluding transfers and advances). Receipts were \$400,328 greater in 2016 than 2015 and disbursements were \$755,139 more in 2016 than 2015.

General Fund Budgeting Highlights

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

Actual revenues (excluding transfers and advances) were \$4,295,938 more than original budgeted revenues. Most of this was due to increased income tax revenue.

The original budget for public safety was increased in the final budget due to the hiring of a new police officer and firefighter. Final disbursements (excluding transfers and advances) were budgeted at \$4,105,770 while actual disbursements were \$3,937,346 (excluding transfers and advances), a difference of \$168,424 and a reflection of the careful spending by administration and department heads.

Capital Assets

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

Long-Term Debt

At year-end the City had \$3,917,835 in long-term debt outstanding – a decrease of 12 percent from last year. Governmental activities accounted for \$632,888 and business-type activities accounted for the remaining \$3,284,947 of long-term debt. For further information regarding the City's debt, refer to Note 11 to the basic financial statements.

	City of Kenton Long-Term Debt					
	Governmental Activities		Business-Type Activities		Totals	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Sewer Loan	\$ -	\$ -	\$ 11,424	\$ 12,059	\$ 11,424	\$ 12,059
Bond Obligations	456,737	376,500	426,463	83,250	883,200	459,750
OPWC Loans	176,151	219,852	138,172	149,776	314,323	369,628
OWDA Loans	-	-	2,708,888	3,625,873	2,708,888	3,625,873
Totals	\$ 632,888	\$ 596,352	\$ 3,284,947	\$ 3,870,958	\$ 3,917,835	\$ 4,467,310

**CITY OF KENTON
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED
(Continued)**

Current Issues

The City of Kenton faces the same challenge as all governments do, providing the same quality of service as past years with minimal increased in revenue and expenses continuing to increase. When comparing revenues in 2015 and 2016 for the General Fund, revenues increased by \$214,220. Expenses in 2016 increased by \$768,099 from 2015 in the General Fund. Our increase in General Fund revenue is not keeping pace with our increased General Fund expenses. We need to continue to find ways to reduce our costs.

Contacting the City's Financial Management

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

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**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2016**

	Governmental Activities	Business Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,441,182	\$1,602,035	\$3,043,217
Net Position:			
Restricted for:			
Pension Obligations	17,748		17,748
Revolving Loan	37,669		37,669
Customer Water Deposits		117,856	117,856
Other Purposes	584,749		584,749
Unrestricted	801,016	1,484,179	2,285,195
Total Net Position	\$1,441,182	\$1,602,035	\$3,043,217

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,246,671	\$351,453		
Public Safety	2,545,766			
Public Works	673,770	720	\$356,402	\$247,709
Health	81,500			
Economic Development	229,948			81,026
Leisure Time Activities	150,078	81,773		
Intergovernmental	860,300			
Capital Outlay	341,039			
Debt Service:				
Bond Principal Payment	108,463			
Note Principal Payment	43,701			
Interest and Fiscal Charges	4,973			
Total Governmental Activities	6,286,209	433,946	356,402	328,735
Business Type Activities				
Water	1,466,557	1,455,888		
Sewer	2,364,333	2,068,742		
Total Business Type Activities	3,830,890	3,524,630		
Total Activity	\$10,117,099	\$3,958,576	\$356,402	\$328,735

General Receipts

Property Taxes for:

- General Purpose
- Police Pension
- Fire Pension
- Grove Cemetery
- Bond Retirement
- Income
- Hotel/Motel
- Grants and Entitlements not Restricted for Specific Purposes
- Investment Income
- Debt Proceeds
- Miscellaneous
- Total General Receipts

Increase/(Decrease) in Net Position

Net Position Beginning of Year

Net Position End of Year

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

**Net (Cash Disbursements) Cash Receipts
and Changes in Net Cash Position**

Primary Government		
Governmental Activities	Business Type Activities	Total
(\$895,218)		(\$895,218)
(2,545,766)		(2,545,766)
(68,939)		(68,939)
(81,500)		(81,500)
(148,922)		(148,922)
(68,305)		(68,305)
(860,300)		(860,300)
(341,039)		(341,039)
(108,463)		(108,463)
(43,701)		(43,701)
(4,973)		(4,973)
<u>(5,167,126)</u>		<u>(5,167,126)</u>
	(10,669)	(10,669)
	<u>(295,591)</u>	<u>(295,591)</u>
	<u>(306,260)</u>	<u>(306,260)</u>
<u>(5,167,126)</u>	<u>(306,260)</u>	<u>(5,473,386)</u>
199,631		199,631
26,318		26,318
26,318		26,318
94,609		94,609
28,463		28,463
3,414,950		3,414,950
13,299		13,299
654,716		654,716
11,723		11,723
185,537	370,962	556,499
97,044	124,853	221,897
<u>4,752,608</u>	<u>495,815</u>	<u>5,248,423</u>
(414,518)	189,555	(224,963)
<u>1,855,700</u>	<u>1,412,480</u>	<u>3,268,180</u>
<u>\$1,441,182</u>	<u>\$1,602,035</u>	<u>\$3,043,217</u>

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$776,096	\$80,474	\$559,692	\$1,416,262
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>24,920</u>			<u>24,920</u>
Total Assets	<u><u>801,016</u></u>	<u><u>80,474</u></u>	<u><u>559,692</u></u>	<u><u>1,441,182</u></u>
Fund Balances				
Nonspendable	24,920			24,920
Restricted		80,474	559,692	640,166
Assigned	152,200			152,200
Unassigned	<u>623,896</u>			<u>623,896</u>
Total Cash Fund Balances	<u><u>\$801,016</u></u>	<u><u>\$80,474</u></u>	<u><u>\$559,692</u></u>	<u><u>\$1,441,182</u></u>

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

CITY OF KENTON
HARDIN COUNTY

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts				
Property and Other Taxes	\$212,930		\$175,708	\$388,638
Income Taxes	3,414,950			3,414,950
Charges for Services	66,384		81,815	148,199
Licenses and Permits	50,866	\$720		51,586
Fines and Forfeitures	276,868		57,335	334,203
Intergovernmental	155,088	310,713	774,010	1,239,811
Interest on Investments	10,729	503	491	11,723
Miscellaneous Receipts	61,006	24,657	9,281	94,944
Total Receipts	<u>4,248,821</u>	<u>336,593</u>	<u>1,098,640</u>	<u>5,684,054</u>
Cash Disbursements				
General Government:				
Legislative and Executive	770,730			770,730
Judicial	448,206		27,735	475,941
Public Safety	2,485,078		60,688	2,545,766
Public Works		632,237	41,533	673,770
Health	81,500			81,500
Economic Development	6,000		223,948	229,948
Leisure Time Activities			150,078	150,078
Intergovernmental			860,300	860,300
Capital Outlay	94,427	159,283	87,329	341,039
Debt Service:				
Bond Principal Payment			108,463	108,463
Note Principal Payment			43,701	43,701
Interest and Fiscal Charges			4,973	4,973
Total Cash Disbursements	<u>3,885,941</u>	<u>791,520</u>	<u>1,608,748</u>	<u>6,286,209</u>
Cash Receipts Over (Under) Cash Disbursements	<u>362,880</u>	<u>(454,927)</u>	<u>(510,108)</u>	<u>(602,155)</u>
Other Financing Sources (Uses)				
Debt Proceeds	46,412	139,125		185,537
Operating Transfers - In	1,566	315,051	288,469	605,086
Operating Transfers - (Out)	(603,520)		(1,566)	(605,086)
Operating Advance - In	180,225		494,235	674,460
Operating Advance - (Out)	(494,234)		(180,226)	(674,460)
Other Financing Sources	2,100			2,100
Total Other Financing Sources (Uses)	<u>(867,451)</u>	<u>454,176</u>	<u>600,912</u>	<u>187,637</u>
Excess of Cash Receipts and Other Financing Sources Over Cash Disbursements and Other Financing Uses	(504,571)	(751)	90,804	(414,518)
Cash Fund Balances - Beginning of Year	<u>1,305,587</u>	<u>81,225</u>	<u>468,888</u>	<u>1,855,700</u>
Cash Fund Balances - End of Year	<u><u>\$801,016</u></u>	<u><u>\$80,474</u></u>	<u><u>\$559,692</u></u>	<u><u>\$1,441,182</u></u>

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF FUND NET POSITION - CASH BASIS
ENTERPRISE FUNDS
DECEMBER 31, 2016**

	Water Fund	Sewer Fund	Total Enterprise Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$997,552	\$486,627	\$1,484,179
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	117,856		117,856
Total Assets	1,115,408	486,627	1,602,035
Net Position:			
Restricted for Customer Water Deposits	117,856		117,856
Unrestricted	997,552	486,627	1,484,179
Total Net Position	\$1,115,408	\$486,627	\$1,602,035

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

**CITY OF KENTON
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND NET POSITION - CASH BASIS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals (Memorandum Only)</u>
Operating Cash Receipts:			
Charges for Services	\$1,455,888	\$2,068,742	\$3,524,630
Total Operating Cash Receipts	<u>1,455,888</u>	<u>2,068,742</u>	<u>3,524,630</u>
Operating Cash Disbursements:			
Personal Services	747,673	619,558	1,367,231
Contract Services	189,711	359,859	549,570
Materials and Supplies	271,326	161,532	432,858
Capital Outlay	210,624	193,631	404,255
Total Operating Cash Disbursements	<u>1,419,334</u>	<u>1,334,580</u>	<u>2,753,914</u>
Operating Income (Loss)	36,554	734,162	770,716
Non-Operating Cash Receipts/(Disbursements):			
Bond Retirement		(27,750)	(27,750)
Loan Retirement	(5,891)	(923,332)	(929,223)
Bond Proceeds	185,481	185,481	370,962
Interest Expense		(77,492)	(77,492)
Other Non-Operating Receipts	53,058	71,795	124,853
Other Non-Operating Disbursements	(41,332)	(1,179)	(42,511)
Total Non-Operating Receipts/(Disbursements)	<u>191,316</u>	<u>(772,477)</u>	<u>(581,161)</u>
Changes in Net Postion	227,870	(38,315)	189,555
Net Position - Beginning of Year	<u>887,538</u>	<u>524,942</u>	<u>1,412,480</u>
Net Position - End of Year	<u>\$1,115,408</u>	<u>\$486,627</u>	<u>\$1,602,035</u>

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

CITY OF KENTON
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUNDS
DECEMBER 31, 2016

Cash Assets:

Equity in Pooled Cash and Cash Equivalents \$89,709

Net Position:

Held for others \$89,709

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 1 - Reporting Entity

The City of Kenton (the City) is a home rule municipal corporation established under the laws of the State of Ohio. The City operates under the council-mayor form of government. The Mayor is the chief executive and administrative officer and is elected for a four year term. He is responsible for carrying out the policies and ordinances of council, for overseeing the day-to-day operations of the City and for appointing the Safety/Service Director, Income Tax Administrator and various boards and commissions. The legislative authority is vested in a seven-member Council with a presiding President of Council, who are elected to two-year terms. In addition to establishing City policies, Council is responsible for passing ordinances and adopting the budget. Other elected officials consist of the auditor and the law director, who are elected to four-year terms, and the treasurer who is elected to a six-year term.

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

A. Primary Government

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

B. Jointly Governed Organizations and Ohio Plan Risk Management

The City participates in three jointly governed organizations and the Ohio Plan Risk Management, an insurance pool. These organizations are the Grove Cemetery Association, the Hardin County Regional Planning Commission, and BKP Ambulance District. These organizations are presented in Notes 8 and 17 to the financial statements.

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting board for establishing governmental accounting and financial reporting principles.

CITY OF KENTON
HARDIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

E. Cash and Investments

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

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

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

During 2016, the City invested in nonnegotiable certificates of deposit, mutual funds money market funds, and STAR Ohio. Investments are reported at cost. The City’s money market fund and mutual fund investments are recorded at the amount reported by Community First Bank, N.A., and Home Savings and Loan Company on December 31, 2016. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their fund for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are values at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2016.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest receipts credited to the General Fund during 2016 was \$10,729 which includes \$6,839 assigned from other City funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as nonspendable. Restricted assets also represent utility deposits from customers that are classified as restricted because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

J. Long-Term Obligations

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

K. Net Position

Net cash position consists of cash receipts and balances reduced by cash disbursements for the current year. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The City has restricted net position for pension obligations, revolving loan balances and customer water deposits. Restricted for Other Purposes is comprised of net position restricted for grants or other externally restricted receipts. The City did not have any net position restricted by enabling legislation. The City's policy is to first apply restricted resources when a disbursement is incurred for purposes which both restricted and unrestricted net position is available.

L. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable: The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

CITY OF KENTON
HARDIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purpose with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by ordinance.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when disbursements are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

CITY OF KENTON
HARDIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

N. Inter-fund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statement. During the course of normal operations, the City has numerous transactions between funds. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers. The City reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

O. Health Care

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

P. Intergovernmental Revenues

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 3 - Accountability and Compliance

A. Compliance

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

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for the General Fund, and Street Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances. They are treated as cash disbursements (budgetary basis) rather than restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$52,111 for the General Fund and \$5,067 for the Street Fund. Also for the General Fund, the Unclaimed Monies Fund is included on the cash basis as part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting".

Note 5 – Deposits and Investments

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 5 – Deposits and Investments (continued)

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

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

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 5 – Deposits and Investments (continued)

7. The State Treasurer’s investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

At year end, the carrying amount of the City’s deposits was \$982,163 and the bank balance was \$1,122,336. Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$233,155 of the City’s bank balance was exposed to custodial credit risk.

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

Investments

As of December 31, 2016, the City had \$2,150,763 invested in STAR Ohio and STAR Ohio carries a rating of AAAM by Standard and Poor’s.

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The City’s policy indicates that the City Treasurer, City Auditor and Mayor shall meet every five years for the purpose of designating the City’s public depositories in accordance with the Ohio Revised Code and the City’s Codified Ordinances.

Star Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of December 31, 2016, is 60 days.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 5 – Deposits and Investments (continued)

Credit Risk – The credit risk of the City’s investments is listed above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk – For an investment, custodial risk is that risk that, in the event of the failure of the counterparty, the City will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment in repurchase agreements is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to a repurchase agreement by 2 percent. The City had no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Note 6 – Income Taxes

The City levies an income tax of 1.5% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. The receipts of the City Income Tax and the administrative costs associated with their collections are accounted for in the General Fund.

Note 7 - Property Taxes

Property taxes include amounts levied against all real property and public utility property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. Public utility property tax revenues received in 2015 represent the collection of 2015 taxes. Public utility real and tangible personal property taxes received in 2016 became a lien on December 31, 2014, were levied after October 1, 2015, and are collected with real property taxes. Public utility tangible personal property is currently assessed at varying percentages of true value.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 7 - Property Taxes (continued)

The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2016 was \$4.200 per \$1,000 of assessed valuation for all real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.200 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.200 per \$1,000 of assessed valuation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback deductions is reimbursed to the City by the State of Ohio.

The assessed values of real property, public utility property, and tangible personal property upon which 2015 property tax receipts were based are as follows:

Residential	\$ 59,100,890
Agriculture	687,850
Commercial	21,320,070
Industrial	11,627,000
Utility Real Estate	28,540
Utility Personal Prop	<u>5,735,010</u>
TOTAL	\$98,499,360

Real property taxes for tax year 2016 are payable annually or semi-annually. If paid annually, payment is due in February. If paid semi-annually, the first payment is due in February with the remainder payable by July. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The residents of the City support Grove Cemetery Association (the Cemetery), a jointly governed organization described further in Note 17, through a tax levy. The levy for the Cemetery is voted millage. During 2016, the Cemetery received \$99,483 in tax revenue and related homestead and rollback revenue, from the residents of the City. This money is reported as property tax receipts and intergovernmental receipts, respectively, and the subsequent disbursement is recorded within intergovernmental disbursements on the financial statements.

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 8 - Risk Management

The Government belongs to the Ohio Plan Risk Management, Inc. (OPRM) – formerly known as the Ohio Government Risk Management Plan, (the “Plan”), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverages programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015 and 2014 (the latest information available):

	<u>2015</u>	<u>2014</u>
Assets	\$14,643,667	\$14,830,185
Liabilities	<u>(\$9,112,030)</u>	<u>(\$8,942,504)</u>
Members’ Equity	<u>\$5,531,637</u>	<u>\$5,887,681</u>

CITY OF KENTON
HARDIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions-between an employer and its employees-of salaries and benefits for employee services. Pensions are provided to an employee-on a deferred-payment basis-as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the use of the cash basis framework.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially the majority of all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

Group A	Group B	Group c
Eligible to retire prior to January 7, 2013 or five years After January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire Ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula:	Formula:	Formula:
2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$231,236 for year 2016.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

Plan Description – Ohio Police & Fire Pension Fund (OPF) (continued)

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City of Kenton's contractually required contribution to OPF was \$293,464 for 2016.

Net Pension Liability

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	0.012753%	0.0611854%	
Proportion of the Net Pension Liability-Current Year	0.012947%	0.0600850%	
Proportion of the Net Pension Liability-Prior Year	-0.000194%	0.0011000%	
Change in Proportionate Share			
 Proportionate Share of the Net Pension Liability	 \$2,202,725	 \$3,865,309	 \$6,068,034

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Allocation</u>	<u>(Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

	1% Decrease █ (7.00%)	Current Discount Rate █ (8.00%)	1% Increase █ (9.00%)
City's proportionate share of the net pension liability	\$4,052,422	\$2,202,725	\$644,874

Changes Between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions – OPF (continued)

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target allocation</u>	<u>10 year expected real rate of return**</u>	<u>30 year expected real rate of return**</u>
Cash and Cash Equivalents	- %	0.00 %	0.00 %
Domestic Equity	16.00	6.50	7.80
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

* levered 2x

**numbers are net of expected inflation

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 9 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions – OPF (continued)

Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	5,346,307.00	3,865,309.00	2,610,134.00

Note 10 – Post Employment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS administers three separate pension plans: The Traditional Pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 10 – Post Employment Benefits (continued)

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety contributed 24.0% and Law Enforcement employers contributed at 19.5%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by the OPERS' actuary, the portion of employer contribution allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2016, 2015, and 2014 were \$25,552, \$32,788, and 32,757, respectively. 100% has been contributed for 2016, 2015 and 2014.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 10 – Post Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 10 – Post Employment Benefits (continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2016 through December 31, 2016. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits of police and firefighters were \$3,623 and \$3,016 for the year ended December 31, 2016, \$46,230 and \$41,378 for the year ended December 31, 2015, and \$3,281 and \$2,795 for the year ended December 31, 2014. 100% has been contributed for 2016, 2015 and 2014.

Note 11 – Debt

The City's debt transactions for the year ended December 31, 2016, are summarized below:

	Debt		Debt		Debt
	Principal	Debt	Principal	Principal	Due
	Outstanding	Issued in	Retired in	Outstanding In	Within
	1/1/2016	2016	2016	2016	One Year
Governmental Activities					
General Obligations					
Issues:					
2011 Swimming Pool					
Improvement Refunding					
Bonds	\$250,000	0	\$80,000	\$170,000	\$85,000
Fire Truck Acquisition					
Bonds	126,500	0	25,300	101,200	25,300
Building Acquisition Bonds	0	185,537	0	185,537	12,370
Total General Obligation					
Bonds	376,500	185,537	105,300	456,737	122,670

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 11 – Debt (continued)

**Governmental Activities
(Continued)**

	Debt Principal Outstanding 1/1/2016	Debt Issued in 2016	Debt Principal Retired in 2016	Debt Principal Outstanding In 2016	Due Within One Year
2006 OPWC Loan Street	\$72,765	0	\$6,930	\$65,835	\$6,930
2010 OPWC Loan Street	147,087	0	36,771	110,315	36,771
Total OPWC Loans	219,852	0	43,701	176,150	43,701
Total Government Activity	596,352	185,537	149,001	632,887	166,371
Business Type Activities					
Sewer Fund					
General Obligation Issues:					
2008 WWTP/System Imp Bonds	83,250	0	27,750	55,500	27,750
Building Acquisition Bonds	0	185,481	0	185,481	12,370
Building Acquisition Bonds	0	185,482	0	\$185,482	12,370
Total Bonds	83,250	370,963	27,750	426,463	52,490
1996 OWDA Wastewater Improvement	158,486	0	78,377	80,109	80,109
1998 OWDA Wastewater Improvement Loan (WWTP Exp)	3,467,387	0	838,608	2,628,779	857,159
2014 OPWC Sanitary Sewer	108,538	0	5,713	102,825	5,713
2014 Sanitary Sewer Loan County	12,059	0	635	11,424	635
Bonds	3,746,470	0	923,333	2,823,137	943,616
Total Sewer Fund	3,829,720	370,963	951,083	3,249,600	996,106
Water Fund					
2003 OPWC Waterworks Loan	41,238	0	5,891	35,347	5,891
Total Business Type Activity	3,870,958	370,963	956,974	3,284,947	1,001,997
Total Debt	\$4,467,310	\$556,500	\$1,105,975	\$3,917,835	\$1,168,368

Outstanding general obligation bonds and loans consist of street improvements, purchase of 555 W Franklin Street building, water and sewer system improvements issues and swimming pool construction. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 11– Debt (Continued)

1999 Various Purpose Bonds

During 1999, the City issued various purpose bonds in the total amount of \$2,090,000 of which \$1,200,000 was used to retire bond anticipation notes issued for the construction of a municipal swimming pool and \$890,000 to retire outstanding bonds for the municipal building. The bonds have stated interest rates between 3.3 and 5.4 percent. The \$890,000 refunding portion of the bonds matured in 2005 and the municipal swimming pool portion were to mature in 2018 but were refinanced in 2011.

The bonds due December 1, 2018 are subject to mandatory sinking fund redemption.

The mandatory sinking fund redemption began on December 1, 2013, and is to occur 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>
2017	\$85,000

Unless otherwise called for redemption, the remaining \$85,000 principal amount of the Bonds due December 1, 2018, is to be paid at stated maturity.

The bonds were recalled in 2011 and re-issued at coupon rates varying from 1% to 2.125%. This reduced the City's interest payments by \$48,709 over the remaining life of the loan.

2011 Swimming Pool Improvement Refunding Bonds

In October 2011, the City issued \$570,000 in voted general obligation bonds for the purpose of refunding a portion of the 1999 Swimming Pool Construction Bonds originally issued in the aggregate principal amount of \$1,200,000 for the purpose of constructing the swimming pool. The bonds have interest rates ranging from 1.0% to 2.125%, with final maturity on December 1, 2018.

The refunding bond issue provided resources to purchase US Government securities that were placed in trust with an escrow agent, for the purpose of future debt service payments of \$540,000 of the 1999 bond issue. As a result, the refunded bonds are considered to be defeased and the City no longer has liabilities associated with those bonds.

The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete refunding was \$48,709. The economic gain resulting from the refunding was \$43,474.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 11– Debt (Continued)

2006 Ohio Public Works Commission Loan (OPWC)

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

2010 Ohio Public Works Commission Loan (OPWC)

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

1996 Ohio Water Development Authority Loan (OWDA)

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

1998 Ohio Water Development Authority Loan (OWDA)

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

2003 Ohio Public Works Commission Loan (OPWC)

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 11– Debt (Continued)

2008 WWTP/System Improvement Bonds

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

2014 Sanitary Sewer Collection (OPWC)

During 2014, the City obtained a zero percent interest 20 year loan in the amount of \$114,249 from OPWC for the sanitary sewer collection system improvements project. The loan will mature in 2034 and will be paid for by the homeowners on their property tax bills.

2014 Sanitary Sewer Collection (Hardin County)

During 2014, Hardin County contributed \$12,694 for the sanitary sewer collection system improvements project. This loan will mature in 2034 and will be paid for by the homeowners on their property tax bills.

2015 Fire Truck Acquisition Bonds

During 2015, the City issued \$126,500 Fire Truck Acquisition Bonds on December 1, 2015 at 2.5% interest. These bonds will be paid from the Bond Retirement Fund and will mature in 2020.

2016 Building Acquisition Bonds

During 2016, the City issued \$556,500 for Building Acquisition Bonds on September 28, 2016 at 2.25 % interest. These bonds will be repaid from the Bond Retirement Fund, Waterworks Fund, and Sewer Fund. The loan will mature in 2031.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 11– Debt (Continued)

The annual requirements to amortize all long term debt outstanding as of December 31, 2016, including interest payments \$338,312 are listed in the table below:

	G.O Bonds	OWDA Loans	OPWC Loans	County	Total
2017	\$197,674	\$991,738	\$55,305	\$635	\$1,245,352
2018	194,140	910,303	55,306	635	1,160,384
2019	78,403	910,303	55,306	635	1,044,647
2020	77,771	0	35,673	635	114,079
2021	51,838	0	41,565	635	94,038
2022-2026	259,190	0	54,037	3,173	316,400
2027-2031	259,040	0	17,131	3,173	279,344
2032-2036				1,903	1,903
Total	1,118,056	2,812,344	314,323	11,424	4,256,147
Less					
Interest	(234,856)	(103,456)	0	0	(338,312)
Principal	\$883,200	\$2,708,888	\$314,323	\$11,424	\$3,917,835

Note 12 – Leases

A. Operating Lease

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

CITY OF KENTON
HARDIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 12 – Leases (continued)

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

Fiscal Year Ending December 31:	Amount
2017	6,946
2018	6,946
2019	6,946
2020	7,294
2021	7,294
2022-2026	37,193
2027-2031	39,051
2032-2036	41,004
2037-2041	43,054
2042-2046	45,206
2044-2049	27,923
	<u>\$ 268,857</u>

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 13 – Fund Balances

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Street Fund	Nonmajor Governmental Funds	Total
<i>Non-spendable:</i>				
Unclaimed Funds	\$ 24,920			\$ 24,920
Total Non-spendable	<u>24,920</u>			<u>24,920</u>
<i>Restricted for:</i>				
Street Maintenance		\$ 80,474	\$ 37,777	\$ 118,251
Park and Recreational Operations			114,055	114,055
Home Repair			20,052	20,052
Economic Development			37,669	37,669
Court Improvements			160,377	160,377
Police Pension			9,359	9,359
Fire Pension			8,389	8,389
Police Improvements			42,432	42,432
Indigent Drivers			87,963	87,963
Emergency Medical Services			36,941	36,941
Probation Services			4,678	4,678
<i>Total Restricted</i>		<u>80,474</u>	<u>559,692</u>	<u>640,166</u>
<i>Assigned for:</i>				
Subsequent Appropriations in Excess of Estimated Receipts	100,089			100,089
Unpaid Obligations	52,111			52,111
<i>Total Assigned</i>	<u>152,200</u>	<u>-</u>		<u>152,200</u>
<i>Unassigned</i>	<u>623,896</u>			<u>623,896</u>
<i>Total Fund Balances</i>	<u>\$ 801,016</u>	<u>\$ 80,474</u>	<u>\$ 559,692</u>	<u>\$ 1,441,182</u>

Note 14- Inter-fund Transfers

During 2016, the General Fund made transfers to governmental funds, in the amount of \$603,520 including the Street Fund, the R.S.P.O. Fund, the Bond Retirement Fund, and the Note Retirement Fund. Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 15 - Commitments

The City’s encumbrance policy for the year ended December 31, 2016 is that individual encumbrances can be issued for any amount to be considered significant encumbrances. All encumbrances are classified as Assigned Fund Balance in the General Fund, or as Restricted Fund Balance in the non-general funds.

Encumbrances as of December 31, 2016 were:

Fund	Assigned	Restricted	Total
Major Governmental Funds:			
General	\$ 52,111	\$ -	\$ 52,111
Street	-	5,067	5,067
Non-Major Governmental Funds	-	1,945	1,945
Totals	\$ 52,111	\$ 7,012	\$ 59,123

Note 16– Contingent Liabilities

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

Note 17 - Jointly Governed Organizations

A. Grove Cemetery Association

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 17 - Jointly Governed Organizations (continued)

B. Hardin County Regional Planning Commission

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

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

C. BKP Ambulance District

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

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**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,227,858	\$1,227,858	\$1,227,858	
Resources (Inflows):				
Taxes	3,425,639	3,425,639	3,627,880	\$202,241
Charges for Services	66,200	66,200	66,384	\$184
Licenses and Permits	46,000	46,000	50,866	\$4,866
Fines and Forfeitures	296,000	296,000	276,868	(\$19,132)
Intergovernmental	153,481	153,481	155,088	\$1,607
Interest on Investments	8,000	8,000	10,729	\$2,729
Miscellaneous Receipts	5,000	5,000	59,611	\$54,611
Debt Proceeds	0	0	46,412	\$46,412
Other Financing Sources	0	0	2,100	\$2,100
Transfer In	0	0	1,566	\$1,566
Advance In	0	0	180,225	\$180,225
Total Resources (Inflows):	<u>4,000,320</u>	<u>4,000,320</u>	<u>4,477,729</u>	<u>477,409</u>
Charges to Appropriations (Outflows):				
General Government				
Legislative and Executive	653,635	864,141	797,497	66,644
Judicial	472,095	487,076	454,163	32,913
Public Safety	2,396,905	2,566,375	2,503,759	62,616
Health	81,500	81,500	81,500	0
Economic Development	6,000	6,000	6,000	0
Capital Outlay	54,000	100,678	94,427	6,251
Transfers Out	587,660	635,371	603,520	31,851
Advances Out	0	126,881	494,234	(367,353)
Total Disbursements	<u>4,251,795</u>	<u>4,868,022</u>	<u>5,035,100</u>	<u>(167,078)</u>
Excess of Receipts (Under) Disbursements	(251,475)	(867,702)	(557,371)	310,331
Prior Year Encumbrances Appropriated	<u>53,498</u>	<u>53,498</u>	<u>53,498</u>	<u>0</u>
Ending Budgetary Balance:	<u>\$1,029,881</u>	<u>\$413,654</u>	<u>\$723,985</u>	<u>\$310,331</u>

See accompanying notes to Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - BUDGET BASIS
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive(Negative)
Beginning Budgetary Fund Balance:	\$59,303	\$59,303	\$59,303	
Resources (Inflows):				
Licenses and Permits	500	500	720	\$220
Intergovernmental	308,000	308,000	310,713	2,713
Interest on Investments	300	300	503	203
Miscellaneous Receipts	8,000	8,000	24,657	16,657
Debt Proceeds	0	139,125	139,125	0
Transfer In	298,840	321,901	315,051	(6,850)
Total Resources (Inflows):	615,640	777,826	790,769	12,943
Charges to Appropriations (Outflows):				
Public Works	594,640	791,270	776,427	14,843
Capital Outlay	21,000	21,000	20,158	842
Total Charges to Appropriations:	615,640	812,270	796,585	15,685
Excess of Receipts (Under) Disbursements	0	(34,444)	(5,816)	28,628
Prior Year Encumbrances Appropriated	21,920	21,920	21,920	0
Ending Budgetary Balance:	\$81,223	\$46,779	\$75,407	\$28,628

See accompanying notes to Supplementary Information.

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Basis of Accounting

The budget is prepared on the same cash basis as applied to the funds in the basic financial statements.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinances, all of which are prepared on the cash basis as required by the County Budget Commission. All funds, other than Agency Funds, are legally required to be budgeted and appropriated. The certificate of estimated resources and the appropriation ordinances are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified. All changes in appropriated amounts require action by City Council.

Tax Budget – The Hardin County Budget Commission has adopted a resolution waiving required adoption of the annual tax budget for subdivisions that file their prior year financial statement with the Commission by June 30th and which either have no public debt or which have public debt and file additional debt-related information with the Commission.

Estimated Resources – Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures/expenses from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about January 1, the certificate is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during 2016.

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

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

**CITY OF KENTON
HARDIN COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

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

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 an assigned, committed, or restricted fund balance and as the equivalent of expenditures on the budgetary comparison in order to demonstrate legal compliance. This encumbrance authority is carried forward to the next fiscal year and is reported in the “Revised Budget” amount for budgetary comparisons. If the actual expenditures are less than the amount encumbered in the general fund, the excess is closed to the unassigned fund balance.

Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedules presented for the General and Street funds are prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as an assigned, committed, or restricted fund balance (cash basis).

The adjustment necessary to convert the results of operations for the year on the budget basis to the cash basis are as follows:

Reconciliation of Fund Balance

	General Fund	Street Fund
Budget Basis	\$723,985	\$75,407
Adjustments for encumbrances	52,111	5,067
Funds Budgeted Elsewhere**	24,920	
Cash Basis	\$801,016	\$80,474

** As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds that are legally budgeted in separate funds are considered part of the General Fund on a cash basis. For the City this includes the Unclaimed Monies Fund.

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

City of Kenton
Hardin County
111 W Franklin Street
Kenton, Ohio 43326

To the Members of Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Hardin County (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 26, 2017, wherein we noted the City uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

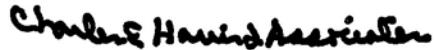
As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2016-001.

City's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris and Associates, Inc.
May 26, 2017

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF FINDINGS
December 31, 2016

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>
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Finding Number 2016-001 – Noncompliance Citation

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

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

The City should prepare its financial statements according to generally accepted accounting principles to provide users with more meaningful financial statements and the comply with the Ohio Revised Code and Ohio Administrative Code.

Management Response:

See Corrective Action Plan.

CITY OF KENTON
HARDIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Noncompliance Finding – Ohio Rev. Code § 117.38 – The financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America.	Not corrected	Repeated as finding 2016-001

CITY OF KENTON
HARDIN COUNTY

CORRECTIVE ACTION PLAN
December 31, 2016

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	City Council passed Resolution #04-003 on February 23, 2004 that stated "to be more cost efficient... That, effective fiscal year 2003, the City of Kenton will report on a cash basis as opposed to GAAP and/or GASB 34." This Resolution remains in effect and the City will continue to report on a cash basis for the foreseeable future.	N/A	Kerri McLaughlin, Chief Deputy Auditor

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Dave Yost • Auditor of State

CITY OF KENTON

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 24, 2017