



**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Bay Village City School District
Cuyahoga County
377 Dover Center Road
Bay Village, Ohio 44140

We have audited the accompanying general-purpose financial statements of the Bay Village City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District'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 Bay Village City School District, Cuyahoga County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note (4), during the year ended June 30, 2002, the District changed their fixed asset capitalization threshold amount and reclassified two funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2003 on our consideration of the District'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.

The accompanying federal awards receipts and expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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. In our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 24, 2003

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**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS JUNE 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$4,869,192	\$374,556	\$809,058	\$18,307,339
Receivables:				
Taxes	13,982,556	-	1,708,700	-
Accounts	7,552	-	-	-
Intergovernmental	-	4,183	-	-
Accrued Interest	-	-	-	4,096
Interfund Receivable	4,743	-	-	-
Materials and Supplies Inventory	72,745	-	-	-
Prepaid Items	21,674	-	-	-
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	143,674	-	-	-
Fixed Assets	-	-	-	-
Accumulated Depreciation	-	-	-	-
Other Debits:				
Amount in Debt Service Fund for Retirement of General Long-term Obligations	-	-	-	-
Amount Provided from General Government Resources	-	-	-	-
Total Assets and Other Debits	\$19,102,136	\$378,739	\$2,517,758	\$18,311,435
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$183,169	\$22,432	\$0	\$5,834
Contracts Payable	-	-	-	1,353,482
Accrued Wages and Benefits	1,794,228	27,756	-	1,009
Compensated Absences Payable	126,413	-	-	-
Interfund Payable	-	2,743	-	-
Intergovernmental Payable	503,525	4,129	-	-
Deferred Revenue	10,365,051	-	1,260,417	-
Undistributed Monies	-	-	-	-
Due to Students	-	-	-	-
Capital Leases Payable	-	-	-	-
Energy Conservation Loan Payable	-	-	-	-
Asbestos Removal Loan Payable	-	-	-	-
General Obligation Bonds Payable	-	-	-	-
Total Liabilities	12,972,386	57,060	1,260,417	1,360,325
Fund Equity and Other Credits:				
Investment in General Fixed Assets	-	-	-	-
Retained Earnings:				
Unreserved	-	-	-	-
Fund Balances:				
Reserved:				
Reserved for Encumbrances	303,856	70,451	-	16,369,503
Reserved for Inventory	72,745	-	-	-
Reserved for Prepaid Items	21,674	-	-	-
Reserved for Debt Service Principal	-	-	809,058	-
Reserved for Advances	4,743	-	-	-
Reserved for Endowments	-	-	-	-
Reserved for Property Taxes	3,617,505	-	448,283	-
Reserved for Textbooks & Instructional Materials	39,424	-	-	-
Reserved for Budget Stabilization	104,250	-	-	-
Unreserved:				
Unreserved, Undesignated	1,965,553	251,228	-	581,607
Total Fund Equity and Other Credits	6,129,750	321,679	1,257,341	16,951,110
Total Liabilities, Fund Equity and Other Credits	\$19,102,136	\$378,739	\$2,517,758	\$18,311,435

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Asset	General Long-Term Obligations	
\$155,496	\$28,688	\$72,839	\$0	\$0	\$24,617,168
-	-	-	-	-	15,691,256
6,043	-	-	-	-	13,595
6,347	-	-	-	-	10,530
-	-	218	-	-	4,314
-	-	-	-	-	4,743
12,575	-	-	-	-	85,320
-	-	-	-	-	21,674
-	-	27,025	-	-	170,699
112,372	-	-	20,537,563	-	20,649,935
(98,615)	-	-	-	-	(98,615)
-	-	-	-	1,257,341	1,257,341
-	-	-	-	22,786,619	22,786,619
<u>\$194,218</u>	<u>\$28,688</u>	<u>\$100,082</u>	<u>\$20,537,563</u>	<u>\$24,043,960</u>	<u>\$85,214,579</u>
\$6,580	\$0	\$3,872	\$0	\$0	\$221,887
-	-	-	-	-	1,353,482
35,228	-	-	-	-	1,858,221
41,853	-	-	-	1,687,841	1,856,107
-	2,000	-	-	-	4,743
59,343	-	-	-	184,091	751,088
15,781	-	-	-	-	11,641,249
-	-	2,541	-	-	2,541
-	-	49,143	-	-	49,143
-	-	-	-	287,038	287,038
-	-	-	-	145,000	145,000
-	-	-	-	90,000	90,000
-	-	-	-	21,649,990	21,649,990
<u>158,785</u>	<u>2,000</u>	<u>55,556</u>	<u>-</u>	<u>24,043,960</u>	<u>39,910,489</u>
-	-	-	20,537,563	-	20,537,563
35,433	26,688	-	-	-	62,121
-	-	-	-	-	16,743,810
-	-	-	-	-	72,745
-	-	-	-	-	21,674
-	-	-	-	-	809,058
-	-	-	-	-	4,743
-	-	27,025	-	-	27,025
-	-	-	-	-	4,065,788
-	-	-	-	-	39,424
-	-	-	-	-	104,250
-	-	17,501	-	-	2,815,889
<u>35,433</u>	<u>26,688</u>	<u>44,526</u>	<u>20,537,563</u>	<u>-</u>	<u>45,304,090</u>
<u>\$194,218</u>	<u>\$28,688</u>	<u>\$100,082</u>	<u>\$20,537,563</u>	<u>\$24,043,960</u>	<u>\$85,214,579</u>

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Intergovernmental	\$6,095,959	\$934,100
Interest	197,112	1,828
Tuition and Fees	125,078	-
Rent	101,153	-
Extracurricular Activities	-	165,999
Gifts and Donations	4,184	9,426
Customer Services	25,202	-
Property & Other Local Taxes	16,796,543	-
Miscellaneous	64,621	80,498
Total Revenues	23,409,852	1,191,851
Expenditures:		
Instruction:		
Regular	9,526,127	48,203
Special	1,159,615	138,186
Vocational	365,084	3,950
Other	943,488	-
Support services:		
Pupils	1,472,126	162,703
Instructional Staff	968,342	101,589
Board of Education	21,227	-
Administration	1,770,960	78,044
Fiscal	529,925	-
Business	294,136	-
Operation and Maintenance of Plant	2,199,150	2,337
Pupil Transportation	673,128	-
Central	242,538	-
Non-Instructional Services	28,353	459,415
Extracurricular activities	589,485	160,586
Capital Outlay	594,677	-
Debt Service:		
Debt Service - Principal	94,942	-
Debt Service - Interest	8,950	-
Total Expenditures	21,482,253	1,155,013
Excess of Revenues Over (Under) Expenditures	1,927,599	36,838
Other Financing Sources and Uses:		
Operating Transfers In	1,550	-
Refund of Prior Year Expenditures	239,639	-
Inception of Capital Lease	304,963	-
Other Financing Sources	-	432
Operating Transfers Out	(148,250)	(5,000)
Refund of Prior Year Receipts	-	(19,997)
Total Other Financing Sources (Uses)	397,902	(24,565)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	2,325,501	12,273
Fund Balance at Beginning of Year (Restated)	3,804,249	309,406
Fund Balance at End of Year	\$6,129,750	\$321,679

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

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$239,394	\$0	\$0	\$7,269,453
-	511,705	18,426	729,071
-	-	-	125,078
-	-	-	101,153
-	-	-	165,999
-	-	5,667	19,277
-	-	-	25,202
2,011,006	-	-	18,807,549
-	233,506	-	378,625
<u>2,250,400</u>	<u>745,211</u>	<u>24,093</u>	<u>27,621,407</u>
-	19,344	-	9,593,674
-	-	-	1,297,801
-	-	-	369,034
-	-	-	943,488
-	-	-	1,634,829
-	13,078	1,222	1,084,231
-	-	-	21,227
-	18,826	-	1,867,830
3,494	-	-	533,419
-	-	-	294,136
-	199,200	-	2,400,687
-	-	-	673,128
-	-	-	242,538
-	-	16,679	504,447
-	-	-	750,071
-	3,730,407	-	4,325,084
845,000	-	-	939,942
1,252,462	-	-	1,261,412
<u>2,100,956</u>	<u>3,980,855</u>	<u>17,901</u>	<u>28,736,978</u>
<u>149,444</u>	<u>(3,235,644)</u>	<u>6,192</u>	<u>(1,115,571)</u>
148,250	-	-	149,800
-	-	-	239,639
-	-	-	304,963
-	-	-	432
-	-	-	(153,250)
-	-	-	(19,997)
<u>148,250</u>	<u>-</u>	<u>-</u>	<u>521,587</u>
297,694	(3,235,644)	6,192	(593,984)
959,647	20,186,754	5,010	25,265,066
<u>\$1,257,341</u>	<u>\$16,951,110</u>	<u>\$11,202</u>	<u>\$24,671,082</u>

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types		
	General		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$5,423,000	\$6,095,959	\$672,959
Interest	400,000	182,515	(217,485)
Tuition and Fees	168,573	145,599	(22,974)
Rent	117,000	101,153	(15,847)
Extracurricular Activities	-	-	-
Gifts and Donations	7,000	5,245	(1,755)
Customer Services	40,000	25,202	(14,798)
Property & Other Local Taxes	13,956,865	14,443,107	486,242
Miscellaneous	43,000	68,421	25,421
Total Revenues	20,155,438	21,067,201	911,763
Expenditures:			
Current:			
Instruction:			
Regular	9,431,468	9,347,229	84,239
Special	1,166,778	1,136,489	30,289
Vocational	348,065	333,792	14,273
Other	979,108	979,022	86
Support services:			
Pupils	1,493,500	1,489,823	3,677
Instructional Staff	1,004,395	967,711	36,684
Board of Education	37,199	21,214	15,985
Administration	1,861,552	1,816,389	45,163
Fiscal	532,839	531,160	1,679
Business	332,581	321,771	10,810
Operation and Maintenance of Plant	2,329,064	2,288,969	40,095
Pupil Transportation	680,051	663,587	16,464
Central	247,654	246,245	1,409
Non-Instructional Services	27,700	24,537	3,163
Extracurricular activities	611,092	589,544	21,548
Capital Outlay	393,583	391,469	2,114
Debt Service			
Debt Service - Principal	79,172	77,786	1,386
Debt Service - Interest	4,000	3,987	13
Total Expenditures	21,559,801	21,230,724	329,077
Excess of Revenues Over (Under) Expenditures	(1,404,363)	(163,523)	1,240,840
Other Financing Sources and Uses:			
Operating Transfers In	-	1,550	1,550
Refund of Prior Year Expenditures	-	239,639	239,639
Advances In	-	-	-
Other Financing Sources	(13,900)	-	13,900
Operating Transfers Out	(148,408)	(148,250)	158
Refund of Prior Year Receipts	-	-	-
Advances Out	(46,000)	(2,743)	43,257
Total Other Financing Sources (Uses)	(208,308)	90,196	298,504
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,612,671)	(73,327)	1,539,344
Fund Balance at Beginning of Year (Restated)	4,409,327	4,409,327	-
Prior Year Encumbrances Appropriated	293,828	293,828	-
Fund Balance at End of Year	\$3,090,484	\$4,629,828	\$1,539,344

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

Governmental Fund Types

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$1,075,203	\$976,662	(\$98,541)	\$144,576	\$239,394	\$94,818
4,327	1,828	(2,499)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
181,000	165,999	(15,001)	-	-	-
6,000	9,426	3,426	-	-	-
-	-	-	-	-	-
-	-	-	1,865,124	1,683,925	(181,199)
133,000	80,498	(52,502)	-	-	-
<u>1,399,530</u>	<u>1,234,413</u>	<u>(165,117)</u>	<u>2,009,700</u>	<u>1,923,319</u>	<u>(86,381)</u>
70,916	52,259	18,657	-	-	-
149,174	140,198	8,976	-	-	-
4,000	3,950	50	-	-	-
-	-	-	-	-	-
179,477	163,726	15,751	-	-	-
149,397	113,672	35,725	-	-	-
-	-	-	-	-	-
96,511	82,691	13,820	-	-	-
-	-	-	-	3,494	(3,494)
-	-	-	-	-	-
2,337	2,337	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
521,697	467,745	53,952	-	-	-
228,007	188,994	39,013	-	-	-
46,839	34,839	12,000	-	-	-
-	-	-	540,000	845,000	(305,000)
-	-	-	1,561,000	1,252,462	308,538
<u>1,448,355</u>	<u>1,250,411</u>	<u>197,944</u>	<u>2,101,000</u>	<u>2,100,956</u>	<u>44</u>
<u>(48,825)</u>	<u>(15,998)</u>	<u>32,827</u>	<u>(91,300)</u>	<u>(177,637)</u>	<u>(86,337)</u>
-	-	-	-	148,250	148,250
-	-	-	-	-	-
-	2,743	2,743	-	-	-
-	432	432	-	-	-
(5,000)	(5,000)	-	-	-	-
(17,586)	(19,997)	(2,411)	-	-	-
-	-	-	-	-	-
<u>(22,586)</u>	<u>(21,822)</u>	<u>764</u>	<u>-</u>	<u>148,250</u>	<u>148,250</u>
(71,411)	(37,820)	33,591	(91,300)	(29,387)	61,913
268,884	268,884	-	838,445	838,445	-
59,346	59,346	-	-	-	-
<u>\$256,819</u>	<u>\$290,410</u>	<u>\$33,591</u>	<u>\$747,145</u>	<u>\$809,058</u>	<u>\$61,913</u>

(Continued)

BAY VILLAGE CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2002
 (Continued)

	Governmental Fund Types		
	Capital Projects		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$0	\$0	\$0
Interest	800,000	468,886	(331,114)
Tuition and Fees	-	-	-
Rent	-	-	-
Extracurricular Activities	-	-	-
Gifts and Donations	-	-	-
Customer Services	-	-	-
Property & Other Local Taxes	-	-	-
Miscellaneous	3,829,434	233,506	(3,595,928)
Total Revenues	4,629,434	702,392	(3,927,042)
Expenditures:			
Current:			
Instruction:			
Regular	-	19,344	(19,344)
Special	-	-	-
Vocational	-	-	-
Other	-	-	-
Support services:			
Pupils	-	-	-
Instructional Staff	31,422	13,078	18,344
Board of Education	-	-	-
Administration	-	18,027	(18,027)
Fiscal	-	-	-
Business	-	-	-
Operation and Maintenance of Plant	-	262,902	(262,902)
Pupil Transportation	-	-	-
Central	-	-	-
Non-Instructional Services	-	-	-
Extracurricular activities	-	-	-
Capital Outlay	23,883,889	20,139,367	3,744,522
Debt Service			
Debt Service - Principal	-	-	-
Debt Service - Interest	-	-	-
Total Expenditures	23,915,311	20,452,718	3,462,593
Excess of Revenues Over (Under) Expenditures	(19,285,877)	(19,750,326)	(464,449)
Other Financing Sources and Uses:			
Operating Transfers In	-	-	-
Refund of Prior Year Expenditures	-	-	-
Advances In	-	-	-
Other Financing Sources	-	-	-
Operating Transfers Out	(1,011,000)	-	1,011,000
Refund of Prior Year Receipts	-	-	-
Advances Out	-	-	-
Total Other Financing Sources (Uses)	(1,011,000)	-	1,011,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(20,296,877)	(19,750,326)	546,551
Fund Balance at Beginning of Year (Restated)	18,213,988	18,213,988	-
Prior Year Encumbrances Appropriated	2,082,889	2,082,889	-
Fund Balance at End of Year	\$0	\$546,551	\$546,551

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

Fiduciary Fund Type			Totals (Memorandum Only)		
Expendable Trust					
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$6,642,779	\$7,312,015	\$669,236
-	18,426	18,426	1,204,327	671,655	(532,672)
-	-	-	168,573	145,599	(22,974)
-	-	-	117,000	101,153	(15,847)
-	-	-	181,000	165,999	(15,001)
4,348	5,667	1,319	17,348	20,338	2,990
-	-	-	40,000	25,202	(14,798)
-	-	-	15,821,989	16,127,032	305,043
-	-	-	4,005,434	382,425	(3,623,009)
<u>4,348</u>	<u>24,093</u>	<u>19,745</u>	<u>28,198,450</u>	<u>24,951,418</u>	<u>(3,247,032)</u>
5,000	-	5,000	9,507,384	9,418,832	88,552
-	-	-	1,315,952	1,276,687	39,265
-	-	-	352,065	337,742	14,323
-	-	-	979,108	979,022	86
-	-	-	1,672,977	1,653,549	19,428
1,225	1,222	3	1,186,439	1,095,683	90,756
-	-	-	37,199	21,214	15,985
-	-	-	1,958,063	1,917,107	40,956
-	-	-	532,839	534,654	(1,815)
-	-	-	332,581	321,771	10,810
-	-	-	2,331,401	2,554,208	(222,807)
-	-	-	680,051	663,587	16,464
-	-	-	247,654	246,245	1,409
17,700	16,679	1,021	567,097	508,961	58,136
337	-	337	839,436	778,538	60,898
-	-	-	24,324,311	20,565,675	3,758,636
-	-	-	619,172	922,786	(303,614)
-	-	-	1,565,000	1,256,449	308,551
<u>24,262</u>	<u>17,901</u>	<u>6,361</u>	<u>49,048,729</u>	<u>45,052,710</u>	<u>3,996,019</u>
<u>(19,914)</u>	<u>6,192</u>	<u>26,106</u>	<u>(20,850,279)</u>	<u>(20,101,292)</u>	<u>748,987</u>
-	-	-	-	149,800	149,800
-	-	-	-	239,639	239,639
-	-	-	-	2,743	2,743
-	-	-	(13,900)	432	14,332
-	-	-	(1,164,408)	(153,250)	1,011,158
-	-	-	(17,586)	(19,997)	(2,411)
-	-	-	(46,000)	(2,743)	43,257
-	-	-	<u>(1,241,894)</u>	<u>216,624</u>	<u>1,458,518</u>
(19,914)	6,192	26,106	(22,092,173)	(19,884,668)	2,207,505
5,010	5,010	-	23,735,654	23,735,654	-
-	-	-	2,436,063	2,436,063	-
<u>(\$14,904)</u>	<u>\$11,202</u>	<u>\$26,106</u>	<u>\$4,079,544</u>	<u>\$6,287,049</u>	<u>\$2,207,505</u>

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
PROPRIETARY FUND TYPES AND NON-EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust	
Operating Revenues:				
Tuition	\$582,980	\$9,568	\$0	\$592,548
Sales	515,587	-	-	515,587
Interest	-	-	1,261	1,261
Other Revenues	4,146	115,062	-	119,208
Contributions and Donations	-	-	-	-
Total Operating Revenues	<u>1,102,713</u>	<u>124,630</u>	<u>1,261</u>	<u>1,228,604</u>
Operating Expenses:				
Salaries	609,762	3,091	-	612,853
Fringe Benefits	152,475	935	-	153,410
Purchased Services	108,669	83,479	-	192,148
Materials and Supplies	348,688	28,266	-	376,954
Depreciation	4,839	-	-	4,839
Other	5,242	-	3,845	9,087
Total Operating Expenses	<u>1,229,675</u>	<u>115,771</u>	<u>3,845</u>	<u>1,349,291</u>
Operating Income (Loss)	(126,962)	8,859	(2,584)	(120,687)
Non-Operating Revenues and Expenses:				
Federal Donated Commodities	18,947	-	-	18,947
Interest	2,295	-	-	2,295
Federal and State Subsidies	46,409	-	-	46,409
Other	23,145	-	-	23,145
Total Non-Operating Revenues and Expenses	<u>90,796</u>	<u>-</u>	<u>-</u>	<u>90,796</u>
Income (Loss) Before Operating Transfers	(36,166)	8,859	(2,584)	(29,891)
Operating Transfers-In	5,000	-	-	5,000
Net Income (Loss)	(31,166)	8,859	(2,584)	(24,891)
Retained Earnings/Fund Balance at Beginning of Year (Restated)	66,599	17,829	35,908	120,336
Retained Earnings/Fund Balance at End of Year	<u>\$35,433</u>	<u>\$26,688</u>	<u>\$33,324</u>	<u>\$95,445</u>

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

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND NON-EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash Flows from Operating Activities:				
Cash Received from Sales	\$517,846	\$0	\$0	\$517,846
Cash Received from Tuition	582,998	9,568	-	592,566
Other Cash Receipts	4,145	115,062	-	119,207
Cash Payments to Suppliers for Goods and Service	(328,107)	(28,266)	-	(356,373)
Cash Payments for Contract Services	(108,669)	(86,563)	-	(195,232)
Cash Payments for Employee Services	(613,187)	(3,091)	-	(616,278)
Cash Payments for Employee Benefits	(156,553)	(935)	-	(157,488)
Other Cash Payments	(5,242)	-	(3,845)	(9,087)
Net Cash Provided (Used) by Operating Activities	<u>(106,769)</u>	<u>5,775</u>	<u>(3,845)</u>	<u>(104,839)</u>
Cash Flows from Noncapital Financing Activities:				
Operating Grants Received	47,707	-	-	47,707
Transfers In	5,000	-	-	5,000
Other	23,145	-	-	23,145
Net Cash Provided (Used) by Noncapital Financing Activities	<u>75,852</u>	<u>-</u>	<u>-</u>	<u>75,852</u>
Cash Flows from Investing Activities:				
Interest Received	2,295	-	333	2,628
Net Cash Provided (Used) by Investing Activities	<u>2,295</u>	<u>-</u>	<u>333</u>	<u>2,628</u>
Cash Flows from Capital and Related Financing Activities:				
Payments for Capital Acquisitions	(3,790)	-	-	(3,790)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,790)</u>	<u>-</u>	<u>-</u>	<u>(3,790)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(32,412)	5,775	(3,512)	(30,149)
Cash and Cash Equivalents at Beginning of Year (Restated)	187,908	22,913	35,328	246,149
Cash and Cash Equivalents at End of Year	<u>\$155,496</u>	<u>\$28,688</u>	<u>\$31,816</u>	<u>\$216,000</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	(\$126,962)	\$8,859	(\$2,584)	(\$120,687)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operating Activities:				
Depreciation	4,839	-	-	4,839
Donated Commodities Used During the Year	18,947	-	-	18,947
Adjustments to Capital Outlay	3,790	-	-	3,790
Nonexpendable Trust Interest	-	-	(1,623)	(1,623)
(Increase) Decrease in Assets:				
Accounts Receivable	265	-	-	265
Accrued Interest	-	-	362	362
Material and Supplies Inventory	(326)	-	-	(326)
Increase (Decrease) in Liabilities:				
Compensated Absences Payable	(1,857)	-	-	(1,857)
Intergovernmental Payable	(4,651)	-	-	(4,651)
Deferred Revenue	2,237	-	-	2,237
Accrued Wages and Benefits	(995)	-	-	(995)
Accounts Payable	(2,056)	(3,084)	-	(5,140)
Total Adjustments	<u>20,193</u>	<u>(3,084)</u>	<u>(1,261)</u>	<u>15,848</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$106,769)</u>	<u>\$5,775</u>	<u>(\$3,845)</u>	<u>(\$104,839)</u>
Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2002:				
Cash and Cash Equivalents — Trust and Agency Funds				\$99,864
Less: Expendable Trust Funds				(12,492)
Less: Agency Funds				(55,556)
Cash and Cash Equivalents — Nonexpendable Trust Funds				<u>\$31,816</u>

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

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**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

(1) DESCRIPTION OF THE DISTRICT

The Bay Village City School District (the School District) operates under a locally elected five-member Board form of government and provides educational services as authorized by state and/or federal agencies. The Board of Education controls the District's seven instructional/support facilities staffed by 168 non-certificated employees, 198 certificated teaching personnel and 12 administrative employees who provide services to approximately 2,337 students and other community members. Another building owned by the District is currently being rented.

The District was established in 1903 through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District serves an area of approximately 4.9 square miles. It encompasses the northwestern corner of Cuyahoga County, and is coterminous with the City of Bay Village, Ohio.

The District is the 228th largest in the state of Ohio (among 612 school districts) in terms of enrollment and the 10th largest in Cuyahoga County. It currently operates two elementary schools, one middle school, one comprehensive high school and a day care center.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The District also applies Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

A. The Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units, and other organizations consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", that are included to insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

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

The following entities, which perform activities within the District's boundaries for the benefit of its residents, are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

City of Bay Village The City government of Bay Village is a separate body politic and corporate. A mayor and council are elected independent of any school district relationships, and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

Bay Village Public Library The District is not involved in budgeting or management of the Bay Village Public Library facilities, nor does it subsidize or finance the operation of the library.

PTA and Athletic/Music Boosters These organizations exist to support various endeavors of the District through donations of time and other resources. Although the District benefits directly from the activities, the District neither manages or directs the operations nor provides financial support to these groups.

The District is associated with certain organizations which are identified as jointly governed organizations. These organizations are the Lake Erie Educational Computer Association, Bay Educational Foundation, Suburban Health Consortium, and The Ohio Schools Council (see Note 19).

Although not directly controlled by the Board of Education, the financial transactions of the following entities are handled by the Treasurer of the District and are included on the financial statements within special revenue funds.

Parochial School Within the District boundaries, St. Raphael is operated through the Cleveland Catholic diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed by the District on behalf of the parochial school.

Private School Bay Village Montessori Elementary School is located within the District boundaries. Current state legislation provides funding to this private school. These monies are received and disbursed on behalf of the private school by the Treasurer of the District, as directed by the private school. The receipt and fiduciary liability of these state monies by the District are reflected in a Special Revenue Fund for financial reporting purposes.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operation. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, 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. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

Governmental Funds

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's Governmental Fund Types:

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of or repairs to major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Proprietary Funds

Proprietary Funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The following are the District's Proprietary Fund Types.

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

Internal Service Funds: Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, non-expendable trust, and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Non-expendable trust funds are accounted for in essentially the same manner as proprietary 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 all fixed assets of the District, other than those accounted for in the Proprietary Funds.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

General Long-Term Obligations Account Group: This account group is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (expenses) in net total assets.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be sixty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available, except for what is on hand with the county treasurer on the last day of the fiscal year which is recognized in the current period. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

The District reports deferred revenue on 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. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: General long term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Proprietary Funds and Non-Expendable Trust Funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unused donated commodities are reported as deferred revenue.

D. Budgets

The District is required by state statute to adopt an annual appropriated budget for all funds, except Agency Funds. The specific timetable for fiscal year 2002 is as follows.

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Cuyahoga County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board at the fund, function, and object level of expenditures for the General Fund (fund/special cost center for all other funds), which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year or until an Amended Certificate of Estimated Resources is received from the Budget Commission.) In Cuyahoga County, the Amended Certificate is not received until December or January. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals, at any level of control.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board of Education during fiscal 2002.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

Cash received by the District is deposited in a central bank account with individual fund balance integrity maintained. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. State statutes authorize the District to invest in obligations of U.S. Treasury, obligations of the State of Ohio, its political subdivisions and agencies, banker's acceptances, commercial paper and repurchase agreements. During fiscal year 2002, investments were limited to certificates of deposits or interests in STAR Ohio (the State Treasurer's Investment Pool.), one Federal Home Loan Discount Note and Federal National Mortgage Association Medium Term Note.

Star Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. Star Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in Star Ohio are valued at Star Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

For purposes of presentation on the Combined Balance Sheet and in the Combined Statement of Cash Flows, cash equivalents are defined as deposits and investments with original maturities of three months or less at the time they were purchased by the District. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to Auxiliary Services (Special Revenue), Food Service (Enterprise), Endowments (Non-Expendable Trust Funds), and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance. Interest income earned in fiscal 2002 totaled:

General Fund	\$182,515
Special Revenue	1,828
Capital Projects	468,886
Expendable Trust	18,426
Enterprise Funds	2,295
Non-Expendable Trust	1,261
Total	<u>\$675,211</u>

An analysis of the District's investment account at year end is provided in Note 5.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. Inventories

Inventory is stated at cost for governmental funds and at the lower of cost or market for proprietary funds on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. Inventories of proprietary funds consist of donated and purchased food. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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/expense is reported in the year in which services are consumed.

H. Fixed Assets and Depreciation

The District follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than five years.

1. General Fixed Assets Account Group

General Fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not possess any infrastructure.

2. Proprietary Funds

Property, plant and equipment reflected in the proprietary funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life (Years)</u>
Building	30-50
Building Improvements	10-40
Furniture, Fixtures and Minor Equipment	5-20
Improvements Other Than Building	10-20

I. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as non-operating revenue when measurable and earned. Grants and entitlements amount to approximately 28% of the District's operating revenue during the 2002 fiscal year.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

J. Short-Term Interfund Receivables/Payables

At June 30, 2002 the District had two short-term interfund loans, which are classified as "interfund loan receivable/payable".

An analysis of interfund balances is reflected in Note 6.

K. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District. Governmental Accounting Standards Board, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employee's rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future, in accordance with the provisions of Statement No. 16. Anticipated retirement was based on thirty-five (35) years of age and at least ten (10) years service with the District.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Long-Term Obligations

Long-term obligations are recognized as a liability of a government fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the District for the purchase of textbooks, budget stabilization, and for the acquisition or construction of capital assets. See Note 20 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, prepaid items, property taxes, advances, debt service principal, endowments, textbooks and instructional materials, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for endowments signifies the legal restrictions on the use of principal.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reduction of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Not apparent in the financial statements, the Agency Funds made cash transfers to the General Fund.

P. Estimates

The preparation of the 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 could differ from those estimates.

Q. Memorandum Only - Total Columns

Total columns on the General Purpose Financial Statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not represent financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(3) LEGAL COMPLIANCE

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in the Special Trust Fund by \$14,904.

Contrary to Ohio Rev. Code Section 5705.41 (B) & (D), at February 28, 2002, the General Fund, Special Revenue Fund, Capital Projects Fund, and Internal Service Fund had violations ranging from \$75 to \$1,853,201. Additionally, at May 31, 2002, these same funds had violations, with the aforementioned section of the code, ranging from \$75 to \$19,104,222.

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(3) LEGAL COMPLIANCE – (Continued)

Contrary to Ohio Rev. Code Section 5705.41 (D), expenditures did not always contain prior certification by the fiscal officer and were not certified until after the receipt of the invoice.

(4) RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District reclassified certain funds among the various fund types and changed the fixed asset capitalization policy threshold from \$300 to \$5,000, which resulted in the following prior year fund balance restatements:

	General Fund	Enterprise Fund	Expendable Trust Fund	Non- Expendable Trust Fund
Fund Balances, June 30, 2001	\$3,761,033	\$177,127	\$2,214	\$38,704
Reclassification of School Supplies Fund	43,216	(43,216)		
Reclassification of Todd Memorial Fund			2,796	(2,796)
Change in Capitalization Policy (Net)		<u>(67,312)</u>		
Restated Fund Balances, June 30, 2001	<u>\$3,804,249</u>	<u>\$66,599</u>	<u>\$5,010</u>	<u>\$35,908</u>

The change in the fixed asset capitalization policy also decreased the beginning balance in the General Fixed Asset Account Group by \$2,765,561. The reclassification decreased the operating loss in the Enterprise Fund from (\$118,537) to (\$83,252). The reclassification also increased the excess of revenues over (under) expenditures in the Expendable Trust Fund from (\$455) to \$2,341.

(5) EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

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

Interim monies may be deposited or invested in the following securities:

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

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(5) EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio),
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time, and
8. Under limited circumstances, corporate debt interests rated either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 School District, and must be purchased with the expectation that it will be held until maturity.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments, and Repurchase Agreements."

Cash On Hand: At the year-end, the School District had \$905 in undeposited cash on hand which is included in the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$3,098,744 and the bank balance was \$3,507,270. \$295,513 of the bank balance was covered by federal depository insurance. \$3,211,757 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the School District's name and all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(5) EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The carrying value of deposits and investments is presented in the combined balance sheet as equity in pooled cash and cash equivalents. The School District invests in STAR Ohio, the State Treasurer's Investment Pool, which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
STAR Ohio		\$14,289,048	\$14,289,048
Marketable Securities	\$7,345,849	7,345,849	7,399,170
Total Investment	<u>\$7,345,849</u>	<u>\$21,634,897</u>	<u>\$21,688,218</u>

(6) INTERFUND ASSETS/LIABILITIES

Interfund Receivable/Payable

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service	\$2,000
General Fund	Special Revenue	\$2,743

(7) PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 25%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(7) PROPERTY TAXES – (Continued)

The assessed values upon which fiscal year 2002 taxes were collected are:

	Amount	Percent
Agricultural/Residential and Other RE	\$12,533,820	3%
Commercial & Industrial RE	383,479,690	95%
Public Utility	3,638,822	1%
Tangible Personal Property	5,985,650	1%
Total Assessed Value	<u>\$405,637,982</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$98.60	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

The Cuyahoga County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District our portions of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivables (total receivable less amounts available intended to finance the current year) are therefore offset by a credit to deferred revenue. The amount available as an advance at June 30, 2002 was \$3,617,505 in the general fund, and \$448,283 in the bond retirement fund.

(8) RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (rent and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of Federal funds.

A summary of the principal items of receivables follows. The portion of receivables collected in the "available period" is recorded in the financial records.

Type	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Trust and Agency Fund	Total
Taxes	\$13,982,556		\$1,708,700				\$15,691,256
Accounts	7,552				\$6,043		13,595
Intergovernmental		\$4,183			6,347		10,530
Accrued Interest				\$4,096		\$218	4,314
Total	<u>\$13,990,108</u>	<u>\$4,183</u>	<u>\$1,708,700</u>	<u>\$4,096</u>	<u>\$12,390</u>	<u>\$218</u>	<u>\$15,719,695</u>

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(9) FIXED ASSETS

A summary of the changes in the General Fixed Asset Account Group during the fiscal year follows:

Asset Category	Balance at 6/30/01 (Restated)	Additions	Reductions	Balance at 6/30/02
Land and Improvements	\$1,278,405	\$12,415		\$1,290,820
Buildings and Improvements	13,468,564	146,708		13,615,272
Furniture and Equipment	440,901	68,568	\$15,807	493,662
Buses, Vehicles - Other	867,673	68,492	35,000	901,165
Construction-in-progress		4,236,644		4,236,644
Totals	\$16,055,543	\$4,532,827	\$50,807	\$20,537,563

A summary of the Proprietary Fund fixed assets at June 30, 2002 is as follows:

Furniture and Equipment	\$112,372
Less: Accumulated Depreciation	<u>(98,615)</u>
Net Fixed Assets – Proprietary Fund	<u>\$13,757</u>

(10) CAPITALIZED LEASES – LESSEE DISCLOSURE

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the Combined Financial Statements for the Governmental Funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Asset Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2002 fiscal year are reflected as Debt Service Principal Retirement in the General Fund.

The following is an analysis of capital lease equipment as of June 30, 2002:

Telephone System	General Fixed Assets <u>\$304,963</u>
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**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(10) CAPITALIZED LEASES – LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

June 30 Year Ending	Telephone System
2003	\$50,589
2004	50,590
2005	50,589
2006	50,590
2007	50,589
2008	50,590
2009	33,726
Total Minimum	\$337,263
Less: Amount Representing Interest	(50,225)
Present Value of Future Minimum Lease Payments	\$287,038

(11) OPERATING LEASES

Bay Village City School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights, and therefore, the results of the lease agreements are not reflected in the District's account groups. During 2002, expenditures for operating leases totaled \$5,247. The following schedule is of future minimum lease payments as of June 30, 2002.

Fiscal Year Ending June 30	Amount
2003	\$6,093
Total Minimum Lease Payment	\$6,093

(12) LONG TERM DEBT

All current general obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Fund. The source of payment is derived from a current 1.24 mill bonded debt tax levy.

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(12) LONG TERM DEBT - (Continued)

A. District Bonds/Notes Issues

The following is a description of the District bonds and notes outstanding as of June 30, 2002:

Purpose	Interest Rates	Issue Date	Maturity Date	Original Amount	Bonds/Notes Retired in 2002	Outstanding 06/30/02
Asbestos Removal Bonds, Series 1983	9.5	10/1/83	12/1/04	\$625,000	\$30,000	\$90,000
Energy Conservation Improvement Bonds, Series 1996	5.3	7/1/96	7/1/03	450,000	65,000	145,000
School Improvement Refunding Bonds, Series 1997	3.75	12/01/97	12/01/10	3,459,990	305,000	2,094,990
G. O. U. T. School Improvement Bond, Series 2002	3.25	03/28/01	12/01/25	20,000,000	445,000	19,555,000
IBM Computer Purchase Note	5.18	2/1/98	7/1/01	477,690	72,670	0
Total Gen. Obligation Bonds/Notes						<u>\$21,884,990</u>

B. Debt Service Requirements

The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds.

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$915,000	\$982,385	\$1,897,385
2004	950,000	942,135	1,892,135
2005	920,000	905,784	1,825,784
2006	935,000	866,172	1,801,172
2007	750,086	1,045,647	1,795,733
2008-2012	3,359,904	5,174,676	8,534,580
2013-2017	3,925,000	3,120,145	7,045,145
2018-2022	5,065,000	1,946,848	7,011,848
2023-2026	5,065,000	521,875	5,586,875
Total	<u>\$21,884,990</u>	<u>\$15,505,667</u>	<u>\$37,390,657</u>

C. Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payment. On the old bonds, accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2002, \$2,094,990 of bonds outstanding is considered defeased.

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(12) LONG TERM DEBT - (Continued)

D. Schedule of Changes in Long Term Debt

	Balance at 07/01/01	Additions	Deductions	Balance at 06/30/02
Compensated Absences	\$1,576,999	\$110,842		\$1,687,841
Due to Other Government	174,338	9,753		184,091
General Obligation Debt	22,729,990		\$845,000	21,884,990
Computer Purchase Note	72,670		72,670	
Capital Leases	5,124	304,963	23,049	287,038
Total	\$24,559,121	\$425,558	\$940,719	\$24,043,960

General obligation bonds will be paid from the debt service fund. Compensated absences, pension obligation, and monies due to other governments will be paid from the fund from which the employee is paid. Capital lease obligations and the computer purchase note will be paid from the general fund.

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$14,857,428, and an unvoted debt margin of \$405,638.

(13) SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of food services and the Glenview Center for Child Care and Learning. The table below reflects in a summarized format, the more significant financial data relating to the Enterprise Funds of the District as of and for the year ended June 30, 2002.

	Glenview Center For Child Care And Learning	Food Service	Total Enterprise Funds
Operating Revenues	\$586,384	\$516,329	\$1,102,713
Depreciation Expense		4,839	4,839
Operating Income (Loss)	(38,482)	(88,480)	(126,962)
Transfers-In		5,000	5,000
Federal Donated Commodities		18,947	18,947
Interest		2,295	2,295
Grants		46,409	46,409
Other	501	22,644	23,145
Net Income (Loss)	(37,981)	6,815	(31,166)
Net Working Capital	(37,752)	59,428	21,676
Total Assets	75,007	119,211	194,218
Total Liabilities	112,759	46,026	158,785
Total Equity	(31,302)	66,735	35,433

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(14) RISK MANAGEMENT

The District 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. During fiscal year 2002, the District contracted with Commercial Union Insurance for property and general liability insurance. Commercial Union Insurance also covers boiler and machinery. There is a \$1,000 deductible with a ninety percent co-insurance. Professional liability is protected by Nationwide Insurance with a \$2,000,000 single occurrence limit and \$3,000 deductible. Vehicles are also covered by Nationwide Insurance and have a \$100 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past eight years.

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The District also offers a board paid employee assistance program and a wellness program that focuses not only on physical wellness, but mental and emotional well being also.

The School District (Consortium Member) participates in the Suburban Health Consortium (the Consortium), a shared risk pool (Note 19), to provide group health, life, dental and/or other insurance coverages. Consortium Member premium rates are set or determined by the Board of Directors. To the extent and in the manner permitted by any applicable agreements, policies, rules, regulations and laws, each Consortium Member may require contributions from its employees toward the cost of any benefit program being offered by the Consortium Member, and such contributions shall be included in the payments from such Consortium Member to the Fiscal Agent of the Consortium for such benefit program. Consortium Members pay a monthly premium to the Consortium. Because the School District is a member of the Consortium and the Consortium holds the reserves for Incurred But Not Reported (IBNR) claims, not the individual districts, IBNR information is not available on a district-by-district basis.

(15) DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to School Employees Retirement System of Ohio, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent. The contribution rates are determined actuarially, but are established by SERS Retirement Board within the rates allowed by the State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2002, 2001 and 2000 were \$561,290, \$517,055, and \$504,025, respectively; 50 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$279,312 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

**BAY VILLAGE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(15) DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions to STRS for the fiscal years ending June 30, 2002, 2001 and 2000 were \$1,693,221, \$1,443,997 and \$1,674,946 respectively; 85 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$254,112 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

(16) POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of monthly premiums.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(16) POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2001, the allocation rate is 9.80 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million.

The number of participants currently receiving health care benefits is approximately 50,000.

(17) BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budget Basis	(\$73,327)	(\$37,820)	(\$29,387)	(\$19,750,326)	\$6,192
Revenue Accruals	2,342,652	(42,562)	327,081	42,820	
Expenditure Accruals	(634,681)	11,252		(40,626)	
Other Sources/Uses	307,706	(2,743)			
Encumbrances	383,151	84,146		16,512,488	
GAAP Basis	<u>\$2,325,501</u>	<u>\$12,273</u>	<u>\$297,694</u>	<u>(\$3,235,644)</u>	<u>\$6,192</u>

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(18) CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002.

B. Pending Litigation

The Bay Village City School District is a defendant in certain litigation, the outcome of which cannot be determined. It is the opinion of the District's management that any judgment against the District would not have a material adverse effect on the District's financial position.

(19) JOINTLY GOVERNED ORGANIZATIONS

The Lake Erie Educational Computer Association (LEECA): LEECA is a jointly governed organization among thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one assembly member from each county in which participating school districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Ohio Schools Council: The Ohio Schools Council (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board.

In fiscal year 2002, the School District paid \$139,058 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(19) JOINTLY GOVERNED ORGANIZATIONS – (Continued)

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement, they are required to repay the savings to CEI, and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund that are not encumbered for its share of program administrative costs.

The Bay Village Educational Foundation: Is a jointly governed organization with the Bay Village City School District. The Bay Village Educational Foundation supports, promotes and funds creative programs designed by students and staff of the Bay Village City Schools, which enhance excitement and enthusiasm for learning. Foundation monies provide programs that are not paid for with tax dollars. Gifts, donations and contributions of cash, securities or other property from any source whatever, may be made to and accepted by the Foundation to enable the Foundation to carry out its purpose. The Board of Trustees consists of at least nine (9) and not more than eighteen (18) Trustees.

Insurance Purchasing Pool – Suburban Health Consortium: The Suburban Health Consortium ("the Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverages for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors shall be the governing body of the Consortium.

The Board of Education of each Consortium Member shall appoint its Superintendent or such Superintendent's designee to be its representative of the Board of Directors. The officers of the Board of Directors shall consist of a Chairman, Vice-Chairman and Recording Secretary, who shall be elected at the annual meeting of Board of Directors and serve until the next annual meeting. All of the authority of the Consortium shall be exercised by or under the direction of the Board of Directors. The Board of Directors shall also set all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors shall also have the authority to waive premiums and other payments. All members of the Board of Directors shall serve without compensation. The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium (Lakewood City School District).

The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, to the Fiscal

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(19) JOINTLY GOVERNED ORGANIZATIONS – (Continued)

Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement. Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal.

Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from Richard Berdine, Treasurer of the Lakewood City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

(20) SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2001	\$171,298		\$104,250
Current Year Set-aside Requirement	286,077	\$286,077	
Current Year Offsets			
Qualifying Disbursements	(417,951)	(397,148)	
Total	<u>\$39,424</u>	<u>(\$111,071)</u>	<u>\$104,250</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$39,424</u>		<u>\$104,250</u>
Set-Aside Reserve Balance as June 30, 2002	\$39,424		\$104,250

Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount below for capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$143,674.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(21) STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed ". . . the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient. . . ." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

(22) CONSTRUCTION COMMITMENTS

The School District had major construction projects that are commitments of the Building capital projects fund. The projects involve the construction of a new middle school with additions and improvements to other facilities. Bonds were issued in 2001 in order to finance the construction. As of June 30, 2002, the School District has spent \$4,236,644 on these projects with a remaining commitment of \$17,203,398.

**BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2002**

Federal Agency		Pass-through				
Pass-through Agency		Agency Awarding			Non-Cash	Non-Cash
<u>Federal Program</u>	<u>CFDA #</u>	<u>Number</u>	<u>Receipts</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Expenditures</u>
United States Department Of Education						
Passed-through Ohio Department of Education						
Special Education Cluster:						
Special Education - Grants to States	84.027	43547 6B-SF	\$ 203,781		\$ 208,639	
Special Education - Pre-school Grants	84.173	43547 PG-S1	<u>15,312</u>		<u>12,453</u>	
Total Special Education Cluster			219,093		221,092	
Title 1 Grants to Local Educational Agencies	84.010	43547 C1-S1	160,223		147,252	
Innovative Education Program Strategies	84.298	43547 C2-S1	16,082		16,062	
Class Size Reduction Subsidy	84.340	43547 CR-S1	36,109		31,826	
Eisenhower Professional Development State Grant	84.281	43547 MS-S1	9,274		15,043	
Safe and Drug-Free Schools and Communities-State Grants	84.186	43547 DR-S1	<u>9,129</u>		<u>9,935</u>	
Total United States Department of Education			<u>449,910</u>		<u>441,210</u>	
United States Department Of Agriculture						
Passed-through Ohio Department of Education						
Child Nutrition Cluster:						
National School Lunch Program	10.555	43547 LL-P1	3,406		3,406	
National School Lunch Program	10.555	43547 LL-P4	<u>43,079</u>		<u>43,079</u>	
Total National School Lunch Program			<u>46,485</u>		<u>46,485</u>	
Food Distribution Program	10.550	43547 04-PU		<u>\$ 20,594</u>		<u>\$ 18,947</u>
Total Nutrition Cluster/Total United States Department of Agriculture			<u>46,485</u>	<u>20,594</u>	<u>46,485</u>	<u>18,947</u>
Total Federal Financial Assistance			<u>\$ 496,395</u>	<u>\$ 20,594</u>	<u>\$ 487,695</u>	<u>\$ 18,947</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) includes the federal grant activity of the District and is presented on the basis of cash receipts and disbursements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM

Federal receipts from the U.S. Department of Agriculture are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2002, the District had food commodities valued at \$5,524 in inventory.

CFDA – Catalog of Federal Domestic Assistance.



Auditor of State Betty Montgomery

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

Board of Education
Bay Village City School District
Cuyahoga County
377 Dover Center Road
Bay Village, Ohio 44140

We have audited the financial statements of the Bay Village City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 24, 2003, wherein we noted the District restated the General Fixed Asset Account Group and the fund balances in the Enterprise Fund and Expendable Trust Fund. 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 District'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10818-001, 2002-10818-002, and 2002-10818-003. We also noted a certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 24, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10818-004.

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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 do not believe the reportable condition described above is a material weakness. 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 District in a separate letter dated January 24, 2003.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 24, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Bay Village City School District
Cuyahoga County
377 Dover Center Road
Bay Village, Ohio 44140

Compliance

We have audited the compliance of the Bay Village City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 24, 2003.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 24, 2003

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education Grants to States – CFDA# 84.027 Special Education – Pre-School Grants – CFDA# 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$ 300,000 Type B: All Others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Finding Number	2002-10818-001
-----------------------	-----------------------

Ohio Rev. Code Section 5705.41 (B) and (D) prohibit a subdivision from making an expenditure unless it has been properly appropriated.

The District established the legal level of control for the General Fund at fund/function/object and at the fund/special cost center for all other Funds. Expenditures plus encumbrances exceeded appropriations at the legal level of control at February 28, 2002 as follows:

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

Finding Number	2002-10818-001
-----------------------	-----------------------

Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Variance
General Fund:			
001-1100-600	\$ 41,105	\$ 66,577	\$ (25,472)
001-1100-800	850	9,104	(8,254)
001-1200-800	-	746	(746)
001-1300-800	-	373	(373)
001-2100-600	350	549	(199)
001-2100-800	840	3,134	(2,294)
001-2200-800	-	970	(970)
001-2300-800	3,000	6,313	(3,313)
001-2500-400	37,450	46,254	(8,804)
001-2500-500	3,374	7,324	(3,950)
001-2500-600	9,695	11,990	(2,295)
001-2600-600	1,781	6,515	(4,734)
001-2600-700	2,000	11,355	(9,355)
001-2800-200	43,442	62,665	(19,223)
001-2800-600	-	837	(837)
001-2800-800	500	896	(396)
001-2900-200	29,552	33,142	(3,590)
001-2900-400	29,331	49,235	(19,904)
001-2900-500	2,172	4,799	(2,627)
001-2900-600	1,000	1,641	(641)
001-3200-100	-	1,813	(1,813)
001-3200-200	-	4,688	(4,688)
001-4500-100	136,600	184,145	(47,545)
001-4500-200	17,692	35,495	(17,803)
001-4500-600	-	1,780	(1,780)
001-4500-800	-	75	(75)
001-5600-600	9,217	199,759	(190,542)
001-6100-820	3,400	3,987	(587)
001-7400-900	-	42,414	(42,414)
Special Revenue Funds:			
018-9052	4,650	6,756	(2,106)
019-9912	-	1,029	(1,029)
019-9990	-	3,951	(3,951)
440-9910	-	3,000	(3,000)
459-9002	-	5,586	(5,586)
459-9102	-	5,404	(5,404)
459-9202	-	7,500	(7,500)
459-9302	-	7,500	(7,500)
499-9900	-	2,337	(2,337)
514-9910	6,469	7,192	(723)
584-9910	-	1,582	(1,582)
Capital Projects Fund:			
004-9910	2,082,889	3,936,090	(1,853,201)
Internal Service Fund:			
014-9040	16,000	17,660	(1,660)

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

Finding Number	2002-10818-001
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In addition, expenditures plus encumbrances exceeded appropriations at the legal level of control at May 31, 2002 as follows:

Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Variance
General Fund:			
001-1100-600	\$ 41,105	\$ 72,938	\$ (31,833)
001-1100-800	850	9,104	(8,254)
001-1200-800	-	746	(746)
001-1300-200	53,413	68,905	(15,492)
001-1300-800	-	373	(373)
001-2100-500	10,345	11,562	(1,217)
001-2100-600	350	733	(383)
001-2100-700	1,830	2,248	(418)
001-2100-800	840	3,134	(2,294)
001-2200-800	-	970	(970)
001-2300-800	3,000	7,347	(4,347)
001-2400-400	173,796	244,104	(70,308)
001-2500-200	43,332	49,260	(5,928)
001-2500-400	37,450	50,790	(13,340)
001-2500-500	3,374	8,321	(4,947)
001-2500-600	9,695	12,231	(2,536)
001-2500-800	179,000	214,650	(35,650)
001-2600-200	27,982	40,766	(12,784)
001-2600-500	27,985	37,295	(9,310)
001-2600-600	1,781	6,515	(4,734)
001-2600-700	2,000	11,355	(9,355)
001-2700-400	725,671	822,518	(96,847)
001-2800-100	281,177	311,137	(29,960)
001-2800-200	43,442	85,237	(41,795)
001-2800-600	-	837	(837)
001-2800-800	500	896	(396)
001-2900-200	29,552	43,832	(14,280)
001-2900-400	29,331	62,580	(33,249)
001-2900-500	2,172	5,237	(3,065)
001-2900-600	1,000	2,060	(1,060)
001-3200-100	-	2,963	(2,963)
001-3200-200	-	8,558	(8,558)
001-4500-100	136,600	301,788	(165,188)
001-4500-200	17,692	57,492	(39,800)
001-4500-600	-	14,628	(14,628)
001-4500-800	-	75	(75)
001-5600-600	9,217	243,977	(234,760)
001-6100-820	3,400	3,987	(587)
001-7400-900	-	42,414	(42,414)

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

Finding Number	2002-10818-001		
Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Variance
Special Revenue Funds:			
018-9052	4,650	7,221	(2,571)
019-9912	-	1,648	(1,648)
019-9990	-	3,950	(3,950)
300-9450	6,950	8,267	(1,317)
401-9911	38	25,490	(25,452)
440-9910	-	3,000	(3,000)
459-9002	-	10,591	(10,591)
459-9102	-	10,593	(10,593)
459-9202	-	7,500	(7,500)
459-9302	-	7,500	(7,500)
459-9402	-	1,167	(1,167)
459-9502	-	2,000	(2,000)
499-9900	-	2,337	(2,337)
514-9910	6,469	7,192	(723)
584-9910	-	1,582	(1,582)
Capital Projects Fund:			
004-9910	2,082,889	21,187,111	(19,104,222)
Internal Service Fund:			
014-9000	1,000	1,719	(719)

This weakness could allow expenditures, in the above funds, to exceed the total available fund balance and the current years' resources. This would then result in negative fund balances.

The District is aware of this requirement but their policy is to revise their appropriations only at year-end. This non-compliance was corrected at June 30, 2002.

We recommend the District implement procedures to monitor and compare current month (as well as year-to-date) appropriations to expenditures, in all funds, to ensure compliance with this requirement. Budget revisions should be made at least monthly and approved by the Board of Education.

Finding Number	2002-10818-002
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Ohio Revised Code Section 5705.41 (D) provides in part that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Education.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

Finding Number	2002-10818-002
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During the audit period, twenty-two of the sixty expenditures tested did not contain prior certification by the fiscal officer and were not certified until after the receipt of the invoice. The encumbrance system exists to ensure that all expenditures are for authorized purposes and in authorized amounts. Payments made in advance or in the absence of encumbrance documentation subvert this control function and should be prohibited by District policy and procedures.

We recommend that the District certify the availability of funds prior to making any contract or ordering any expenditure of money. Where prior certification is not feasible, we encourage the District to utilize then and now certificates or blanket certificates.

Finding Number	2002-10818-003
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Ohio Rev. Code Section 5705.39 prohibits appropriations from exceeding estimated revenues.

Our review of the budgetary financial statements noted that the appropriations of \$24,262 for the 007 Special Trust Fund exceeded the available resources of \$9,358 by \$14,904.

This condition could cause the District to spend more than the available resources resulting in a deficit fund balance.

We recommend that the District monitor their appropriations by performing a comparison of the amount appropriated to the amount available for appropriation. Should a negative variance occur, an amendment should be obtained from the County Budget Commission to either reduce the amount appropriated or increase the estimated resources.

Finding Number	2002-10818-004
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As part of mid-year compliance tests, we reviewed the Appropriation Summary Report for February 2002 to ensure that Board approved appropriations were posted to the system. Our review disclosed four State and eight Federal Grant Fund (legal level) line items that did not agree to Board approved appropriation amounts. Those weaknesses are noted below.

<u>Appropriation Line Item</u>	<u>Board Approved Appropriation</u>	<u>February, 2002 Appropriation Summary Report</u>	<u>Variance</u>
401-9911	\$27,652	\$38	(\$27,614)
401-9912	27,000	28,109	1,109
401-9920	140,000	395,057	255,057
452-9920	2,200	4,142	1,942
514-9920	7,000	8,723	1,723
516-9910	30,000	5,089	(24,911)
516-9920	156,000	203,781	47,781
572-9920	150,000	105,363	(44,637)
573-9920	16,000	16,082	82
584-9920	9,800	9,129	(671)
587-9920	15,000	15,312	312
599-9920	31,000	36,166	5,166

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

Finding Number	2002-10818-004
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The reports, generated from the system, present incorrect financial information with regards to the legally approved appropriations.

If appropriations are not increased when additional revenues are identified, for the grant funds in particular, the Board is not making those additional funds legally available for expenditure. This could delay expenditures for needed goods and/or services for the grant programs in particular.

In contrast, if appropriations are not decreased when it is determined that revenues will be less than estimated, Board appropriations may authorize expenditures beyond available resources.

Appropriation adjustments (increases and decreases) should be made as necessary throughout the year in order to more accurately reflect estimated expenditures as revenue estimates change. This is often necessary when grant awards are finalized.

3. FINDINGS FOR FEDERAL AWARDS

None.

**BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 JUNE 30, 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A -133 § .315 (b)**

FINDING NUMBER	FINDING SUMMARY	FULLY CORRECTED ?	NOT CORRECTED, PARTIALLY CORRECTED; SIGNIFICANTLY DIFFERENT CORRECTIVE ACTION TAKEN; OR FINDING NO LONGER VALID; EXPLAIN:
2001-10818-001	Expenditures plus encumbrances exceeded appropriations at the legal level of control	No	Not Corrected, re-issued as 2002-10818-001.



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BAY VILLAGE CITY SCHOOL DISTRICT

CUYAHOGA 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
MAY 8, 2003**