



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF ST. BERNARD
HAMILTON COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

The City of St. Bernard
Hamilton County
110 Washington Avenue
St. Bernard, Ohio 45217

To the Members of the City Council:

We have audited the accompanying general purpose financial statements of the City of St. Bernard, Hamilton County, Ohio (the City), as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of St. Bernard, Hamilton County, as of December 31, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the general purpose financial statements, during the year ended December 31, 2001, the City adopted Governmental Accounting Statement No. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2002 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the City, taken as a whole. The Combining Statement of Changes in Assets and Liabilities - Agency Fund listed the table of contents is presented for additional analysis and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

Jim Petro
Auditor of State

July 12, 2002

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THE CITY OF ST. BERNARD, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	<i>Governmental</i>		<i>Fiduciary</i>	
	<i>Fund Types</i>		<i>Fund Types</i>	
	General Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds
<u>Assets and Other Debits:</u>				
Assets:				
Cash and Cash Equivalents	\$1,242,578	\$55,775	\$250,552	\$42,748
Cash with Fiscal Agent	0	160,578	0	0
Investments	8,600,531	290,971	1,738,707	0
Receivables:				
Taxes	1,364,394	106,748	0	0
Accounts	24,880	0	0	0
Interest	153,609	15	0	0
Intergovernmental Receivables	458,022	73,744	0	0
Inventory of Supplies at Cost	26,567	0	0	0
Prepaid Items	14,537	0	3,700	0
General Fixed Assets	0	0	0	0
Other Debits:				
Amount to be Provided for				
General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	\$11,885,118	\$687,831	\$1,992,959	\$42,748
<u>Liabilities, Equity and Other Credits:</u>				
Liabilities:				
Accounts Payable	\$132,645	\$2,148	\$267,909	\$0
Accrued Wages and Benefits	47,251	672	588	7,101
Intergovernmental Payables	117,012	158,158	252	0
Due to Others	0	0	0	29,461
Accrued Interest Payable	0	0	17,093	0
Deferred Revenue	717,312	154,786	0	0
Claims Payable	97,660	0	0	0
General Obligation Notes Payable	0	0	2,400,000	0
Ohio Public Works Commission Loan Payable	0	0	0	0
Accrued Pension Liability	0	0	0	0
Capital Leases Payable	0	0	0	0
Compensated Absences Payable	14,957	0	0	0
Total Liabilities	1,126,837	315,764	2,685,842	36,562
Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	3,879	0	1,078,168	0
Reserved for Supplies Inventory	26,567	0	0	0
Reserved for Prepaid Items	14,537	0	3,700	0
Reserved for Community Development				
Block Grant Loans	0	160,578	0	0
Unreserved:				
Undesignated	10,713,298	211,489	(1,774,751)	6,186
Total Equity and Other Credits	10,758,281	372,067	(692,883)	6,186
Total Liabilities, Equity and Other Credits	\$11,885,118	\$687,831	\$1,992,959	\$42,748

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

THE CITY OF ST. BERNARD, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

<i>Account Groups</i>		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$0	\$0	\$1,591,653
0	0	160,578
0	0	10,630,209
0	0	1,471,142
0	0	24,880
0	0	153,624
0	0	531,766
0	0	26,567
0	0	18,237
11,351,607	0	11,351,607
0	2,761,600	2,761,600
\$11,351,607	\$2,761,600	\$28,721,863
\$0	\$0	\$402,702
0	0	55,612
0	0	275,422
0	0	29,461
0	0	17,093
0	0	872,098
0	0	97,660
0	0	2,400,000
0	46,000	46,000
0	899,724	899,724
0	1,948	1,948
0	1,813,928	1,828,885
0	2,761,600	6,926,605
11,351,607	0	11,351,607
0	0	1,082,047
0	0	26,567
0	0	18,237
0	0	160,578
0	0	9,156,222
11,351,607	0	21,795,258
\$11,351,607	\$2,761,600	\$28,721,863

THE CITY OF ST. BERNARD, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Governmental Fund Types</u>			<u>Fiduciary</u>	Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund	
Revenues:					
Taxes	\$7,762,589	\$101,242	\$0	\$0	\$7,863,831
Intergovernmental Revenues	590,545	189,998	0	0	780,543
Charges for Services	38,062	0	0	0	38,062
Licenses and Permits	117,418	0	0	0	117,418
Investment Earnings	711,287	10,162	0	0	721,449
Fines and Forfeitures	636,608	1,052	0	0	637,660
All Other Revenues	84,457	0	25	0	84,482
Total Revenues	9,940,966	302,454	25	0	10,243,445
Expenditures:					
Current:					
Security of Persons and Property	4,409,033	140,382	0	0	4,549,415
Public Health and Welfare Services	115,883	0	0	0	115,883
Leisure Time Activities	553,312	67,816	0	0	621,128
Community Environment	5,568	0	0	0	5,568
Basic Utility Services	878,778	0	0	0	878,778
Transportation	271,608	301,661	0	0	573,269
General Government	2,645,426	0	0	30,046	2,675,472
Other Expenditures	804,048	0	0	0	804,048
Capital Outlay	0	0	1,741,073	0	1,741,073
Debt Service:					
Interest and Fiscal Charges	0	0	17,093	0	17,093
Total Expenditures	9,683,656	509,859	1,758,166	30,046	11,981,727
Excess (Deficiency) of Revenues Over (Under) Expenditures	257,310	(207,405)	(1,758,141)	(30,046)	(1,738,282)
Other Financing Sources (Uses):					
Proceeds from OPWC Loan	0	0	46,000	0	46,000
Operating Transfers In	0	368,474	830,000	30,000	1,228,474
Operating Transfers Out	(1,228,474)	0	0	0	(1,228,474)
Total Other Financing Sources (Uses)	(1,228,474)	368,474	876,000	30,000	46,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(971,164)	161,069	(882,141)	(46)	(1,692,282)
Restated Fund Balance Beginning of Year	11,731,399	210,998	189,258	6,232	12,137,887
Decrease in Inventory Reserve	(1,954)	0	0	0	(1,954)
Fund Balance (Deficit) End of Year	\$10,758,281	\$372,067	(\$692,883)	\$6,186	\$10,443,651

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

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THE CITY OF ST. BERNARD, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance:	Revised Budget	Actual	Variance:
			Favorable (Unfavorable)			Favorable (Unfavorable)
Revenues:						
Taxes	\$7,649,046	\$7,520,653	(\$128,393)	\$101,244	\$101,242	(\$2)
Intergovernmental Revenues	799,429	820,670	21,241	184,308	184,306	(2)
Charges for Services	40,684	41,784	1,100	0	0	0
Licenses and Permits	114,328	117,418	3,090	0	0	0
Investment Earnings	636,240	653,435	17,195	795	795	0
Fines and Forfeitures	620,056	636,813	16,757	1,001	1,000	(1)
All Other Revenues	90,404	92,847	2,443	0	0	0
Total Revenues	9,950,187	9,883,620	(66,567)	287,348	287,343	(5)
Expenditures:						
Current:						
Security of Persons and Property	4,429,595	4,393,579	36,016	143,984	139,553	4,431
Public Health and Welfare Services	122,190	115,979	6,211	0	0	0
Leisure Time Activities	582,328	547,466	34,862	75,000	67,971	7,029
Community Environment	12,200	11,238	962	5,000	0	5,000
Basic Utility Services	956,661	883,118	73,543	0	0	0
Transportation	279,100	269,343	9,757	346,575	304,675	41,900
General Government	2,857,302	2,563,547	293,755	0	0	0
Other Expenditures	749,201	744,757	4,444	0	0	0
Capital Outlay	0	0	0	0	0	0
Total Expenditures	9,988,577	9,529,027	459,550	570,559	512,199	58,360
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,390)	354,593	392,983	(283,211)	(224,856)	58,355
Other Financing Sources (Uses):						
Proceeds from General Obligation Notes	0	0	0	0	0	0
Operating Transfers In	0	0	0	368,474	368,474	0
Operating Transfers Out	(1,293,474)	(1,228,474)	65,000	0	0	0
Total Other Financing Sources (Uses)	(1,293,474)	(1,228,474)	65,000	368,474	368,474	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,331,864)	(873,881)	457,983	85,263	143,618	58,355
Fund Balance at Beginning of Year	10,728,216	10,728,216	0	203,577	203,577	0
Prior Year Encumbrances	1,567	1,567	0	0	0	0
Fund Balance at End of Year	\$9,397,919	\$9,855,902	\$457,983	\$288,840	\$347,195	\$58,355

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

THE CITY OF ST. BERNARD, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

<i>Capital Projects Funds</i>			<i>Expendable Trust Fund</i>			<i>Totals (Memorandum Only)</i>		
Revised		Variance:	Revised		Variance:	Revised		Variance:
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$7,750,290	\$7,621,895	(\$128,395)
0	0	0	0	0	0	983,737	1,004,976	21,239
0	0	0	0	0	0	40,684	41,784	1,100
0	0	0	0	0	0	114,328	117,418	3,090
0	0	0	0	0	0	637,035	654,230	17,195
0	0	0	0	0	0	621,057	637,813	16,756
25	25	0	0	0	0	90,429	92,872	2,443
25	25	0	0	0	0	10,237,560	10,170,988	(66,572)
0	0	0	0	0	0	4,573,579	4,533,132	40,447
0	0	0	0	0	0	122,190	115,979	6,211
0	0	0	0	0	0	657,328	615,437	41,891
0	0	0	0	0	0	17,200	11,238	5,962
0	0	0	0	0	0	956,661	883,118	73,543
0	0	0	0	0	0	625,675	574,018	51,657
0	0	0	40,000	28,676	11,324	2,897,302	2,592,223	305,079
0	0	0	0	0	0	749,201	744,757	4,444
3,162,145	2,691,684	470,461	0	0	0	3,162,145	2,691,684	470,461
3,162,145	2,691,684	470,461	40,000	28,676	11,324	13,761,281	12,761,586	999,695
(3,162,120)	(2,691,659)	470,461	(40,000)	(28,676)	11,324	(3,523,721)	(2,590,598)	933,123
2,400,000	2,400,000	0	0	0	0	2,400,000	2,400,000	0
830,000	830,000	0	30,000	30,000	0	1,228,474	1,228,474	0
0	0	0	0	0	0	(1,293,474)	(1,228,474)	65,000
3,230,000	3,230,000	0	30,000	30,000	0	2,335,000	2,400,000	65,000
67,880	538,341	470,461	(10,000)	1,324	11,324	(1,188,721)	(190,598)	998,123
186,718	186,718	0	11,963	11,963	0	11,130,474	11,130,474	0
0	0	0	0	0	0	1,567	1,567	0
\$254,598	\$725,059	\$470,461	\$1,963	\$13,287	\$11,324	\$9,943,320	\$10,941,443	\$998,123

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THE CITY OF ST. BERNARD, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

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 general purpose financial statements of the City present the financial position of the various fund types and account groups, and the results of operations of the various fund types. The financial statements are presented as of December 31, 2001 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 general purpose 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 and account groups 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The following fund types and account groups are used by the City:

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 governmental fund types:

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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City maintains both an expendable trust fund and agency funds. The expendable trust fund is accounted for and reported similarly to governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

General Fixed Assets Account Group - This account group is established to account for the fixed assets of the City.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City.

C. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds and the expendable trust and agency 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.

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, 2001, 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 5.

The City reports deferred revenues in its combined 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.

D. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

1. Tax Budget

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.

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 2001.

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 "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds and expendable trust fund:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund
GAAP Basis (as reported)	(\$971,164)	\$161,069	(\$882,141)	(\$46)
Increase (Decrease):				
Accrued Revenues at December 31, 2001 received during 2002	(1,261,268)	(35,141)	0	0
Accrued Revenues at December 31, 2000 received during 2001	1,203,922	20,030	0	0
Accrued Expenditures at December 31, 2001 paid during 2002	409,525	160,978	285,842	7,101
Accrued Expenditures at December 31, 2000 paid during 2001	(243,618)	(163,318)	(1,160)	(5,731)
2000 Prepays for 2001	12,791	0	3,700	0
2001 Prepays for 2002	(14,537)	0	(3,700)	0
Note Proceeds	0	0	2,400,000	0
Outstanding Encumbrances	(9,532)	0	(1,264,200)	0
Budget Basis	<u>(\$873,881)</u>	<u>\$143,618</u>	<u>\$538,341</u>	<u>\$1,324</u>

E. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 \$721,449 during calendar year 2001. 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 (repurchase agreements) 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 4, "Cash, Cash Equivalents and Investments".

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, 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.

H. 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.

I. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use. Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost for all assets with a cost of \$500 or more (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Improvements to fixed assets are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or that do not materially extend the asset's life are not capitalized. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

The City has elected not to record depreciation or capitalized interest in the General Fixed Assets Account Group.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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
Capital Leases	General Fund
Accrued Pension Liability	General Fund
Ohio Public Works	
Commission Loan	Storm Sewer Improvement Fund

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid more than sixty days after year-end are considered not to have been paid with current available financial resources. Bonds and capital leases are recognized as a liability of the general long-term obligations account group until due.

K. 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.

The portion of unpaid compensated absences that is expected to be paid using expendable, available 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." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pensions

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

M. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. There were no residual equity transfers during the year.

N. 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.

O. Total Columns on Combined Financial Statements - Overview

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2001, the City has implemented GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36 “Recipient Reporting for Certain Shared Nonexchange Revenues”. At December 31, 2000, the implementation of GASB Statement Nos. 33 and 36 had the following effect on fund balances:

Fund Name	Fund Balance as Reported 12/31/00	GASB 33 & 36 Implementation	Fund Balance as Restated 12/31/00
General Fund	\$11,657,187	\$74,212	\$11,731,399
Special Revenue Funds	195,118	15,880	210,998

In addition to the above noted change to fund balance the restatement of fund balances had the following effect on prior year excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses:

Fund Name	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses as Reported 12/31/00	GASB 33 & 36 Implementation	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses as Restated 12/31/00
General Fund	(\$287,833)	\$74,212	(\$213,621)
Special Revenue Funds	(48,752)	15,880	(32,872)

The General Fixed Assets Account Group balance at December 31, 2000 was restated to reflect the increase in the City’s capitalization limit for fixed assts from \$350 to \$500. The balance was reduced by \$215,287 from \$10,179,540 to \$9,964,253.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2001 of \$51,799 in the Police Pension Fund and \$105,969 in the Fire Pension Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The fund deficit at December 31, 2001 of \$1,192,356 in the Capital Improvement Fund (capital projects fund) arises from the recognition of notes payable on the modified accrual basis. Under the budgetary basis of accounting, proceeds from the sale of notes are recognized as revenue and expenditures are recognized when paid, therefore, a deficit does not exist. Operating transfers are provided when cash is required, not when accruals occur.

Noncompliance - The City failed to certify the availability of funds for certain commitments per Ohio Revised Code 5705.41D.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents."

Ohio law requires the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "cash equivalent" status for immediate use by the City. Such funds must maintain 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 no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Ohio law permits 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;
- 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).

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

At year-end the carrying amount of the City's deposits was \$511,157 and the bank balance was \$804,228. Federal depository insurance covered \$100,000 of the bank balance. All remaining deposits were classified as Category 3.

B. Investments

The City's investments at December 31, 2001 are summarized below:

<u>Categorized Investments</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Federal Home Loan Bank	\$2,183,237	N/A	\$2,183,237
Federal Home Loan Mortgage Corporation	1,409,497	N/A	1,409,497
Federal National Mortgage Association	7,037,475	N/A	7,037,475
Repurchase Agreement	N/A	166,025	166,025
Total Categorized	<u>10,630,209</u>	<u>166,025</u>	<u>10,796,234</u>
<u>Non-Categorized Investments</u>			
Money Market Mutual Funds	N/A	N/A	1,075,049
Total Investments	<u>\$10,630,209</u>	<u>\$166,025</u>	<u>\$11,871,283</u>

Periodically during the year, the City has invested in overnight repurchase agreements which were collateralized with federal agency mortgage-backed securities. On December 31, 2001, the City had \$166,025 of such securities classified as cash and cash equivalents.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$1,752,231	\$10,630,209
Investments:		
Repurchase Agreement	(166,025)	166,025
Money Market Mutuals Funds	(1,075,049)	1,075,049
Per GASB Statement No. 3	<u>\$511,157</u>	<u>\$11,871,283</u>

* Includes Cash With Fiscal Agent

NOTE 5 - 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 2001 were levied after October 1, 2000 on assessed values as of January 1, 2000, 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, 2001 was \$2.28 per \$1,000 of assessed value. The assessed value on which the 2001 levy was based was \$177,276,170. This amount constitutes \$69,997,970 in real property assessed value, \$4,577,980 in public utility assessed value and \$102,700,220 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 .228% (2.28 mills) of assessed value.

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 6 - RECEIVABLES

Receivables at December 31, 2001, consisted of taxes, interest and accounts receivable, and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

NOTE 7 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2001:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$1,228,474
Special Revenue Funds:		
Street Maintenance Fund	290,000	0
Swimming Pool Fund	70,041	0
DARE Program Fund	8,433	0
Total Special Revenue Funds	368,474	0
Capital Projects Funds:		
Master Plan Capital Improvement Fund	690,000	0
Storm Sewer Improvement Fund	140,000	0
Total Capital Projects Funds	830,000	0
Expendable Trust Fund:		
C-9 Trust Fund	30,000	0
Totals	<u>\$1,228,474</u>	<u>\$1,228,474</u>

NOTE 8 - FIXED ASSETS

General Fixed Assets-Summary by category of changes in general fixed assets:

Category	Restated December 31, 2000	Additions	Deletions	December 31, 2001
Land	\$1,052,169	\$201,199	(\$244,900)	\$1,008,468
Buildings and Improvements	4,599,637	0	(372,458)	4,227,179
Land Improvements	385,858	1,042,217	0	1,428,075
Machinery and Equipment	3,912,297	7,016	(231,406)	3,687,907
Construction in Progress	14,292	999,978	(14,292)	999,978
Totals	<u>\$9,964,253</u>	<u>\$2,250,410</u>	<u>(\$863,056)</u>	<u>\$11,351,607</u>

NOTE 9 – 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. Public Employees Retirement System (the "PERS of Ohio")

The following information was provided by the PERS of Ohio 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 the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2001 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.25% to fund the pension and 4.3% 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 PERS of Ohio for the years ending December 31, 2001, 2000 and 1999 were \$326,759, \$253,292 and \$313,458, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio 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 PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3% of covered payroll which amounted to \$103,695.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. 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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 is \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

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, 2001, 2000 and 1999 were \$186,612, \$175,145 and \$142,352 for police and \$403,631, \$395,831 and \$318,244 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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The portion of the 2001 covered payroll that was used to fund postemployment health care benefits was \$71,774 representing 7.5% of covered payroll for police and \$126,135 representing 7.5% 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. As of December 31, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 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, 2000 were \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 10 - 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, 2001, the long-term portion of the compensated absences liability for the City has increased \$214,442 from a balance of \$1,599,486 to \$1,813,928. This amount is considered long-term since no payments are anticipated requiring the use of current available financial resources. The liability has been reported to the General Long-Term Obligation Account Group. Compensated absences will be paid from the fund from which the person is paid.

NOTE 11 - 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, 2000	Issued (Retired)	Balance December 31, 2001
Capital Projects Note Payable				
2.68% Swimming Pool	9/25/2001	\$0	\$2,400,000	\$2,400,000

NOTE 12 - LONG-TERM OBLIGATIONS

Activity in the General Long-Term Obligations Account Group in 2001 was as follows:

	Balance December 31, 2000	Issued (Retired)	Balance December 31, 2001
General Long-Term Debt:			
Ohio Public Works Commission Loan (OPWC):			
3.00% Andalus Avenue Improvements	\$0	\$46,000	\$46,000
Total OPWC Loan	0	46,000	46,000
Other Long-Term Obligations			
Accrued Pension Liability	911,741	(12,017)	899,724
Capital Leases	15,793	(13,845)	1,948
Compensated Absences	1,599,486	214,442	1,813,928
Total Other Long-Term Obligations	<u>2,527,020</u>	<u>188,580</u>	<u>2,715,600</u>
Total General Long-Term Debt and Other Long-Term Obligations	<u>\$2,527,020</u>	<u>\$234,580</u>	<u>\$2,761,600</u>

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

The City's liability for past service costs relating to the Police and Firemen's Disability and Pension Fund at December 31, 2001 was \$1,693,702 in principal and interest payments through the year 2035. Only the principal amount due of \$899,724 is included in the General Long-Term Obligations Account Group.

The City's future long-term obligation funding requirements for the accrued pension liability, including principal and interest payments as of December 31, 2001 follows:

Years	OPWC Loan		Police/Fire Accrued Pension Liability		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$848	\$809	\$12,533	\$38,107	\$1,948	\$12
2003	1,734	1,342	13,072	37,569	0	0
2004	1,786	1,289	13,633	37,007	0	0
2005	1,840	1,235	14,219	36,421	0	0
2006	1,896	1,180	14,830	35,810	0	0
2007-2011	10,373	5,003	84,265	168,933	0	0
2012-2016	12,038	3,338	103,984	121,157	0	0
2017-2035	15,485	1,428	643,188	318,974	0	0
Totals	<u>\$46,000</u>	<u>\$15,624</u>	<u>\$899,724</u>	<u>\$793,978</u>	<u>\$1,948</u>	<u>\$12</u>

NOTE 13 - CAPITAL LEASES

The City is obligated under three leases for police vehicles accounted for as capital leases. The cost of the vehicles is accounted for in the General Fixed Assets Account Group and in the General Long-Term Obligations Account Group. The original cost of the vehicles under capital leases totals \$43,334.

The following is a schedule of the future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of December 31, 2001.

Year Ending December 31,	General Long-Term Obligations Account Group
2002	\$1,960
Minimum Lease Payments	1,960
Less amount representing interest at the City's incremental borrowing rate of interest	(12)
Present value of minimum lease payments	<u>\$1,948</u>

NOTE 14 - 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 2001, the City made contributions of \$62,093 to the pool. There was no required surplus contribution in 2001.

The City obtained insurance coverage from the pool for losses related to property, general liability, automobile and inland marine in 2001 and 2000. The City carried commercial insurance coverage for all other risks, including public official personal liability insurance in 2001 and 2000. 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, 2001, 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:

<u>Policy Period</u>	<u>Stop Loss Amount</u>
From November 1, 1999 to October 31, 2000	\$150,000
From November 1, 2000 to October 31, 2001	\$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.

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

NOTE 14 - RISK MANAGEMENT (Continued)

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 15 - EMPLOYEE MEDICAL BENEFITS

The City has a group health 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 \$20,000 per year per specific claim. There is an annual maximum coverage per person of \$2,000,000.

The claims liability of \$97,660 reported in the general fund at December 31, 2001 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 2001 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>
2000	\$79,180	\$741,348	(\$781,515)	\$39,013
2001	39,013	781,848	(723,201)	97,660

NOTE 16 - 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 various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 17 - CONSTRUCTION COMMITMENTS

The City had the following outstanding construction commitments at December 31, 2001:

<u>Project</u>	<u>Amount</u>
Swimming Pool	\$1,211,842

THE CITY OF ST. BERNARD, OHIO
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	Balance January 1, 2001	Additions	Deductions	Balance December 31, 2001
<u>Mayor's Court</u>				
Assets:				
Cash and Cash Equivalents	\$2,095	\$22,603	(\$23,373)	\$1,325
Total Assets	<u>\$2,095</u>	<u>\$22,603</u>	<u>(\$23,373)</u>	<u>\$1,325</u>
Liabilities:				
Due to Others	\$2,095	\$22,603	(\$23,373)	\$1,325
Total Liabilities	<u>\$2,095</u>	<u>\$22,603</u>	<u>(\$23,373)</u>	<u>\$1,325</u>
<u>Hall Rental Fund</u>				
Assets:				
Cash and Cash Equivalents	\$17,882	\$49,079	(\$38,825)	\$28,136
Total Assets	<u>\$17,882</u>	<u>\$49,079</u>	<u>(\$38,825)</u>	<u>\$28,136</u>
Liabilities:				
Due to Others	\$17,882	\$49,079	(\$38,825)	\$28,136
Total Liabilities	<u>\$17,882</u>	<u>\$49,079</u>	<u>(\$38,825)</u>	<u>\$28,136</u>
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and Cash Equivalents	\$19,977	\$71,682	(\$62,198)	\$29,461
Total Assets	<u>\$19,977</u>	<u>\$71,682</u>	<u>(\$62,198)</u>	<u>\$29,461</u>
Liabilities:				
Due to Others	\$19,977	\$71,682	(\$62,198)	\$29,461
Total Liabilities	<u>\$19,977</u>	<u>\$71,682</u>	<u>(\$62,198)</u>	<u>\$29,461</u>

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

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

The City of St. Bernard
Hamilton County
110 Washington Avenue
St. Bernard, Ohio 45217

To the Members of the City Council:

We have audited the financial statements of the City of St. Bernard, Hamilton County, Ohio (the City), as of and for the year ended December 31, 2001, and have issued our report thereon dated July 12, 2002, in which we noted the City adopted Governmental Accounting Standards Board (GASB) Statement numbers 33 and 36. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-20431-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-20431-001 and 2001-20431-002. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 12, 2002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

The City of St. Bernard
Hamilton County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

July 12, 2002

**CITY OF ST. BERNARD
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001**

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

FINDING NUMBER 2001-20431-001

Noncompliance Citation and Material Weakness

Ohio Rev. Code, Section 5705.41 (D), states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate needs be only signed by the subdivision fiscal officer. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment. This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of amount due upon such contract or order by resolution within thirty (30) days from the receipt of such certificate.

- B. If the amount involved is less than one thousand dollars, the auditor may authorize payment through a Then and Now Certificate without affirmation of the City council, if such expenditure is otherwise valid.

Of the transactions reviewed, approximately fifty-nine percent (59%) were noted where the invoice was dated prior to the purchase order. When the City does not process a purchase order before each expenditure is made, they may find themselves with a deficit fund balance. The City should enforce their policy of issuing a purchase order before any items or services are ordered. The City should not approve the payment of an expenditure when proper procedures are not followed.

FINDING NUMBER 2001-20431-002

Material Weakness

The City has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The City has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the City implement procedures to assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement of Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS 70, should provide the City with an appropriate level of assurance that health insurance claims are being processed in conformance with the contract.

We recommend the City specify in their contract with the third-party administrator that an annual Tier II SAS 70 audit be performed. The City should be provided with a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the City with a Tier II SAS 70 report, we recommend contracting with a third-party administrator that will provide such a report.

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**CITY OF ST. BERNARD
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-20431-001	ORC 5705.41 (D), failure to properly encumber.	No	Not corrected, noncompliance citation issued in current report.
2000-20431-001	ORC 735.07, failure to execute change orders.	Yes	



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
AUGUST 22, 2002**