

CITY OF ST. BERNARD, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

Prepared by:
Walter T. St. Clair
City Auditor



**Auditor of State
Betty Montgomery**

City Council
City of St. Bernard
110 Washington Avenue
St. Bernard, Ohio 45217

We have reviewed the *Independent Auditors' Report* of the City of St. Bernard, Hamilton County, prepared by Bastin & Company, LLC, for the audit period January 1, 2005 through December 31, 2005. 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 St. Bernard is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

September 26, 2006

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TABLE OF CONTENTS

I FINANCIAL SECTION

A Independent Auditors' Report.....1

B Management's Discussion and Analysis3

C Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Assets.....12

 Statement of Activities13

 Fund Financial Statements:

Governmental Funds:

 Balance Sheet14

 Reconciliation of Total Governmental Fund Balances to Net Assets of
 Governmental Activities15

 Statement of Revenues, Expenditures and Changes in Fund Balances16

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities17

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual (Non-GAAP Budgetary Basis):

 General Fund18

Fiduciary Funds:

 Statement of Assets and Liabilities.....19

 Statement of Changes in Assets20

Notes to the Basic Financial Statements.....21

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Members of City Council
City of St. Bernard, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of St. Bernard, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Bernard, Ohio, as of December 31, 2005, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2006 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

A handwritten signature in cursive script that reads "Bastin & Company, L L C". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
June 19, 2006

CITY OF ST. BERNARD, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

The discussion and analysis of the City of St. Bernard's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- ❑ Net assets increased \$1.3 million, which represents a 10.4% increase from 2004.
- ❑ General revenues accounted for \$10.2 million in revenue or 91% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,021,045 or 9% of total revenues of \$11.2 million.
- ❑ The City had \$9.9 million in expenses related to governmental activities; only \$1,021,045 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$10.2 million were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$10.5 million in revenues and \$8.4 million in expenditures. The general fund's fund balance declined \$618,252 million to \$2,967,784. The decrease in fund balance is mainly caused by large transfers out of the General Fund to assist the activities of other funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF ST. BERNARD, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City reflect the following category of its activities:

- *Governmental Activities* – All of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation, general government and other expenditures.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

CITY OF ST. BERNARD, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net assets as of December 31, 2005 and 2004:

	Governmental Activities	
	2005	2004
Current and other assets	\$6,700,758	\$6,120,165
Capital assets, Net	13,965,233	14,823,219
Total assets	20,665,991	20,943,384
Long-term debt outstanding	4,719,144	5,137,987
Other liabilities	2,273,676	3,419,701
Total liabilities	6,992,820	8,557,688
Net assets		
Invested in capital assets, net of related debt	11,985,936	7,508,219
Restricted	1,213,793	980,385
Unrestricted	473,442	3,897,092
Total net assets	<u>\$13,673,171</u>	<u>\$12,385,696</u>

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CITY OF ST. BERNARD, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	Governmental Activities	
	2005	2004
Revenues		
Program revenues:		
Charges for Services and Sales	\$539,710	\$210,358
Operating Grants and Contributions	275,347	255,319
Capital Grants and Contributions	205,988	521,668
General revenues:		0
Taxes	9,069,258	6,843,244
Grants and Entitlements not Restricted to Specific Programs	799,955	1,064,376
Investment Earnings	37,011	51,406
Miscellaneous	261,053	320,465
Total revenues	11,188,322	9,266,836
Program Expenses		
Security of Persons and Property	4,299,630	4,815,531
Public Health and Welfare Services	86,114	127,741
Leisure Time Activities	386,052	728,877
Basic Utility Services	558	869,040
Transportation	836,891	926,615
General Government	2,918,677	2,158,810
Other Expenditures	1,219,062	1,304,572
Debt Service:		
Interest and Fiscal Charges	153,863	97,908
Total expenses	9,900,847	11,029,094
Total Change in Net Assets	1,287,475	(1,762,258)
Beginning Net Assets	12,385,696	14,147,954
Ending Net Assets	\$13,673,171	\$12,385,696

Governmental Activities

Net assets of the City's governmental activities increased by \$1,287,475. This was mainly due to a combination of factors including an increase in the City's property tax collections. An increase in charges for services (program revenues) was offset by decreases in capital grants.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

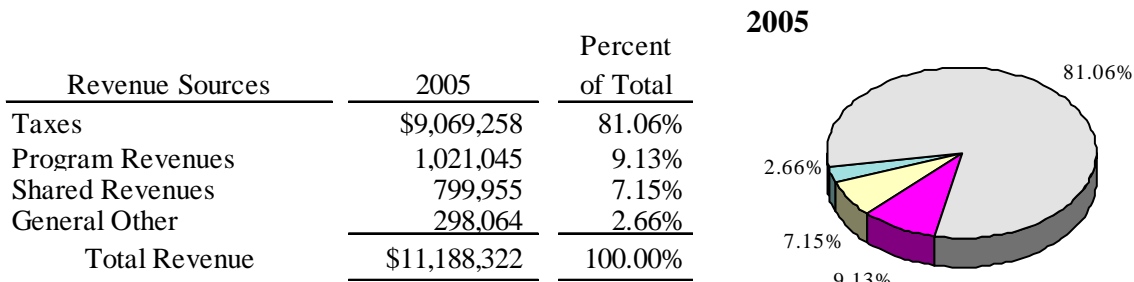
CITY OF ST. BERNARD, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

The City also receives an income tax. The income tax is based on 2.0% of all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on income of residents earned outside the City.

Taxes made up 81.06% of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$3,988,469, which is an increase from last year's balance of \$2,458,645. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2004:

	Fund Balance December 31, 2005	Fund Balance/(Deficit) December 31, 2004	Increase (Decrease)
General	\$2,967,784	\$3,586,036	(\$618,252)
Master Plan			
Capital Improvement	275,973	(1,807,847)	2,083,820
Other Governmental	744,712	680,456	64,256
Total	\$3,988,469	\$2,458,645	\$1,529,824

CITY OF ST. BERNARD, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$8,963,949	\$6,843,960	\$2,119,989
Intergovernmental Revenues	823,465	1,812,134	(988,669)
Charges for Services	270,765	175,540	95,225
Licenses and Permits	48,734	41,005	7,729
Investment Earnings	35,583	65,498	(29,915)
Fines and Forfeitures	62,112	45,669	16,443
All Other Revenue	328,844	268,609	60,235
Total	\$10,533,452	\$9,252,415	\$1,281,037

General Fund revenues in 2005 increased approximately 13.85% compared to revenues in fiscal year 2004. A large increase in Earned Income Tax from Individual Returns, Employer Withholding, and Net Profits as well as increased revenues from property taxes and fire department soft billing for EMS Services accounted for the increases in 2005 in comparison to 2004.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Security of Persons and Property	\$3,957,411	\$4,318,743	(\$361,332)
Public Health and Welfare Services	86,114	126,669	(40,555)
Leisure Time Activities	76,150	371,883	(295,733)
Basic Utility Services	558	869,040	(868,482)
Transportation	86,648	259,703	(173,055)
General Government	3,049,732	2,204,221	845,511
Other Expenditures	1,219,062	1,304,572	(85,510)
Total	\$8,475,675	\$9,454,831	(\$979,156)

CITY OF ST. BERNARD, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

General Fund expenditures decreased by \$979,156 over the prior year was mainly due to personnel layoffs and retirements as well as the consolidation of several functions and related elimination of personnel and expenditures of those functions.

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

During the course of fiscal year 2005 the City amended its General Fund budget several times, none significant.

For the General Fund, final budgeted and actual receipts of \$11.1 million were significantly different than original budgeted revenues of \$5.7 million. Passage of a tax levy, and higher income tax collections accounted for most of the difference between the budgeted and actual revenues. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005 the City had \$13,965,233 net of accumulated depreciation invested in land, land improvements, buildings, infrastructure, equipment and furniture, and vehicles. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$3,174,953	\$3,174,953	\$0
Land Improvements	4,311,201	4,311,201	0
Buildings and Improvements	4,381,344	4,381,344	0
Infrastructure	9,777,640	9,704,255	73,385
Machinery and Equipment	4,210,601	4,321,457	(110,856)
Less: Accumulated Depreciation	(11,890,506)	(11,069,991)	(820,515)
Totals	<u>\$13,965,233</u>	<u>\$14,823,219</u>	<u>(\$857,986)</u>

The primary increase occurred in infrastructure. The increase in infrastructure is mainly the result of the repaving of several streets.

CITY OF ST. BERNARD, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

Debt

At December 31, 2005, the City had \$1,979,297 in bonds outstanding, \$131,659 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Governmental Activities:		
General Obligation Bonds	\$1,979,297	\$2,205,000
Ohio Public Works Commission Loans	38,850	40,718
Police/Fire Accrued Pension	846,268	860,487
Compensated Absences	<u>1,854,729</u>	<u>2,031,782</u>
Total Governmental Activities	<u>\$4,719,144</u>	<u>\$5,137,987</u>

Additional information on the City's long-term debt can be found in Note 11.

ECONOMIC FACTORS

The City's general fund budget for 2005 was very conservative. Budgeted expenditures were approximately \$800,000 less than 2004 expenditures, but it was still expected that expenditures would exceed revenues by \$1.5 million. Unexpected revenue increases, especially from Earned Income Tax receipts, allowed the City to pay down \$2.1 million of its debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Walter T. St. Clair, City Auditor of the City of St. Bernard.

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CITY OF ST. BERNARD, OHIO

Statement of Net Assets *December 31, 2005*

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 1,444,375
Cash and Cash Equivalents with Fiscal Agent	169,159
Investments	1,853,903
Receivables:	
Taxes	2,370,575
Accounts	86,069
Intergovernmental	674,953
Interest	18,232
Inventory of Supplies at Cost	58,421
Prepaid Items	25,071
Capital Assets:	
Capital Assets Not Being Depreciated	3,174,953
Capital Assets Being Depreciated, Net	10,790,280
Total Assets	20,665,991
Liabilities:	
Accounts Payable	101,301
Accrued Wages and Benefits	140,241
Intergovernmental Payable	240,160
Claims Payable	46,992
Deferred Revenue	1,734,408
Accrued Interest Payable	10,574
Noncurrent liabilities:	
Due within one year	163,717
Due in more than one year	4,555,427
Total Liabilities	6,992,820
Net Assets:	
Invested in Capital Assets, Net of Related Debt	11,985,936
Restricted For:	
Capital Projects	424,037
Debt Service	65,000
Other Purposes	724,756
Unrestricted (Deficit)	473,442
Total Net Assets	\$ 13,673,171

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Statement of Activities
For the Year Ended December 31, 2005

		Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Security of Persons and Property	\$ 4,299,630	\$ 266,695	\$ 29,929	\$ 0	\$ (4,003,006)
Public Health and Welfare Services	86,114	29,181	1,519	0	(55,414)
Leisure Time Activities	386,052	58,295	0	0	(327,757)
Basic Utility Services	558	0	0	0	(558)
Transportation	836,891	83,609	243,899	205,988	(303,395)
General Government	2,918,677	101,930	0	0	(2,816,747)
Other Expenditures	1,219,062	0	0	0	(1,219,062)
Interest and Fiscal Charges	153,863	0	0	0	(153,863)
Total Governmental Activities	9,900,847	539,710	275,347	205,988	(8,879,802)
Totals	\$ 9,900,847	\$ 539,710	\$ 275,347	\$ 205,988	(8,879,802)
General Revenues					
Property Taxes					773,398
Income Taxes					8,295,860
Grants and Entitlements not Restricted to Specific Programs					799,955
Investment Earnings					37,011
Miscellaneous					261,053
Total General Revenues					10,167,277
Change in Net Assets					1,287,475
Net Assets Beginning of Year					12,385,696
Net Assets End of Year					\$ 13,673,171

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Balance Sheet Governmental Funds December 31, 2005

	General	Master Plan Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 1,067,079	\$ 83,522	\$ 293,774	\$ 1,444,375
Cash and Cash Equivalents with Fiscal Agent	0	0	169,159	169,159
Investments	1,459,409	120,702	273,792	1,853,903
Taxes	2,273,583	0	96,992	2,370,575
Accounts	86,033	0	36	86,069
Intergovernmental	313,740	283,783	77,430	674,953
Interest	18,172	0	60	18,232
Inventory of Supplies, at Cost	58,421	0	0	58,421
Prepaid Items	24,971	100	0	25,071
Total Assets	\$ 5,301,408	\$ 488,107	\$ 911,243	\$ 6,700,758
Liabilities:				
Accounts Payable	\$ 81,881	\$ 5,289	\$ 14,131	\$ 101,301
Accrued Wages and Benefits Payable	136,282	857	3,102	140,241
Intergovernmental Payable	240,160	0	0	240,160
Claims Payable	46,992	0	0	46,992
Deferred Revenue	1,813,004	205,988	149,298	2,168,290
Compensated Absences Payable	15,305	0	0	15,305
Total Liabilities	2,333,624	212,134	166,531	2,712,289
Fund Balances:				
Reserved for Encumbrances	4,306	100	0	4,406
Reserved for Prepaid Items	24,971	0	0	24,971
Reserved for Supplies Inventory	58,421	0	0	58,421
Reserved for Debt Service	0	0	75,574	75,574
Reserved for CDBG Loans	0	0	336,126	336,126
General Fund	2,880,086	0	0	2,880,086
Special Revenue Funds	0	0	333,012	333,012
Capital Project Funds	0	275,873	0	275,873
Total Fund Balances	2,967,784	275,973	744,712	3,988,469
Total Liabilities and Fund Balances	\$ 5,301,408	\$ 488,107	\$ 911,243	\$ 6,700,758

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2005***

Total Governmental Fund Balances \$ 3,988,469

***Amounts reported for governmental activities in the
statement of net assets are different because***

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 13,965,233

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 433,882

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

General Obligation Bonds Payable	(1,979,297)	
Ohio Public Works Commission Loans Payable	(38,850)	
Police/Fire Accrued Pension Liability	(846,268)	
Compensated Absences Payable	(1,839,424)	
Accrued Interest Payable	(10,574)	(4,714,413)

Net Assets of Governmental Activities \$ 13,673,171

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2005

	General	Master Plan Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 8,963,949	\$ 0	\$ 115,309	\$ 9,079,258
Intergovernmental Revenues	823,465	77,018	239,200	1,139,683
Charges for Services	270,765	0	31,418	302,183
Licenses and Permits	48,734	0	0	48,734
Investment Earnings	33,583	0	2,455	36,038
Fines and Forfeitures	62,112	0	13,934	76,046
All Other Revenue	328,844	0	0	328,844
Total Revenue	10,531,452	77,018	402,316	11,010,786
Expenditures:				
Current:				
Security of Persons and Property	3,957,411	0	124,259	4,081,670
Public Health and Welfare Services	86,114	0	0	86,114
Leisure Time Activities	76,150	0	117,421	193,571
Basic Utility Services	558	0	0	558
Transportation	86,648	0	267,029	353,677
General Government	3,049,732	0	0	3,049,732
Other Expenditures	1,219,062	0	0	1,219,062
Capital Outlay	0	128,599	0	128,599
Debt Service:				
Principal Retirement	0	0	287,532	287,532
Interest & Fiscal Charges	0	29,307	126,427	155,734
Total Expenditures	8,475,675	157,906	922,668	9,556,249
Excess (Deficiency) of Revenues Over Expenditures	2,055,777	(80,888)	(520,352)	1,454,537
Other Financing Sources (Uses):				
General Obligation Bonds Issued	0	0	1,875,000	1,875,000
Payment to Bond Refunding Agent	0	0	(1,828,359)	(1,828,359)
Transfers In	0	2,164,708	2,702,675	4,867,383
Transfers Out	(2,702,675)	0	(2,164,708)	(4,867,383)
Total Other Financing Sources (Uses)	(2,702,675)	2,164,708	584,608	46,641
Net Change in Fund Balances	(646,898)	2,083,820	64,256	1,501,178
Fund Balances (Deficits) at Beginning of Year	3,586,036	(1,807,847)	680,456	2,458,645
Increase (Decrease) in Inventory Reserve	28,646	0	0	28,646
Fund Balances (Deficits) End of Year	\$ 2,967,784	\$ 275,973	\$ 744,712	\$ 3,988,469

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2005***

Net Change in Fund Balances - Total Governmental Funds \$ 1,501,178

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	193,240	
Depreciation Expense	<u>(1,002,138)</u>	(808,898)

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets. (49,088)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 177,536

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (1,875,000)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	2,100,703	
Ohio Public Works Commission Loan Principal Payment	1,868	
Police/Fire Accrued Pension Payment	<u>14,219</u>	2,116,790

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 15,191

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	181,120	
Change in Inventory	<u>28,646</u>	<u>209,766</u>

Change in Net Assets of Governmental Activities **\$1,287,475**

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 4,835,082	\$ 9,347,791	\$ 9,230,686	\$ (117,105)
Intergovernmental Revenues	453,058	935,503	986,835	51,332
Charges for Services	130,543	269,553	284,344	14,791
Licenses and Permits	22,374	46,199	48,734	2,535
Investment Earnings	28,426	58,695	61,916	3,221
Fines and Forfeitures	18,606	38,418	40,526	2,108
All Other Revenues	205,112	423,528	446,767	23,239
Total Revenues	<u>5,693,201</u>	<u>11,119,687</u>	<u>11,099,808</u>	<u>(19,879)</u>
Expenditures:				
Current:				
Security of Persons and Property	3,896,833	4,086,435	3,954,694	131,741
Public Health and Welfare Services	102,873	88,493	82,453	6,040
Leisure Time Activities	110,655	104,716	82,342	22,374
Transportation	92,900	93,280	87,898	5,382
General Government	3,173,991	3,217,420	3,051,543	165,877
Other Expenditures	1,023,660	1,345,216	1,294,263	50,953
Total Expenditures	<u>8,400,912</u>	<u>8,935,560</u>	<u>8,553,193</u>	<u>382,367</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,707,711)	2,184,127	2,546,615	362,488
Other Financing Sources (Uses):				
Transfers In	0	0	0	0
Transfers Out	0	(2,702,675)	(2,702,675)	0
Total Other Financing Sources (Uses):	<u>0</u>	<u>(2,702,675)</u>	<u>(2,702,675)</u>	<u>0</u>
Net Change in Fund Balance	(2,707,711)	(518,548)	(156,060)	362,488
Fund Balance at Beginning of Year	2,720,979	2,720,979	2,720,979	0
Prior Year Encumbrances	8,824	8,824	8,824	0
Fund Balance at End of Year	<u>\$ 22,092</u>	<u>\$ 2,211,255</u>	<u>\$ 2,573,743</u>	<u>\$ 362,488</u>

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Statement of Net Assets
Fiduciary Funds
December 31, 2005

	<u>Private Purpose Trust</u>		
	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 33,276	\$ 28,909	\$ 62,185
Total Assets	<u>33,276</u>	<u>28,909</u>	<u>62,185</u>
Liabilities:			
Due to Others	<u>0</u>	<u>28,909</u>	<u>28,909</u>
Total Liabilities	<u>0</u>	<u>28,909</u>	<u>28,909</u>
Net Assets:			
Unrestricted	<u>33,276</u>	<u>0</u>	<u>33,276</u>
Total Net Assets	<u>\$ 33,276</u>	<u>\$ 0</u>	<u>\$ 33,276</u>

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Statement of Changes in Net Assets
Fiduciary Funds
December 31, 2005

	<u>Private Purpose Trust Fund</u>
Additions:	
Total Additions	<u>\$ 0</u>
Deductions:	
Total Deductions	<u> 0</u>
Change in Net Assets	0
Net Assets at Beginning of Year	<u> 33,276</u>
Net Assets End of Year	<u><u> \$ 33,276</u></u>

See accompanying notes to the basic financial statements

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of St. Bernard, Ohio (the "City") was incorporated as a village in 1878 and became a city in 1912. The City is a statutory municipal corporation under the laws of the State of Ohio and operates under a Council-Mayor form of government.

The accompanying basic financial statements of the City present the financial position of the various fund types, and the results of operations of the various fund types. The financial statements are presented as of December 31, 2005 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities and functions of the City (the primary government consists of all funds, departments, boards and agencies that are not legally separate from the City). The reporting entity of the City includes the following services: police and fire protection, emergency medical services, parks and recreation, planning, zoning, street maintenance, and other governmental services. Potential component units for which the City may be financially accountable were considered for inclusion in the financial statements. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. Based on the foregoing criteria, no component units were included in the financial statements.

The City of St. Bernard Mayor's Court is included in the reporting entity because it is not legally separate.

B. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following fund types are used by the City:

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of "Flow of Current Financial Resources." With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those 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.

Master Plan Capital Improvement Fund - This fund is used to account for financial resources to be used for planning, developing, executing and maintaining major properties within the City's Master Plan.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's fiduciary funds are a private-purpose trust fund and agency funds. The City's private purpose trust fund accounts for monies held in trust for retired employees of the City. The City's Agency funds account for monies held for Hall Rentals, Building Permit Fees, and the Mayor's Court. The Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the 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 and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. The governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "measurable" means that the amount of the transaction can be determined. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year-end includes income taxes withheld by employers, property taxes, interest on investments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Property taxes measurable as of December 31, 2005, but not received within the available period are recorded as deferred revenue as these resources are not intended to pay liabilities of the current period. Delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The City reports deferred revenues in its balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

E. 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 ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources as certified.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control for each fund is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Tax Budget

By July 15, the City Finance Committee and Auditor submit an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. By October 1 of each year, the City accepts by resolution, the tax rates as determined by the Budget Commission. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by an ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

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CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund:

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	(\$646,898)
Increase (Decrease):	
Accrued Revenues at December 31, 2005 received during 2006	(795,826)
Accrued Revenues at December 31, 2004 received during 2005	1,364,182
Accrued Expenditures at December 31, 2005 paid during 2006	520,620
Accrued Expenditures at December 31, 2004 paid during 2005	(559,611)
2004 Prepays for 2005	21,887
2005 Prepays for 2006	(24,971)
Outstanding Encumbrances	(35,443)
Budget Basis	<u>(\$156,060)</u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and repurchase agreements. The repurchase agreements are considered cash equivalents because they are highly liquid investments with original maturity of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution, the Ohio Revised Code and the City Charter. The City allocates interest among the various funds based upon applicable legal and administrative requirements. Interest revenue credited to the City's funds was \$65,498 during calendar year 2005. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts which are reported at cost, which approximates fair value. Certificates of deposit with a maturity of greater than three months from the time of purchase are classified as investments on the balance sheet. See Note 3, "Cash, Cash Equivalents and Investments".

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

I. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

J. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$500.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost. The capital asset values were initially determined by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are capitalized at fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	20 - 40
Buildings and Improvements	10 - 45
Infrastructure	20 - 50
Machinery and Equipment	5 - 20

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Compensated Absences	General Fund Street Maintenance Fund Master Plan Capital Improvement Fund
General Obligation Bonds	General Bond Retirement Fund
Accrued Pension Liability	General Fund
Ohio Public Works Commission Loan	Storm Sewer Improvement Fund

L. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on 95% of the leave balances accumulated by employees who have ten years or more of service time with the City. These employees are expected to become eligible in the future to receive such payments.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable available financial resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction of improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Pensions

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

O. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

CITY OF ST. BERNARD, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Assets/Liabilities

Receivables and payables arising between funds for goods provided or services rendered are classified as "Due From/To Other Funds" on the balance sheet. Short-term interfund loans are classified as "Interfund Receivables/Payables," while long-term interfund loans are classified as "Interfund Loan Receivable/Payable."

R. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbered amounts that have not been accrued at year-end, supplies inventory, prepaid items and Community Development Block Grant loans.

S. Estimates

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

NOTE 2 – RECONCILITATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental funds as reported in the government-wide statement of net assets. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

Deferred Tax Revenue	\$23,628
Deferred Investment Earnings	\$3,610
Intergovernmental Revenue Receivable	<u>\$406,644</u>
	\$433,882

CITY OF ST. BERNARD, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2005*

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Governmental revenues not reported in the funds:

Decrease in Deferred Tax Revenue	(\$10,000)
Increase in Deferred Investment Earnings	973
Increase in Intergovernmental Revenue	<u>186,563</u>
	\$177,536

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$1,675,719 and the bank balance was \$1,832,954. Federal depository insurance covered \$100,000 of the bank balance and \$1,732,954 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits (Continued)

	Balance
Uninsured and collateralized with securities held by the pledging institution's Trust Department not in the City's name.	\$1,732,954
Total Balance	\$1,732,954

B. Investments

The City's investments at December 31, 2005 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
FHLMC	\$977,810	AAA ¹ / Aaa ²	\$197,302	\$435,370	\$345,138
FNMA	393,593	AAA ¹ / Aaa ²	295,968	97,625	0
FHLB	482,500	AAA ¹ / Aaa ²	0	482,500	0
Total Investments	\$1,853,903		\$493,270	\$1,015,495	\$345,138

¹ Standard & Poor's

² Moody's Investor Service

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 52.8% are FHLMC, 21.2% are FNMA, and 26.0% are FHLB.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004 the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

The full tax rate for all City operations for the year ended December 31, 2005 was \$11.28 per \$1,000 of assessed value. The assessed value on which the 2005 levy was based was \$160,346,777. This amount constitutes \$85,489,890 in real property assessed value, \$4,941,730 in public utility assessed value and \$69,915,157 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.128% (11.28 mills) of assessed value.

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 4 – TAXES (Continued)

B. Income Tax

The City levies a tax of 2.0% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of up to 2% of the tax paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 5 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, interest and accounts receivable, and intergovernmental receivables arising from shared revenues. All receivables are considered collectible in full. Those receivables that relate to amounts not intended to finance the current fiscal year are offset by deferred revenue.

NOTE 6 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2005:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$2,702,675
Master Plan Capital Improvement Fund	2,164,708	0
Nonmajor Governmental Funds:		
Swimming Pool Fund	95,600	0
General Bond Retirement Fund	2,604,000	2,164,708
Storm Sewer Improvement Fund	3,075	0
Total Nonmajor Governmental Funds	<u>2,702,675</u>	<u>2,164,708</u>
Totals	<u>\$4,867,383</u>	<u>\$4,867,383</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets.

The City transferred \$2,164,708 from the General Bond Retirement Fund to the Master Plan Capital Improvement to retire \$2,110,000 of General Obligation Notes.

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 7 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at December 31, 2005:

Historical Cost:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Capital assets not being depreciated:				
Land	\$3,174,953	\$0	\$0	\$3,174,953
Capital assets being depreciated:				
Land Improvements	4,311,201	0	0	4,311,201
Buildings and Improvements	4,381,344	0	0	4,381,344
Infrastructure	9,704,255	73,385	0	9,777,640
Machinery and Equipment	4,321,457	119,855	(230,711)	4,210,601
Total Cost	<u>\$25,893,210</u>	<u>\$193,240</u>	<u>(\$230,711)</u>	<u>\$25,855,739</u>

Accumulated Depreciation:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Land Improvements	(\$1,431,137)	(\$184,129)	\$0	(\$1,615,266)
Buildings and Improvements	(2,654,836)	(102,702)	0	(2,757,538)
Infrastructure	(4,186,414)	(325,874)	0	(4,512,288)
Machinery and Equipment	(2,797,604)	(389,433)	181,623	(3,005,414)
Total Depreciation	<u>(\$11,069,991)</u>	<u>(\$1,002,138) *</u>	<u>\$181,623</u>	<u>(\$11,890,506)</u>

Net Value:

Total Cost	<u>\$14,823,219</u>			<u>\$13,965,233</u>
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* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$262,709
Leisure Time Activities	192,481
Transportation	483,214
General Government	63,734
Total Depreciation Expense	<u>\$1,002,138</u>

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 8 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2005, 2004, and 2003 were \$270,908, \$355,198 and \$342,837, respectively, which were equal to the required contributions for each year.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 8– DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year 2005 was 4.0% of covered payroll which amounted to \$79,973.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

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

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2005, 2004, and 2003 were \$191,852, \$216,014 and \$208,097 for police and \$447,423, \$431,069 and \$433,444 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$76,249 representing 7.75% of covered payroll for police and \$144,480 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2004, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,812 for police and 10,528 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2004 were \$102,173,796, which was net of member contributions of \$55,665,341.

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 9 - COMPENSATED ABSENCES

All full-time City employees other than fire department employees earn vacation at varying rates based upon length of service. An employee's vacation must be used during the period in which it is earned unless the Department Supervisor allows the balance to be carried over to the following year. Upon separation from the City, the employee (or their estate) is paid for his accumulated unused vacation leave balance.

All full-time City employees other than fire department employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement from the City's service, an employee hired prior to December 21, 1985 receives one hour of monetary compensation for each one hour of unused sick leave up to a maximum of 1,800 hours. An employee hired after December 21, 1985 receives one hour of monetary compensation for each hour of unused sick leave up to a maximum of 1,000 hours. The monetary compensation is calculated at the hourly rate of compensation of the employee at the time of retirement.

Fire department employees earn sick leave at the rate of 16 hours per calendar month of active service. Upon retirement from City service, fire department employees receive one hour of compensation for each one hour of unused sick leave up to a maximum of 105 hours. The monetary compensation is calculated at the hourly rate of compensation of the employee at the time of retirement.

As of December 31, 2005 the long-term portion of the compensated absences liability for the City has decreased \$177,054 from a balance of \$2,031,783 to \$1,854,729. This amount is considered long-term since no payments are anticipated requiring the use of current available financial resources.

NOTE 10 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five year period.

	Issue Date	Balance December 31, 2004	Issued	(Retired)	Balance December 31, 2005
Capital Projects Notes Payable					
1.43% Land Acquisition	07/17/04	\$2,110,000	\$0	(\$2,110,000)	\$0
Total Notes Payable		\$2,110,000	\$0	(\$2,110,000)	\$0

CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 11 - LONG-TERM OBLIGATIONS

Detail of the changes in the loans, bonds, pension liability and compensated absences of the City for the year ended December 31, 2005, were as follows:

	Balance December 31, 2004	Issued	(Retired)	Balance December 31, 2005	Amount Due Within One Year
Governmental Activities:					
Ohio Public Works Commission Loan (OPWC):					
3.00% Andalus Avenue Improvements	\$40,718	\$0	(\$1,868)	\$38,850	\$1,924
Total OPWC Loan	<u>40,718</u>	<u>0</u>	<u>(1,868)</u>	<u>38,850</u>	<u>1,924</u>
General Obligation Bond:					
3.15% Andalus Avenue Improvements	80,000	0	(20,000)	60,000	20,000
3.45% Swimming Pool	2,000,000	0	(2,000,000)	0	0
3.00% Swimming Pool Refunding Bonds	0	1,875,000	(40,000)	1,835,000	70,000
2.35% Police Car	125,000	0	(40,703)	84,297	41,659
Total General Obligation Bond	<u>2,205,000</u>	<u>1,875,000</u>	<u>(2,100,703)</u>	<u>1,979,297</u>	<u>131,659</u>
Accrued Pension Liability	860,487	0	(14,219)	846,268	14,829
Compensated Absences	<u>2,031,782</u>	<u>1,854,729</u>	<u>(2,031,782)</u>	<u>1,854,729</u>	<u>15,305</u>
Total General Long-Term Debt and Other Long-Term Obligations	<u>\$5,137,987</u>	<u>\$3,729,729</u>	<u>(\$4,148,572)</u>	<u>\$4,719,144</u>	<u>\$163,717</u>

The City's liability for past service costs relating to the Police and Firemen's Disability and Pension Fund at December 31, 2005 was \$1,589,061 in principal and interest payments through the year 2035. Only the principal amount due of \$846,268 is included in the Government-wide Statement of Net Assets.

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CITY OF ST. BERNARD, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

A. Principal and Interest Requirements

The City's future long-term obligation funding requirements for the loan, bond and accrued pension liability, including principal and interest payments as of December 31, 2005 follows:

Years	OPWC Loan		General Obligation Bond		Police/Fire Accrued Pension Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$1,924	\$1,151	\$131,659	\$77,192	\$14,829	\$41,291
2007	1,982	1,093	132,638	73,473	15,466	40,557
2008	2,042	1,033	95,000	69,711	16,130	37,791
2009	2,103	971	75,000	66,574	16,824	38,992
2010	2,167	908	80,000	64,136	17,546	38,159
2011-2015	11,860	3,516	435,000	277,879	99,702	176,987
2016-2020	13,765	1,612	525,000	186,720	123,034	150,085
2021-2025	3,007	68	505,000	63,450	151,826	116,886
2026-2030	0	0	0	0	187,356	75,919
2031-2035	0	0	0	0	203,555	25,422
Totals	<u>\$38,850</u>	<u>\$10,352</u>	<u>\$1,979,297</u>	<u>\$879,135</u>	<u>\$846,268</u>	<u>\$742,089</u>

B. Defeasance of General Obligation Debt

In April of 2005 The City issued \$1,875,000 of Swimming Pool Improvement Refunding General Obligation Bonds to defease the \$1,626,886 of General Obligation Bonds for Swimming Pool Improvements dated September 22, 2004.

The net proceeds of the 2005 Swimming Pool Improvement General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$1,626,886 at December 31, 2005, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advanced refunding.

The City reduced its aggregate debt service payments over the life of the refunded General Obligation Bonds by \$121,209, but incurred an economic loss of \$333,538.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City is a participant in the Public Entities Pool of Ohio (the "Pool"). The Pool was established in 1987 and is administered under contract by the Ohio Municipal League to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool as well as current members are subject to a supplemental assessment or a refund at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures for each coverage year. To date, there have been no assessments or refunds due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants.

Each participant makes an annual "contribution" to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a "surplus contribution" that is used to fund the activities of the pool. During 2005, the City made contributions of \$72,484 to the pool. There was no required surplus contribution in 2005.

The City obtained insurance coverage from the pool for losses related to property, general liability, automobile and inland marine in 2005 and 2004. The City carried commercial insurance coverage for all other risks, including public official personal liability insurance in 2004 and 2003. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool's maximum net loss on individual risks.

Treaty basis casualty excess of loss contracts in force at December 31, 2005, currently protect the Pool against individual losses over \$150,000. For the preceding two-year period, the Pool was generally reinsured for casualty losses as follows:

Policy Period	Stop Loss Amount
From November 1, 2002 to October 31, 2003	\$150,000
From November 1, 2003 to October 31, 2004	\$150,000

Additionally, treaty basis property coverage protects the Pool against losses subject to a deductible of the lesser of \$50,000 per location or \$100,000 per occurrence. Since November 1, 1990, the Pool has been limited to an annual aggregate loss of \$300,000 under this treaty.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 12 - RISK MANAGEMENT (Continued)

The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

Boiler and machinery hold a \$1,000 deductible. Vehicle deductibles are \$500 while property deductibles are \$1,000 and general liability deductibles are \$1,000. The City carries a \$1,000 deductible for police and a \$1,000 deductible for professional liability insurance.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 13 - EMPLOYEE MEDICAL BENEFITS

The City has a group health self-insurance program for employees and their eligible dependents. Premiums are paid into the General Fund by all funds having compensated employees based on an analysis of historical claims experience, the desired fund balances and the number of active participating employees. The monies paid into the General Fund are available to pay claims and administrative costs. The plan is administered by a third party administrator, Custom Design Benefits, which monitors all claim payments. Excess loss coverage, carried through Continental Assurance Company, becomes effective after \$30,000 per year per specific claim. There is an annual maximum coverage per person of \$5,000,000.

The claims liability of \$46,992 reported in the general fund at December 31, 2005 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2005 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2004	\$79,455	\$1,291,007	(\$1,242,046)	\$128,416
2005	128,416	1,192,481	(1,273,905)	46,992

NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

CITY OF ST. BERNARD, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 3, "Cash and Cash Equivalents." The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City

NOTE 15 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of most of the various claims and legal proceedings will not have a material effect on the financial condition of the City.

The City of St. Bernard is a defendant to a class action lawsuit brought by retirees and/or surviving dependents of retirees who retired from the City of St. Bernard. This action was precipitated by the City's cessation of payments to individual retirees for supplemental health care benefits.

Various federal and state claims are involved, and there are different issues and various loss levels among the class. The City has conducted an actuarial study covering a five-year benefit period for the class that estimated a potential cost of approximately \$430,000. The parties are in settlement discussions. At this time, it is not possible to predict the outcome of this matter.

CITY OF ST. BERNARD, OHIO

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

December 31, 2005

Bastin & Company, LLC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Members of City Council
City of St. Bernard, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Bernard, Hamilton County, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance that we have reported to management of the City in a separate letter dated June 19, 2006.

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

Bastin & Company, LLC

Cincinnati, Ohio
June 19, 2006

**CITY OF ST. BERNARD
HAMILTON COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Explanation:
2004-1	Ohio Rev. Code, Section 5705.41 (D) expenditures of money require certificate of the fiscal officer	Yes	During 2005, the City complied with the requirement.



**Auditor of State
Betty Montgomery**

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800-282-0370

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CITY OF ST. BERNARD

HAMILTON 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
OCTOBER 10, 2006**