

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bay Village City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Bay Village City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and restated capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2004, 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.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure 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 basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic 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

February 9, 2003

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of Bay Village City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets decreased by \$1,282,889
- Revenues for governmental activities totaled \$25,019,523 in 2003. Of this total, 88.2 percent consisted of General Revenues while Program Revenues accounted for the balance of 11.8 percent.
- Program expenses totaled \$26,302,412. Instructional expenses made up 47.69 percent of this total while supporting services accounted for 37.57 percent. Other expenses rounded out the remaining 14.74 percent.
- Outstanding general obligation bonded debt decreased to \$20,969,990 from \$21,884,990 in 2003.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the questions, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure. In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, supporting services, operation of non-instructional, extracurricular activities, and interest.

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and Building Fund.

Governmental Funds

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

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets
Governmental Activities

	2003	2002
Assets		
Current and Other Assets	\$ 29,877,199	\$40,526,966
Capital Assets, Net	<u>22,906,007</u>	<u>11,587,273</u>
Total Assets	<u>52,783,206</u>	<u>52,114,239</u>
Liabilities		
Current and Other Liabilities	18,078,914	15,532,292
Long-Term Liabilities		
Due within one year	1,427,201	1,121,467
Due in more than one year	<u>22,048,564</u>	<u>22,949,064</u>
Total Liabilities	<u>41,554,679</u>	<u>39,602,823</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	8,249,858	6,366,355
Restricted for:		
Capital projects	24,877	0
Debt service	1,238,674	1,285,888
Other purposes	53,730	13,248
Unrestricted	<u>1,661,388</u>	<u>4,845,925</u>
Total Net Assets	<u>\$11,228,527</u>	<u>\$12,511,416</u>

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Details of Table 1
Net Assets
Governmental Activities

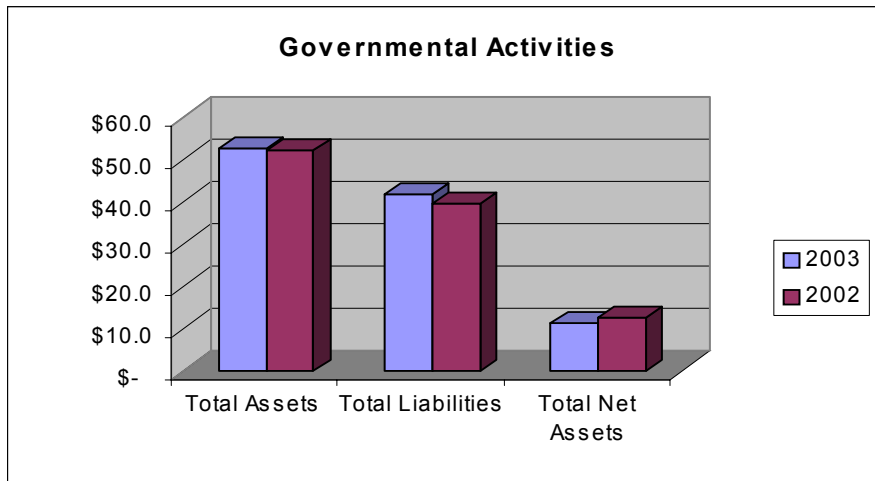
	<u>2003</u>	<u>2002</u>
Assets		
Equity in pooled cash	\$13,233,271	\$24,700,495
Accounts receivable	18,616	13,595
Due from other governments	105,100	10,530
Accrued interest receivable	11,297	4,096
Inventories and supplies	51,597	85,320
Prepaid expenses	40,427	21,674
Taxes receivable	16,416,891	15,691,256
Capital assets		
Nondepreciable capital assets	16,282,899	4,854,044
Depreciable capital assets, net	<u>6,623,108</u>	<u>6,733,229</u>
Total Assets	<u>\$52,783,206</u>	<u>\$52,114,239</u>
Liabilities		
Accounts and contracts payable	\$ 991,329	\$1,571,497
Accrued salaries, wages and benefits	1,943,649	1,858,221
Due to other governments	1,098,300	652,471
Accrued interest payable	65,713	67,324
Deferred revenue	13,979,923	11,382,779
Long-term liabilities		
Due within one year	1,427,201	1,121,467
Due in more than one year	<u>22,048,564</u>	<u>22,949,064</u>
Total Liabilities	<u>41,554,679</u>	<u>39,602,823</u>
Net Assets		
Invested in capital assets, net of related debt	8,249,858	6,366,355
Restricted for:		
Capital projects	24,877	0
Debt service	1,238,674	1,285,888
Other purposes	53,730	13,248
Unrestricted (deficit)	<u>1,661,388</u>	<u>4,845,925</u>
Total Net Assets	<u>\$11,228,527</u>	<u>\$12,511,416</u>

Bay Village City School District
Cuyahoga County
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

Unaudited

Graph #1
 Net Assets (Governmental Activities)
 (in millions)

	2003	2002
Total Assets	\$ 52.8	\$ 52.1
Total Liabilities	41.6	39.6
Total Net Assets	\$ 11.2	\$ 12.5



Total assets increased by \$668,967. The majority of the increase can be attributed to an increase in capital assets. The increase in capital assets is due to the construction of the new Bay Middle School.

Total liabilities increased by \$1,951,856. The most notable area that increased was deferred revenue. Deferred revenue increased by \$2,597,144 from 2002. Deferred revenue is primarily the result of taxes receivable and the related amount available for advance from the county auditor. Grants and entitlements received before the eligibility requirements are also recorded as deferred revenue.

The vast majority of revenue supporting all Governmental activities is General Revenue. General Revenue totaled \$22,078,172 or 88.2 percent of the total revenue. The most significant portion of the General Revenue is local property tax. Another significant amount of revenue received was in the form of Program Revenues, which equated to \$2,941,351 or only 11.8 percent of total revenue.

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
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Unaudited

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

TABLE 2
Governmental Activities

	<u>2003</u>
Revenues	
Program Revenues	
Charges for Services and Sales	\$ 1,751,267
Operating Grants, Interest and Contributions	1,135,531
Capital Grants and Contributions	<u>54,553</u>
Total Program Revenues	<u>2,941,351</u>
General Revenue	
Property Taxes	14,388,452
Grants and Entitlements Not Restricted to Specific Purposes	6,293,108
Investment Earnings	355,320
Miscellaneous	<u>1,041,292</u>
Total General Revenues	<u>22,078,172</u>
Total Revenues	<u>25,019,523</u>
Program Expenses	
Instruction:	
Regular	10,195,059
Special	1,440,945
Vocational	353,748
Other Instruction	554,995
Supporting Services:	
Pupil	1,876,091
Instructional Staff	1,182,864
Board of Education	16,796
Administration	2,319,479
Fiscal Services	678,218
Business	250,622
Operation and Maintenance	2,371,839
Pupil Transportation	820,523
Central Services	364,392
Operation of Non-Instructional:	
Food Service Operation	657,004
Community Services	594,967
Enterprise Operations	642,372
Extracurricular Activities:	
Academic and Subject Oriented	282,929
Sports Oriented	706,407
Interest	<u>993,162</u>
Total Program Expense	<u>26,302,412</u>
Decrease in Net Assets	<u>(\$ 1,282,889)</u>

Bay Village City School District
Cuyahoga County
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In November of 2000, the School District successfully passed a 4.1 mill levy to generate 1.6 million dollars in additional revenue per year. Collections began the first half of Fiscal Year 2001. The full effect of this levy was realized in Fiscal Year 2001/2002. The additional income is dedicated to the operational and capital needs of the School District. This District passed a 5.5 mill operating levy in November 2003, which will generate approximately \$2,840,000 yearly.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

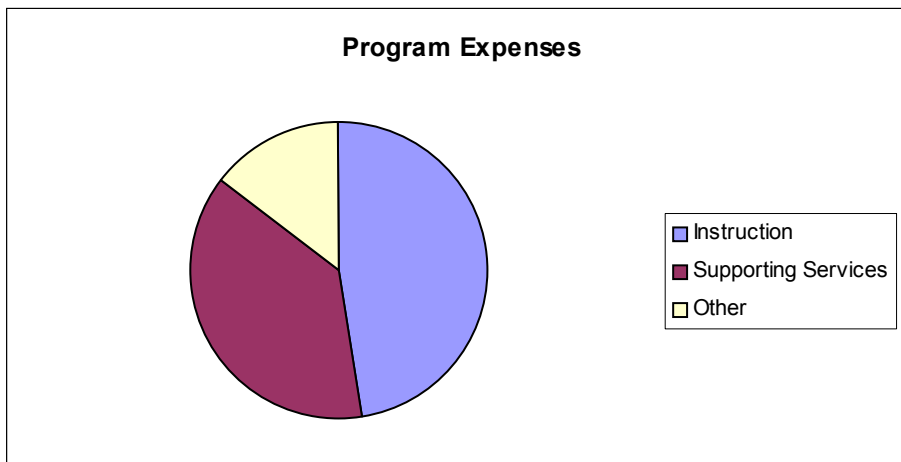
As one can see, approximately 47.69 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 37.57 percent. The remaining amount of program expenses, roughly 14.74 percent, is budgeted to facilitate other obligations of the School District such as interest and numerous extracurricular activities.

Actual expenses were consistent with annual budget expectations and the School District exhibited a decrease in net assets in 2003 of \$1,282,889.

The Statement of Activities shows the total net cost of program services. Table 3 on the following page shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue, unrestricted State entitlements, investment earnings and miscellaneous income.

Graph #2
 Program Expenses
 (in millions)

Instruction	\$	12.5
Supporting Services		9.9
Other		3.9
Total	\$	<u>26.3</u>



Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Governmental Activities		
Instruction:		
Regular	\$10,195,059	(\$10,053,463)
Special	1,440,945	(1,287,515)
Vocational	353,748	(310,067)
Other Instruction	554,995	(554,995)
Supporting Services:		
Pupil	1,876,091	(1,653,500)
Instructional Staff	1,182,864	(1,064,758)
Board of Education	16,796	(16,796)
Administration	2,319,479	(2,264,730)
Fiscal Services	678,218	(678,218)
Business	250,622	(203,719)
Operation and Maintenance	2,371,839	(2,369,716)
Pupil Transportation	820,523	(820,523)
Central Services	364,392	(355,726)
Operation of Non-Instructional:		
Food Service Operation	657,004	(8,624)
Community Services	594,967	(97,337)
Enterprise Operations	642,372	(1,427)
Extracurricular Activities:		
Academic and Subject Oriented	282,929	(139,209)
Sports Oriented	706,407	(487,576)
Interest	993,162	(993,162)
TOTALS	\$26,302,412	(\$23,361,061)

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 54.70 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 23.93 percent, while investment and other miscellaneous type revenues support the remaining activity costs of 5.31 percent. Program Revenues only account for 11.8 percent of all governmental expenses.

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Clearly, the Bay Village community is by far the greatest source of financial support for the students of the Bay Village City Schools.

School District's Funds

Information regarding the School District's major funds can be found on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24,506,589 and expenditures of \$38,395,352. The net change in fund balance for the year was most significant in the Building Fund, a decrease of (\$10,388,432).

General Fund Budgeting Highlights

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

The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses but provide flexibility for site-based decision and management.

For the General Fund, the final budget basis revenue estimate totaled \$20,497,553; this was below original budget estimates of \$20,124,085. The main difference between the original and final estimates was due to an under estimation of property taxes receipts. The budget basis expense estimate totaled \$22,622,702 compared to original estimates of \$22,681,208. This difference was primarily due to changes in staffing costs throughout the year.

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Unaudited

The General Fund unencumbered ending cash balance totaled \$4,029,422 which was above the original and final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2003, the School District had \$32,655,155 invested in land, buildings and improvements, furniture and equipment, vehicles and construction in process. Table 4 shows fiscal 2003 values compared to 2002.

Table 4
Capital Assets at June 30
Governmental Activities

	2003	2002
Land	\$ 617,400	\$ 617,400
Construction in progress	15,665,499	4,236,644
Building and improvements	14,824,666	14,587,762
Furniture and equipment	638,367	612,239
Vehicles	909,223	901,165
Total Capital Assets	<u>\$32,655,155</u>	<u>\$20,955,210</u>

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, the main increase in capital assets during the fiscal year occurred in the categories of building and improvements and construction in progress. The increase in building and improvements was primarily due to the addition at the K. T. Allen Building and the Maintenance Facility. The increase in construction in progress was due to the construction of the new Bay Middle School, which is planning to open in January 2004. For additional capital assets information, see Note 9 of the notes to the basic financial statements.

Debt

At June 30, 2003, the School District had \$20,969,990 in bonds outstanding. Table 5 on the following page summarizes the School District's bonds outstanding.

Bay Village City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 5
Long-Term Obligations at June 30
Governmental Activities

	2003	2002
Asbestos removal bonds 1983, 9.5% matures 2005	\$ 60,000	\$ 90,000
Energy conservation bonds 1996, 5.3% matures 2004	75,000	145,000
School improvement refunding bonds 1997, 3.75% matures 2011	1,774,990	2,094,990
G.O.U.T. school improvement bonds 2002, matures 2026	19,060,000	19,555,000
Total bonds	<u>\$ 20,969,990</u>	<u>\$ 21,884,990</u>

Outstanding bonds consist of general obligation bonds for building issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the District. General obligation bonds will be paid from the Debt Service Fund from property taxes.

The overall debt margin of the District is \$16,543,702 with an unvoted debt margin of \$405,370. Other obligations include compensated absences. For additional debt obligation information see Note 14 of the Notes to the basic financial statements.

School District Outlook

Bay Village City Schools has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The School District ranks among the top schools in Ohio for educational excellence.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

Although the School District relies heavily on its property taxpayers to support its operations, the community support of the schools is quite strong. As mentioned earlier, the Bay Village voters had passed an incremental tax levy 4.1 mills in November 2000 which helps fund the general operations and permanent improvements of the School District. In November 2003, the District passed a 5.5 mill operating levy for the purpose of current expenses. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

Bay Village City School District
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Unaudited

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither "adequate" nor "equitable" Since 1997, the State has directed its additional financial support toward School districts with little property tax wealth. In May of 2000, the Ohio Supreme Court, again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" nor "adequate'." The court directed the Governor and the legislature to address the fundamental issue creating the inequities. 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 decision 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 on its financial operations.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Bay Village City School District has committed itself to financial and educational excellence for many years to come.

Contacting the School District's Financial Management

This financial report is designated to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact John J. Cavalier, Jr., Treasurer/Director of Fiscal Services, Bay Village City School District, 377 Dover Center Road, Bay Village, OH 44140.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash	\$ 13,233,271
Accounts receivable	18,616
Due from other governments	105,100
Accrued interest receivable	11,297
Inventories and supplies	51,597
Prepaid expenses	40,427
Taxes receivable	16,416,891
Capital assets	
Nondepreciable capital assets	16,282,899
Depreciable capital assets, net	6,623,108
Total assets	52,783,206
 Liabilities	
Accounts and contracts payable	991,329
Accrued salaries, wages and benefits	1,943,649
Due to other governments	1,098,300
Accrued interest payable	65,713
Deferred revenue	13,979,923
Long term liabilities	
Due within one year	1,427,201
Due in more than one year	22,048,564
Total liabilities	41,554,679
 Net assets	
Invested in capital assets, net of related debt	8,249,858
Restricted for:	
Capital projects	24,877
Debt service	1,238,674
Other purposes	53,730
Unrestricted	1,661,388
Total net assets	\$ 11,228,527

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 10,195,059	\$ 138,593	\$ -	\$ 3,003	\$ (10,053,463)
Special	1,440,945	14,810	138,620	-	(1,287,515)
Vocational	353,748	43,681	-	-	(310,067)
Other instruction	554,995	-	-	-	(554,995)
Supporting services					
Pupil	1,876,091	-	221,947	644	(1,653,500)
Instructional staff	1,182,864	645	113,511	3,950	(1,064,758)
Board of education	16,796	-	-	-	(16,796)
Administration	2,319,479	-	54,749	-	(2,264,730)
Fiscal services	678,218	-	-	-	(678,218)
Business	250,622	-	-	46,903	(203,719)
Operation and maintenance	2,371,839	-	2,123	-	(2,369,716)
Pupil transportation	820,523	-	-	-	(820,523)
Central services	364,392	-	8,666	-	(355,726)
Operation of non-instructional					
Food service operation	657,004	568,742	79,638	-	(8,624)
Community services	594,967	-	497,577	53	(97,337)
Day care operations	642,372	640,945	-	-	(1,427)
Extracurricular activities					
Academic	52,511	10,963	-	-	(41,548)
Occupation	817	860	-	-	43
Sports	706,407	200,131	18,700	-	(487,576)
Co-curricular	229,601	131,897	-	-	(97,704)
Interest	993,162	-	-	-	(993,162)
Totals	<u>\$ 26,302,412</u>	<u>\$ 1,751,267</u>	<u>\$ 1,135,531</u>	<u>\$ 54,553</u>	<u>(23,361,061)</u>

General revenues

Property taxes levied for:

General purpose	13,620,361
Debt service	768,091
Grants and entitlements not restricted to specific purposes	6,293,108
Investment earnings	355,320
Miscellaneous	1,041,292
Total general revenues	<u>22,078,172</u>

Change in net assets

Change in net assets	(1,282,889)
Net assets at beginning of year, restated	12,511,416
Net assets at end of year	<u>\$ 11,228,527</u>

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

BALANCE SHEET -
GOVERNMENTAL FUNDS

JUNE 30, 2003

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 4,165,793	\$ 7,391,603	\$ 1,571,625	\$ 13,129,021
Restricted cash	104,250	-	-	104,250
Receivables, net of allowance				
Taxes	14,489,746	-	1,927,145	16,416,891
Accounts and other	2,082	-	16,534	18,616
Accrued interest receivable	-	11,297	-	11,297
Due from other governments	23,352	-	81,748	105,100
Interfund receivable	38,566	-	-	38,566
Inventories and supplies	39,206	-	12,391	51,597
Prepaid expenses	40,427	-	-	40,427
Total assets	\$ 18,903,422	\$ 7,402,900	\$ 3,609,443	\$ 29,915,765
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 105,335	\$ 840,222	\$ 45,772	\$ 991,329
Accrued wages and benefits	1,872,380	-	71,269	1,943,649
Due to other governments	1,007,823	-	29,103	1,036,926
Interfund payable	-	-	38,566	38,566
Deferred revenue	13,010,426	-	1,740,400	14,750,826
Compensated absences payable	249,802	-	-	249,802
Total liabilities	16,245,766	840,222	1,925,110	19,011,098
Fund balances				
Reserved for budget stabilization	104,250	-	-	104,250
Reserved for property taxes	1,479,320	-	196,774	1,676,094
Reserved for prepaids	40,427	-	-	40,427
Reserved for encumbrances	184,024	6,553,194	80,298	6,817,516
Unreserved, reported in				
General Fund	849,635	-	-	849,635
Special Revenue Funds	-	-	352,014	352,014
Debt Service Fund	-	-	1,030,370	1,030,370
Capital Projects Funds	-	9,484	24,877	34,361
Total fund balances	2,657,656	6,562,678	1,684,333	10,904,667
Total liabilities and fund balances	\$ 18,903,422	\$ 7,402,900	\$ 3,609,443	\$ 29,915,765

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2003

Total governmental funds balances	\$ 10,904,667
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	22,906,007
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.	770,903
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(61,374)
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(2,007,136)
Bonds payable	(20,969,990)
Capital lease payable	(248,837)
Accrued interest payable	(65,713)
	(23,291,676)
Net assets of governmental activities	\$ 11,228,527

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 12,333,831	\$ -	\$ 1,542,188	\$ 13,876,019
Tuition and fees	158,051	-	647,610	805,661
Interest	108,942	244,733	2,869	356,544
Property rentals	111,531	-	-	111,531
Intergovernmental	6,045,667	-	1,397,399	7,443,066
Charges for services	-	-	531,637	531,637
Extracurricular	-	-	296,473	296,473
Other	132,525	718,950	234,183	1,085,658
Total revenues	<u>18,890,547</u>	<u>963,683</u>	<u>4,652,359</u>	<u>24,506,589</u>
Expenditures				
Current				
Instruction				
Regular	9,960,229	-	26,654	9,986,883
Special	1,318,719	-	125,231	1,443,950
Vocational	335,137	-	-	335,137
Other instruction	554,995	-	-	554,995
Supporting services				
Pupil	1,573,774	-	198,376	1,772,150
Instructional staff	1,029,469	-	132,535	1,162,004
Board of education	16,796	-	-	16,796
Administration	2,143,543	12,524	124,091	2,280,158
Fiscal services	674,880	-	1,416	676,296
Business	244,692	-	-	244,692
Operation and maintenance	2,239,735	68,205	2,066	2,310,006
Pupil transportation	750,764	-	-	750,764
Central services	323,365	-	34,559	357,924
Operation of non-instructional				
Food service operation	-	-	647,226	647,226
Community services	43,378	-	524,226	567,604
Day care operations	-	-	634,883	634,883
Extracurricular activities				
Academic and subject oriented	105,892	-	177,037	282,929
Sports oriented	497,741	-	176,246	673,987
Capital outlay	419,130	11,271,386	58,478	11,748,994
Debt service				
Principal	27,619	-	925,582	953,201
Interest	8,970	-	985,803	994,773
Total expenditures	<u>22,268,828</u>	<u>11,352,115</u>	<u>4,774,409</u>	<u>38,395,352</u>
Excess (deficiency) of revenues over expenditures	<u>(3,378,281)</u>	<u>(10,388,432)</u>	<u>(122,050)</u>	<u>(13,888,763)</u>
Other financing sources (uses)				
Transfers-in	-	-	85,975	85,975
Proceeds from the sale of capital assets	500	-	-	500
Transfers-out	(80,975)	-	(5,000)	(85,975)
Total other financing sources (uses)	<u>(80,475)</u>	<u>-</u>	<u>80,975</u>	<u>500</u>
Net change in fund balances	<u>(3,458,756)</u>	<u>(10,388,432)</u>	<u>(41,075)</u>	<u>(13,888,263)</u>
Fund balances, beginning of year, as restated	6,116,412	16,951,110	1,725,408	24,792,930
Fund balances, end of year	<u>\$ 2,657,656</u>	<u>\$ 6,562,678</u>	<u>\$ 1,684,333</u>	<u>\$ 10,904,667</u>

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ (13,888,263)

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

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

Capital outlay	11,748,645	
Depreciation expense	(429,911)	
Total	11,318,734	11,318,734

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues
 in the funds. 512,433

Repayment of note and capital lease principal is an
 expenditure in the governmental funds, but the repayment
 reduces long-term liabilities in the statement of net assets. 953,201

In the statement of activities, interest is accrued on outstanding
 bonds, whereas in governmental funds, an interest expense
 is reported when due. 1,611

Some expenses reported in the statement of activities,
 such as compensated absences and intergovernmental
 payable which represents contractually required pension
 contributions, do not require the use of current financial
 resources and therefore are not reported as expenditures
 in governmental funds.

Compensated absences	(176,183)	
Pension obligations	(4,422)	
Total	(180,605)	(180,605)

Change in net assets of governmental activities \$ (1,282,889)

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET BASIS (NON-GAAP) AND ACTUAL -
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 15,684,118	\$ 16,167,586	\$ 14,472,016	\$ (1,695,570)
Tuition and fees	262,585	152,585	158,051	5,466
Interest	80,544	80,544	123,274	42,730
Property rentals	71,735	71,735	109,449	37,714
Intergovernmental	3,953,368	3,953,368	6,045,667	2,092,299
Other	71,735	71,735	109,672	37,937
Total revenues	<u>20,124,085</u>	<u>20,497,553</u>	<u>21,018,129</u>	<u>520,576</u>
Expenditures				
Current				
Instruction				
Regular	9,927,858	9,743,398	9,655,315	88,083
Special	1,092,481	1,281,011	1,258,513	22,498
Vocational	339,056	359,486	353,701	5,785
Other instruction	650,203	650,203	603,412	46,791
Supporting services				
Pupil	2,129,635	1,747,435	1,592,048	155,387
Instructional staff	1,444,074	1,248,074	1,022,252	225,822
Board of education	37,499	35,199	17,003	18,196
Administration	2,035,285	2,085,286	2,030,024	55,262
Fiscal services	461,766	571,366	543,463	27,903
Business	304,225	304,225	291,565	12,660
Operation and maintenance	2,453,230	2,279,429	2,249,071	30,358
Pupil transportation	611,886	761,686	753,357	8,329
Central services	227,451	353,351	333,756	19,595
Operation of non-instructional				
Community services	37,000	50,840	46,968	3,872
Extracurricular activities				
Academic and subject oriented	-	106,700	105,892	808
Sports oriented	302,768	509,228	500,538	8,690
Capital outlay	497,743	526,743	522,853	3,890
Debt service	129,042	9,042	-	9,042
Total expenditures	<u>22,681,202</u>	<u>22,622,702</u>	<u>21,879,731</u>	<u>742,971</u>
Excess (deficiency) of revenues over expenditures	<u>(2,557,117)</u>	<u>(2,125,149)</u>	<u>(861,602)</u>	<u>1,263,547</u>
Other financing sources (uses)				
Transfers-in	-	30,000	-	(30,000)
Advances-in	-	80,000	-	(80,000)
Proceeds from the sales of assets	419	419	500	81
Refund of prior year expenditure	4,614	4,614	7,053	2,439
Advances-out	(40,000)	(81,000)	(33,823)	47,177
Other uses of funds	(200,000)	(141,000)	-	141,000
Transfers-out	-	(101,000)	(80,975)	20,025
Total other financing sources (uses)	<u>(234,967)</u>	<u>(207,967)</u>	<u>(107,245)</u>	<u>100,722</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(2,792,084)</u>	<u>(2,333,116)</u>	<u>(968,847)</u>	<u>1,364,269</u>
Fund balances, beginning of year, as restated	4,615,117	4,615,117	4,615,117	-
Prior year encumbrances	383,152	383,152	383,152	-
Fund balances, end of year	<u>\$ 2,206,185</u>	<u>\$ 2,665,153</u>	<u>\$ 4,029,422</u>	<u>\$ 1,364,269</u>

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 STATEMENT OF FIDUCIARY NET ASSETS -
 FIDUCIARY FUNDS
 JUNE 30, 2003

	Private Purpose Trust	Agency Funds
	Scholarship Fund	Funds
Assets		
Equity in pooled cash	\$ 29,913	\$ 102,344
Interest receivable	137	-
Total assets	30,050	102,344
Liabilities		
Accounts payable	-	36,398
Due to others	-	7,131
Due to students	-	58,815
Total liabilities	-	\$ 102,344
Net assets		
Held in trust for scholarships	\$ 30,050	

See accompanying notes to the basic financial statements.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
 PRIVATE PURPOSE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2003

	Scholarship Fund
Additions	
Interest	\$ 478
Deductions	2,462
Change in net assets	(1,984)
Net assets, beginning of year	32,034
Net assets, end of year	\$ 30,050

See accompanying notes to the basic financial statements.

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BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Bay Village City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2002 was 2,277. The District employs 199 certificated and 172 non-certificated employees.

REPORTING ENTITY

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District 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, and student related activities of the District.

Within the District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed by the District on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity 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 organizations' 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 organizations' resources; 3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided 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 District is associated with the Lake Erie Educational Computer Association, the Suburban Health Consortium, the Bay Village Education Foundation, and the Ohio Schools Council, which are considered to be jointly governed organizations. The District participates in a public risk pool managed by the Ohio Schools Boards Association Workers' Compensation Group Rating Program. The District also has a joint operating agreement with the City of Bay Village for constructing, equipping and furnishing a community gymnasium. These organizations and their relationships with the District are described in more detail in Notes 11, 18 and 19 to these basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - the general fund is the operating fund of the school district and is used to account for all financial resources, except those required to be accounted for in another fund.

Building Fund - the building fund is used to account for the acquisition, construction or improvement of capital facilities.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and unclaimed monies.

C. MEASUREMENT FOCUS

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund, function and object level for the General Fund (fund/special cost center for all other funds), which are the legal levels of budgetary control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$ 108,942. During fiscal year 2003, investments were limited to STAROhio, repurchase agreements, certificate of deposits and Federal Home Loan Bank Bonds.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

I. PREPAID EXPENSE

Payments made to vendors for services that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the period amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS

All capital assets of the District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$ 5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in process, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land improvements	10 - 50 years
Buildings and improvements	10 – 50 years
Furniture and equipment	5 – 20 years
Vehicles	5 years

K. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net assets.

L. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and capital leases are recognized as a liability on the governmental fund financial statements when due.

N. NET ASSETS

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

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

O. FUND BALANCE RESERVES AND DESIGNATIONS

The 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 balance reserves have been established for budget stabilization, property taxes, prepaids, and encumbrances.

The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. INTERFUND TRANSACTIONS

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

P. ESTIMATES

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38 and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor Governmental funds are presented in total in one column.

Except for the restatement explained below, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that enterprise funds and certain internal service funds should be reclassified to special revenue funds.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE
 (continued)

B. RESTATEMENT OF FUND BALANCE

In the financial statements for the year ended June 30, 2002, an error was made on the combined statement of revenues, expenditures and changes in fund balance – budget and actual (non-GAAP basis). That error has been corrected and has had the following effect on the beginning, cash basis fund balance in the general fund:

	Balance June 30, 2002 as previously reported	Adjustment	Balance June 30, 2002 as restated
General Fund	\$ 4,629,828	\$ (14,711))	\$ 4,615,117

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Building	Non-Major Governmental Funds	Total
Fund balances, June 30, 2002	\$ 6,129,750	\$ 16,951,110	\$ 1,685,667	\$ 24,766,527
Fund reclassification	-	-	(32,034)	(32,034)
Fixed assets, net	-	-	(13,757)	(13,757)
Accrued expenses	(13,338)	-	85,532	72,194
Restated fund balances, June 30, 2002	\$ 6,116,412	\$ 16,951,110	\$ 1,725,408	24,792,930
GASB 34 adjustments				
Capital assets				11,587,273
Deferred revenue				258,470
Long-term liabilities				(24,127,257)
Governmental activities net assets, June 30, 2002				\$ 12,511,416

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY

LEGAL COMPLIANCE

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at November 30, 2002 contrary to Ohio Revised Code section 5705.41 (B) and (D):

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
<u>Major Funds:</u>			
<i>General Fund:</i>			
Instruction:			
Regular:			
Supplies and materials	\$ 222,948	\$ (287,458)	\$ (64,510)
Other	850	(1,175)	(325)
Special:			
Capital outlay	1,000	(1,286)	(286)
Vocational:			
Benefits	52,778	(58,993)	(6,215)
Support services:			
Board of education:			
Supplies and materials	500	(1,078)	(578)
Fiscal services:			
Supplies and materials	3,000	(4,740)	(1,740)
Capital outlay	-	(380)	(380)
Capital outlay, replacement	500	(2,414)	(1,914)
Business:			
Capital outlay	1,500	(6,622)	(5,122)
Central services:			
Purchased services	38,358	(84,410)	(46,052)
Supplies and materials	2,100	(65,445)	(63,345)
Capital outlay	500	(3,497)	(2,997)
Operation of non-instructional:			
Community services:			
Salaries	-	(471)	(471)
Benefits	-	(8,629)	(8,629)
Purchased services	37,000	(50,060)	(13,060)
Extracurricular activities:			
Academic and subject oriented:			
Salaries	-	(11,337)	(11,337)
Benefits	-	(1,885)	(1,885)
Service oriented:			
Salaries	-	(8,642)	(8,642)
Benefits	-	(1,371)	(1,371)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)

LEGAL COMPLIANCE (continued)

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at November 30, 2002 contrary to Ohio Revised Code section 5705.41 (B) and (D): (continued)

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
<u>Major Funds (continued):</u>			
<i>General Fund (continued):</i>			
Site improvements:			
Capital outlay	-	(1,655)	(1,655)
Architecture and engineering:			
Purchased services	3,509	(4,802)	(1,293)
Building improvements:			
Purchased services	161	(224,533)	(224,372)
Capital outlay	92,273	(140,266)	(47,993)
General other facilities:			
Supplies and materials	-	(507)	(507)
Advances-out (other)	40,000	(67,257)	(27,257)
<u>Nonmajor Funds:</u>			
<i>Special Revenue Fund:</i>			
Athletic:			
Foreign language, HS	3	(118)	(115)
Ohio Reads:			
Classroom, Normandy, 03	-	(2,440)	(2,440)
Classroom, Westerly, 03	-	(3,057)	(3,057)
Community Reads:			
Normandy, 03	-	(7,500)	(7,500)
Community Reads Westerly, 03	-	(7,500)	(7,500)
IDEA Part B:			
IDEA Part B, 2002	232	(1,672)	(1,440)
Title II-A:			
Improving Teacher Quality, 2003	-	(3,288)	(3,288)
Rotary Fund:			
Co-op Summer School	6,000	(8,977)	(2,977)
Summer School, Middle School	-	(2,975)	(2,975)
<i>Special Trust Fund:</i>			
Middle School Special Trips Fund	2,000	(7,400)	(5,400)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)

LEGAL COMPLIANCE (continued)

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at April 30, 2003 contrary to Ohio Revised Code section 5705.41 (B) and (D):

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
Major Funds:			
<i>General Fund:</i>			
Instruction:			
Regular:			
Supplies and materials	\$ 222,948	\$ (326,373)	\$ (103,425)
Other	850	(1,175)	(325)
Special:			
Supplies and materials	8,254	(9,478)	(1,224)
Capital outlay	1,000	(1,585)	(585)
Vocational			
Benefits	52,778	(89,187)	(36,409)
Support services:			
Instructional staff:			
Capital outlay, replacement	89,133	(98,652)	(9,519)
Board of education:			
Supplies and materials	500	(1,209)	(709)
Administration:			
Purchased services	226,093	(283,563)	(57,470)
Other	34,675	(63,232)	(28,557)
Fiscal services:			
Benefits	50,600	(58,095)	(7,495)
Supplies and materials	3,000	(7,116)	(4,116)
Capital outlay	-	(380)	(380)
Capital outlay, replacement	500	(2,414)	(1,914)
Business:			
Capital outlay	1,500	(6,622)	(5,122)
Pupil transportation			
Salaries	274,449	(315,019)	(40,570)
Capital outlay	-	(2,400)	(2,400)
Central services:			
Benefits	27,289	(56,509)	(29,220)
Purchased services	38,358	(98,833)	(60,475)
Supplies and materials	2,100	(65,358)	(63,258)
Capital outlay	500	(3,622)	(3,122)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)

LEGAL COMPLIANCE (continued)

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at April 30, 2003 contrary to Ohio Revised Code section 5705.41 (B) and (D): (continued)

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
<u>Major Funds (continued):</u>			
<i>General Fund (continued):</i>			
Operation of non-instructional:			
Community services:			
Salaries	-	(1,251)	(1,251)
Benefits	-	(7,146)	(7,146)
Extracurricular activities:			
Academic subject oriented:			
Salaries	-	(22,268)	(22,268)
Benefits	-	(3,529)	(3,529)
Sports oriented:			
Salaries	216,090	(299,671)	(83,581)
Benefits	33,386	(63,045)	(29,659)
Supplies and materials	7,292	(12,914)	(5,622)
Service oriented:			
Salaries	-	(20,569)	(20,569)
Benefits	-	(2,871)	(2,871)
Site Improvements:			
Capital outlay	-	(1,655)	(1,655)
Architecture and engineering:			
Purchased services	3,509	(4,802)	(1,293)
Building improvements:			
Purchased services	161	(249,126)	(248,965)
Supplies and materials	-	(1,236)	(1,236)
Capital outlay	92,273	(235,311)	(143,038)
General other facilities:			
Supplies and materials	-	(9,595)	(9,595)
Capital outlay	-	(6,660)	(6,660)
Other financing (uses):			
Transfers-out (other)	-	(1,988)	(1,988)
Advances-out (other)	40,000	(67,257)	(27,257)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)

LEGAL COMPLIANCE (continued)

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at April 30, 2003 contrary to Ohio Revised Code section 5705.41 (B) and (D): (continued)

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
<u>Nonmajor Funds:</u>			
<i>Special Revenue Fund:</i>			
Public School Support:			
High School Instruction	18,791	(32,516)	(13,725)
Marketing Committee, Westerly	1,200	(2,618)	(1,418)
Middle School Building, Art Fund	-	(4,271)	(4,271)
Athletic:			
Foreign Language, HS	3	(424)	(421)
Professional Development:			
Professional Development, 2003	-	(1,275)	(1,275)
Data Communications:			
Data Communications, 2001	12,000	(14,000)	(2,000)
Ohio Reads:			
Classroom, Normandy, 03	-	(8,800)	(8,800)
Classroom, Weterly, 03	-	(9,112)	(9,112)
Community Reads, Normandy 03	-	(7,500)	(7,500)
Community Reads, Westerly, 03	-	(7,500)	(7,500)
Summer, 2003	-	(7,500)	(7,500)
Miscellaneous State Grants:			
Safe School Grant	-	(2,066)	(2,066)
Conflict Management, 2003	-	(2,709)	(2,709)
IDEA Part B:			
IDEA Part B, 2002	232	(1,672)	(1,440)
IDEA Part B, 2003	205,000	(207,114)	(2,114)
Differential Instruction Grant, 2003	-	(1,981)	(1,981)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)

LEGAL COMPLIANCE (continued)

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of budgetary control at April 30, 2003 contrary to Ohio Revised Code section 5705.41 (B) and (D): (continued)

<u>Fund/Function/Object</u>	FY 2003 Appropriations Plus Prior Year Encumbrances Appropriated	Expenditures Plus Encumbrances	Variance
Nonmajor Funds (continued):			
<i>Special Revenue Fund (continued):</i>			
Title II-A:			
Improving Teacher Quality, 2003	-	(33,616)	(33,616)
School Renovation Grants, ATIP			
ATIP Equipment, 2003	-	(2,903)	(2,903)
Rotary Fund:			
Co-op Summer School	6,000	(8,977)	(2,977)
Summer School, Middle School	-	(2,975)	(2,975)
<i>Special Trust Fund:</i>			
Middle School Special Trips Fund	2,000	(7,400)	(5,400)

In order to address budgetary violations of Ohio Revised Code Section 57105.41 (B) and (D), the District intends to closely monitor expenditures to eliminate these weaknesses in future periods.

The following fund had appropriations in excess of estimated resources on November 30, 2002 contrary to Ohio Revised Code Section 5705.39:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Nonmajor Funds:			
<i>Private Purpose Trust Fund:</i>			
Scholarship Fund	\$ 7,803	\$ (32,000)	\$ (24,197)

The following fund had appropriations in excess of estimated resources on June 30, 2003 contrary to Ohio Revised Code Section 5705.39:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Nonmajor Funds:			
<i>Special Revenue Fund:</i>			
Miscellaneous State Grants:			
Safe School Fund	\$ 2,075	\$ (6,063)	\$ (3,988)

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY (continued)
LEGAL COMPLIANCE (continued)

In order to address the budgetary violations of Ohio Revised Code Section 5705.39, the District intends to closely monitor the budgetary accounts to eliminate these weaknesses in future periods

The District was in violation of Ohio Revised Code Section 5705.41 (D) for making contracts or orders of expenditures of money; whereby, the certificate of the fiscal officer was attached after the receipt of the invoice. The District intends to review their purchasing policies and procedures with this code section in future periods

The District was in violation of Ohio Revised Code Section 9.38 for depositing. The District intends to review depositing procedures and implement a policy requiring deposits to be made in accordance with this code section in future periods.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General Fund 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 GAAP basis statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (968,847)
Adjustments, increase (decrease)	
Revenue accruals	(2,127,582)
Expenditure accruals	(389,097)
Other sources (uses)	26,770
GAAP basis, as reported	\$ (3,458,756)

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies may be invested in the following securities:

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

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in 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 District, and must be purchased with the expectation that it will be held to maturity.

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

Cash on Hand: At fiscal year end, the District had \$ 905 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash."

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

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$ 2,162,770 and the bank balance was \$ 2,329,261. Of the bank balance:

1. \$ 278,466 was covered by depository insurance: and
2. \$ 2,050,795 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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 District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value
Federal Home Loan Bank Bonds	\$ 504,226	\$ 504,226
Investment in State Treasurer's Investment Pool		10,697,627
		\$ 11,201,853

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 13,365,528	\$ -
Cash on hand	(905)	-
Federal Home Loan Bank Bonds	(504,226)	504,226
Investment in State Treasurer's Investment Pool	(10,697,627)	10,697,627
GASB Statement No. 3	\$ 2,162,770	\$ 11,201,853

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2002, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

The District receives property taxes from Cuyahoga County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003/2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$ 1,479,320 in the General Fund and \$ 196,774 in the Debt Service Fund. The amount available as an advance at June 30, 2002 was \$ 3,617,505 in the general fund and \$ 448,283 in the debt service fund. The difference was in the timing and collection by the County Auditor.

On the full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis this revenue has been deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second - Half Collections		2003 First - Half Collections		
	Amount	%	Amount	%	
Agricultural/Residential and Other Real Estate	\$ 396,013,510	97.62	\$ 394,785,340	97.39	%
Public Utilities	3,638,822	0.90	4,534,416	1.12	
Tangible Personal Property	5,985,650	1.48	6,050,490	1.49	
Total Assessed Value	<u>\$ 405,637,982</u>	<u>100.00</u>	<u>\$ 405,370,246</u>	<u>100.00</u>	%
Tax rate per \$1,000 of assessed valuation	<u>98.6</u>		<u>99.0</u>		

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, accounts and other, due from other governments, accrued interest and interfund. All receivables are considered substantially 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. All receivables are expected to be collected within one year.

A summary of the principal items of due from other governments receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
General	\$ 23,352
Title I	8,263
IDEA Part B	50,338
Preschool Disability Grant	1,473
Improving Teacher Quality	13,512
Food Service	8,162
Total Due from Other Governments Receivables	<u>\$ 105,100</u>

NOTE 9- CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002 (As Restated)	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 617,400	\$ -	\$ -	\$ 617,400
Construction in progress	4,236,644	11,428,855	-	15,665,499
	<u>4,854,044</u>	<u>11,428,855</u>	<u>-</u>	<u>16,282,899</u>
Depreciable capital assets				
Buildings and improvements	14,587,762	236,904	-	14,824,666
Furniture and equipment	612,239	26,128	-	638,367
Vehicles	901,165	56,758	48,700	909,223
Total capital assets being depreciated	<u>16,101,166</u>	<u>319,790</u>	<u>48,700</u>	<u>16,372,256</u>
Less accumulated depreciation				
Buildings and improvements	8,247,839	315,405	-	8,563,244
Furniture and equipment	386,974	46,016	-	432,990
Vehicles	733,124	68,490	48,700	752,914
Total accumulated depreciation	<u>9,367,937</u>	<u>429,911</u>	<u>48,700</u>	<u>9,749,148</u>
Depreciable capital assets, net of accumulated depreciation	<u>6,733,229</u>	<u>(110,121)</u>	<u>-</u>	<u>6,623,108</u>
Governmental activities capital assets, net	<u>\$ 11,587,273</u>	<u>\$ 11,318,734</u>	<u>\$ -</u>	<u>\$ 22,906,007</u>

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	142,220
Special		6,851
Vocational		701
Supporting services		
Pupil		55,866
Instructional staff		19,430
Administration		26,865
Fiscal services		4,476
Business		3,389
Operation and maintenance		39,247
Pupil transportation		68,276
Central services		865
Operation of non-instructional services		
Food service operation		2,311
Community services		26,897
Extracurricular activities		
Sports oriented		32,517
Total depreciation expense	\$	<u>429,911</u>

NOTE 10 - INTERFUND ASSETS/LIABILITIES

On the fund financial statements at June 30, 2003, interfund balances consisted of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 38,566	\$ -
Special Revenue		
IDEA Part B	-	15,338
Title I	-	8,263
Preschool Disability Grant	-	1,453
Improving Teacher Quality	-	13,512
Total	<u>\$ 38,566</u>	<u>\$ 38,566</u>

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue Funds.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District contracted with the following companies:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount</u>
Indiana Insurance	Building and contents at replacement value	\$ 52,325,622
Indiana Insurance	Inland Marine	797,567
Hartford Steam	Boiler & Machinery at replacement value \$ 2,500 deductible	
Willis Pooling	General liability each occurrence	3,000
	personal injury	3,000
	general aggregate	5,000,000
Willis Pooling	Automotive liability \$ 1,000 deductible	3,000,000
Willis Pooling	Umbrella insurance	2,000,000
Willis Pooling	Uninsured motorist	50,000

Willis Pooling is self insured with the first \$ 150,000 from Willis Pooling, the next \$ 350,000 with American Safety Insurance and \$ 500,000 plus with Genesis Insurance Company.

Settle claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the previous year.

B. WORKERS' COMPENSATION

The District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc., provides administrative, cost control and actuarial services to the GRP.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District offers a board paid employee assistance program and a wellness program that focuses on physical wellness as well as mental and emotional well being.

The School District participates in the Suburban Health Consortium (the Consortium), a shared risk pool (Note 18), 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 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. *For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations.* The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 548,057, \$ 561,290, and \$ 517,055, respectively; 50 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed the statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 1,537,016, \$ 1,693,221, and \$ 1,443,997, respectively; 83% has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$ 185 made by the School District and \$ 452 made by plan members.

NOTE 13- POSTEMPLOYMENT BENEFITS

The Bay Village City School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 13- POSTEMPLOYMENT BENEFITS (continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 109,787 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$ 3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$ 354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 year 2003, the minimum pay was established at \$ 12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$ 375,877.

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. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$ 182,946,777 and the target level was \$ 247.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$ 335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding June 30, 2002	Additions	Retired	Outstanding June 30, 2003	Amounts Due In One Year
Asbestos removal bonds 1983, 9.5% matures 2005	\$ 90,000	\$ -	\$ 30,000	\$ 60,000	\$ 30,000
Energy conservation bonds 1996, 5.3% matures 2004	145,000	-	70,000	75,000	75,000
School improvement refunding bonds 1997, 3.75% matures 2011	2,094,990	-	320,000	1,774,990	335,000
G.O.U.T. school improvement bonds 2002, matures 2026	19,555,000	-	495,000	19,060,000	510,000
Total bonds	21,884,990	-	915,000	20,969,990	950,000
Capital lease	287,038	-	38,201	248,837	38,911
Compensated absences	1,898,503	551,067	192,632	2,256,938	438,290
	<u>\$ 24,070,531</u>	<u>\$ 551,067</u>	<u>\$ 1,145,833</u>	<u>\$ 23,475,765</u>	<u>\$ 1,427,201</u>

The School Districts' overall legal debt margin was \$ 16,543,702, with an unvoted debt margin of \$ 405,370 at June 30, 2003. Principal and interest requirements to retire bonds outstanding at June 30, 2003, were as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 950,000	\$ 943,560	\$ 1,893,560
2005	920,000	904,358	1,824,358
2006	935,000	866,172	1,801,172
2007	750,086	1,045,647	1,795,733
2008	757,325	1,024,901	1,782,226
2009 - 2013	3,312,579	4,851,689	8,164,268
2014-2018	4,125,000	2,911,282	7,036,282
2019-2023	5,330,000	1,677,673	7,007,673
2024-2026	3,890,000	298,000	4,188,000
	<u>\$ 20,969,990</u>	<u>\$ 14,523,282</u>	<u>\$ 35,493,272</u>

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

The following is a schedule of minimum lease payments required under the capital lease obligation and the present value of the minimum lease payments as of June 30, 2003.

	Year ending June 30,	Minimum Payment
	2004	\$ 50,589
	2005	50,590
	2006	50,590
	2007	50,589
	2008	50,590
	2009	33,726
Total minimum payments		286,674
Less: Amount representing interest		(37,837)
Present value of future minimum lease payments		\$ 248,837

The cost of assets under the capital lease is \$ 299,070, with a net book value of \$ 258,510.

Bonds payable will be repaid from the Debt Service Fund. The capital lease obligation will be repaid through the General Fund and the Network Connectivity Fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

NOTE 15 – 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 payments. 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, 2003, \$ 1,774,990 of bonds outstanding is considered defeased.

NOTE 16 – OPERATING LEASES

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the District's funds. During 2003, expenditures for operating leases totaled \$ 6,093. The year ended June 30, 2003 was the last year payments were due on this operating lease.

BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 17 - SET-ASIDES

The 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 maintenance. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the District has set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital maintenance, and budget stabilization during fiscal year 2003.

	Textbook	Capital Maintenance	Budget Stabilization
Balance, July 1, 2002	\$ 39,424	\$ -	\$ 104,250
Required set aside	318,836	318,836	-
Offset credits	-	-	-
Qualifying expenditures	(398,314)	(888,316)	-
Balance June 30, 2003	<u>(40,054)</u>	<u>(569,480)</u>	<u>104,250</u>
Carry forward at June 30, 2003	<u>\$ (40,054)</u>	<u>\$ -</u>	<u>\$ 104,250</u>

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 398,314 and \$ 888,316, respectively, which exceeded the required set-aside and the reserve balance. Textbook expenditures have exceeded statutory requirements by \$ 40,054 which may be used as offset credits for future years' set aside requirements.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating 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 operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2003, the District paid \$ 24,205 to LEECA.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. 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 operated 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, 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 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 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 Lakewood City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. BAY VILLAGE EDUCATION FOUNDATION

The Bay Village Education Foundation (Foundation) is a jointly governed organization established by the Ohio Revised Code to support, promote and fund creative programs designed by students and staff of the Bay Village City School District 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 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.

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among 91 school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. 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 2003 the District paid \$ 193,296 to the Council.

The Bay Village City Schools participates in the Council's electric purchase program which was implemented during fiscal year 1998. The program allows school districts to purchase electricity at reduced rates for a period of eight years through Energy Acquisition Corporation (Corporation), a non-profit corporation with a self-appointing board of trustees. The Corporation issued \$ 119,140,000 of notes to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI). The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement during the eight year period, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The Bay Village City Schools 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 which are not encumbered for its share of program administrative costs.

Financial information can be obtained by contacting Kathleen Neal, Executive Secretary/Treasurer of Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 19 COMMUNITY GYMNASIUM JOINT OPERATING AGREEMENT

On August 13, 2001, the District entered into an agreement for constructing, equipping and furnishing a Community Gymnasium and a development and use agreement with the City of Bay Village (the City) for the Community Gymnasium (the Gym). Both agreements were amended on February 25, 2002. The initial term of the agreement commenced on the first date the Gym opened for public use and will end thirty years thereafter.

The agreements include termination provisions which allow either the District or the City to seek 100 percent usage upon request at least two years prior to the expiration of the initial term. Termination provisions require repayment of the initial contribution plus a percent of the cost of major additions.

Under the terms of the contribution agreement, the District will contribute one third of the cost of the Gym project which includes costs of constructing, equipping and furnishing the Gym, the cost of constructing, equipping and furnishing related joint use areas and the costs of related design and other professional services. The City's contribution amount shall not exceed \$ 1,143,280. In 2002, the City issued \$ 1,100,000 in general obligation bonds to meet its obligation. The Gym and joint use areas shall be owned by the District.

The development and use agreement includes provisions for capital improvement funding. Under these provisions, both the District and the City are required to establish and maintain a community gym fund. For the first year of operation the District and the City will contribute \$ 3,000 and \$ 6,000 respectively. These amounts will increase three-percent annually and will be used for capital improvements and contracted maintenance as jointly decided.

The District is responsible for fire and liability insurance. The City is responsible for maintaining liability insurance for activities in the Gym under the City's supervision. The District and the City also have additional annual obligations for housekeeping, custodial equipment, supplies and utility costs.

NOTE 20 – 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 21 - INTERFUND TRANSFERS

During the year ended June 30, 2003, the miscellaneous grants fund transferred \$ 5,000 to the food service fund to provide for the payment of expenditures and maintain food service operations for students. A transfer of \$ 78,975 was made from the general fund to the debt service fund for payment of principal and interest on bonds payable, a transfer of \$ 20,000 was made from the general fund to the uniform supply fund to subsidize the sale of supplies to students and a transfer of \$ 2,000 was made from the general fund to the rotary fund to subsidize the summer school program.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 22 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

NOTE 23 – CONTRACTUAL COMMITMENTS

The District is in the process of building a new middle school. Outstanding commitments as a result of this project are \$ 7,207,407 at June 30, 2003.

NOTE 24 – SUBSEQUENT EVENTS

The District passed a 5.5 mill operating levy on November 4, 2003 for the purpose of current expenses.

BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Agency Pass-through Agency Federal Program	Pass Through Agency Awarding Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$29,426		\$24,628
National School Lunch Program	043547 LL P4 02	10.555	\$12,096		\$12,096	
National School Lunch Program	043547 LL P4 03	10.555	35,458		35,458	
Total National School Lunch Program			<u>47,554</u>	<u>0</u>	<u>47,554</u>	<u>0</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>47,554</u>	<u>29,426</u>	<u>47,554</u>	<u>24,628</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States, IDEA Part B	043547 6B SD 03 P	84.027	15,000		8,673	
Special Education Grants to States, IDEA Part B	043547 6B SF 02 P	84.027	1,440		1,672	
Special Education Grants to States, IDEA Part B	043547 6B SF 03 P	84.027	253,626		257,987	
Total Special Education Grants to States			<u>270,066</u>	<u>0</u>	<u>268,332</u>	<u>0</u>
Special Education Preschool Grants	043547 PG S1 02 P	84.173	0		5,225	
Special Education Preschool Grants	043547 PG S1 03 P	84.173	13,864		13,462	
Total Special Education Preschool Grants			<u>13,864</u>	<u>0</u>	<u>18,687</u>	<u>0</u>
Total Special Education Cluster			<u>283,930</u>	<u>0</u>	<u>287,019</u>	<u>0</u>
Title I, Part A, ESEA	043547 C1 S1 02	84.010	2,743		1,240	
Title I, Part A, ESEA	043547 C1 S1 03	84.010	82,157		89,663	
Total Title I, Part A, ESEA			<u>84,900</u>	<u>0</u>	<u>90,903</u>	<u>0</u>
Innovation Education Program Strategies, Title V	043547 C2 S1 02	84.298	0		1,100	
Innovation Education Program Strategies, Title V	043547 C2 S1 03	84.298	17,018		14,544	
Total Innovation Education Program Strategies, Title V			<u>17,018</u>	<u>0</u>	<u>15,644</u>	<u>0</u>
Class Size Reduction Subsidy	043547 CR S1 02	84.340	0		4,283	
Total Class Size Reduction Subsidy			<u>0</u>	<u>0</u>	<u>4,283</u>	<u>0</u>
Improving Teacher Quality, Title II-A	043547 TR S1 03	84.367	44,598		41,186	
Total Improving Teacher Quality, Title II-A			<u>44,598</u>	<u>0</u>	<u>41,186</u>	<u>0</u>
Eisenhower Professional Development State Grants, Title II	043547 MS S1 00	84.281	(197)		197	
Eisenhower Professional Development State Grants, Title II	043547 MS S1 02	84.281	0		700	
Total Eisenhower Professional Development State Grants			<u>(197)</u>	<u>0</u>	<u>897</u>	<u>0</u>
Safe and Drug Free Schools and Communities- State Grants	043547 DR S1 02	84.186	0		776	
Safe and Drug Free Schools and Communities- State Grants	043547 DR S1 03	84.186	10,492		9,692	
Total Safe and Drug Free Schools and Communities- State Grants			<u>10,492</u>	<u>0</u>	<u>10,468</u>	<u>0</u>
Education Technology State Grants, Title II-D	043547 TJ S1 03	84.318	2,476		2,476	
Total Education Technology State Grants			<u>2,476</u>	<u>0</u>	<u>2,476</u>	<u>0</u>
School Renovation Grants, ATIP	043547 AT S3 02	84.352A	2,887		923	
Total School Renovation Grants			<u>2,887</u>	<u>0</u>	<u>923</u>	<u>0</u>
Advanced Placement Program	N/A	84.330	250		250	
Total Advanced Placement Program			<u>250</u>	<u>0</u>	<u>250</u>	<u>0</u>
<i>Passed Through Educational Service Center of Cuyahoga County:</i>						
English Language Acquisition Grants, Title III	N/A	84.365	2,784		2,764	
Total English Language Acquisition Grants, Title III			<u>2,784</u>	<u>0</u>	<u>2,764</u>	<u>0</u>
Total U.S. Department of Education			<u>449,138</u>	<u>0</u>	<u>456,813</u>	<u>0</u>
Total All Federal Funds			<u>\$496,692</u>	<u>\$29,426</u>	<u>\$504,367</u>	<u>\$24,628</u>

The accompanying notes to this schedule are an integral part of this schedule.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) summarizes the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. 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 basic 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. At June 30, 2003, the District had no significant food commodities in inventory.

N/A – Not Applicable.

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, 2003, and have issued our report thereon dated February 9, 2004, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* and restated capital assets. 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 2003-001, 2003-002, 2003-003 and 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 9, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 9, 2004.

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Bay Village City School District
Cuyahoga County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of 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

February 9, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS 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, 2003. 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, 2003.

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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**Internal Control Over Compliance
(Continued)**

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. However, we noted 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 February 9, 2004.

This report is intended for the information and use of 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.



Betty Montgomery
Auditor of State

February 9, 2004

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

1. SUMMARY OF AUDITOR'S RESULTS

<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)?	No
<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	2003- 001
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Ohio Rev. Code Sections 5705.41 (B) and (D) prohibit a subdivision or taxing authority from making an expenditure or an expenditure plus encumbrance unless it has been 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 November 30, 2002 as follows:

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

Finding Number (Continued)	2003-001
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Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Variance
Major Fund:			
General Fund:			
001-1100-500	\$ 222,948	\$ (287,458)	\$ (64,510)
001-1100-800	850	(1,175)	(325)
001-1200-600	1,000	(1,286)	(286)
001-1300-200	52,778	(58,993)	(6,215)
001-2300-500	500	(1,078)	(578)
001-2500-500	3,000	(4,740)	(1,740)
001-2500-600	-	(380)	(380)
001-2500-700	500	(2,414)	(1,914)
001-2600-600	1,500	(6,622)	(5,122)
001-2900-400	38,358	(84,410)	(46,052)
001-2900-500	2,100	(65,445)	(63,345)
001-2900-600	500	(3,497)	(2,997)
001-3200-100	-	(471)	(471)
001-3200-200	-	(8,629)	(8,629)
001-3200-400	37,000	(50,060)	(13,060)
001-4100-100	-	(11,337)	(11,337)
001-4100-200	-	(1,885)	(1,885)
001-4600-100	-	(8,642)	(8,642)
001-4600-200	-	(1,371)	(1,371)
001-5200-600	-	(1,655)	(1,655)
001-5300-400	3,509	(4,802)	(1,293)
001-5600-400	161	(224,533)	(224,372)
001-5600-600	92,273	(140,266)	(47,993)
001-5900-500	-	(507)	(507)
001-7400-900	40,000	(67,257)	(27,257)
Nonmajor Funds:			
Special Revenue Funds:			
014-0000	6,000	(8,977)	(2,977)
014-9200	-	(2,975)	(2,975)
300-9201	3	(118)	(115)
459-9003	-	(2,440)	(2,440)
459-9103	-	(3,057)	(3,057)
459-9203	-	(7,500)	(7,500)
459-9303	-	(7,500)	(7,500)
516-9920	232	(1,672)	(1,440)
590-9930	-	(3,288)	(3,288)
Special Trust Fund:			
007-9930	2,000	(7,400)	(5,400)

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

Finding Number (Continued)	2003-001
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In addition, expenditures plus encumbrances exceeded appropriations at the legal level of control at April 30, 2003 as follows:

<u>Fund/Function/Object</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Major Fund:			
General Fund:			
001-1100-500	\$ 222,948	\$ (326,373)	\$ (103,425)
001-1100-800	850	(1,175)	(325)
001-1200-500	8,254	(9,478)	(1,224)
001-1200-600	1,000	(1,585)	(585)
001-1300-200	52,778	(89,187)	(36,409)
001-2200-700	89,133	(98,652)	(9,519)
001-2300-500	500	(1,209)	(709)
001-2400-400	226,093	(283,563)	(57,470)
001-2400-800	34,675	(63,232)	(28,557)
001-2500-200	50,600	(58,095)	(7,495)
001-2500-500	3,000	(7,116)	(4,116)
001-2500-600	-	(380)	(380)
001-2500-700	500	(2,414)	(1,914)
001-2600-600	1,500	(6,622)	(5,122)
001-2800-100	274,449	(315,019)	(40,570)
001-2800-600	-	(2,400)	(2,400)
001-2900-200	27,289	(56,509)	(29,220)
001-2900-400	38,358	(98,833)	(60,475)
001-2900-500	2,100	(65,358)	(63,258)
001-2900-600	500	(3,622)	(3,122)
001-3200-100	-	(1,251)	(1,251)
001-3200-200	-	(7,146)	(7,146)
001-4100-100	-	(22,268)	(22,268)
001-4100-200	-	(3,529)	(3,529)
001-4500-100	216,090	(299,671)	(83,581)
001-4500-200	33,386	(63,045)	(29,659)
001-4500-500	7,292	(12,914)	(5,622)
001-4600-100	-	(20,569)	(20,569)
001-4600-200	-	(2,871)	(2,871)
001-5200-600	-	(1,655)	(1,655)
001-5300-400	3,509	(4,802)	(1,293)
001-5600-400	161	(249,126)	(248,965)
001-5600-500	-	(1,236)	(1,236)
001-5600-600	92,273	(235,311)	(143,038)
001-5900-500	-	(9,595)	(9,595)
001-5900-600	-	(6,660)	(6,660)
001-7200-900	-	(1,988)	(1,988)
001-7400-900	40,000	(67,257)	(27,257)

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

Finding Number (Continued)	2003-001
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<u>Fund/Function/Object</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Nonmajor Funds:			
Special Revenue Funds:			
014-0000	\$ 6,000	\$ (8,977)	\$ (2,977)
014-9200	-	(2,975)	(2,975)
018-9010	18,791	(32,516)	(13,725)
018-9053	1,200	(2,618)	(1,418)
018-9100	-	(4,271)	(4,271)
300-9201	3	(424)	(421)
416-9930	-	(1,275)	(1,275)
451-9930	12,000	(14,000)	(2,000)
459-9003	-	(8,800)	(8,800)
459-9103	-	(9,112)	(9,112)
459-9203	-	(7,500)	(7,500)
459-9303	-	(7,500)	(7,500)
459-9403	-	(7,500)	(7,500)
499-9930	-	(2,066)	(2,066)
499-9999	-	(2,709)	(2,709)
516-9920	232	(1,672)	(1,440)
516-9930	205,000	(207,117)	(2,117)
516-9933	-	(1,981)	(1,981)
590-9930	-	(33,616)	(33,616)
599-9933	-	(2,903)	(2,903)
Special Trust Fund:			
007-9930	2,000	(7,400)	(5,400)

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.

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	2003-002
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Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exception to this basic requirement is provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

Finding Number (Continued)	2003-002
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The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts less than \$3,000, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The District did not always comply with the aforementioned Revised Code Section. Twenty-four of the seventy transactions tested had the invoice dated prior to the purchase order. Post certification was not applied through the conventions of the "then and now" certification.

We recommend the District properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Any purchase that falls out of this procedure should be reviewed under the "then and now" criteria.

Finding Number	2003-003
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Ohio Rev. Code Section 5705.39 prohibits a subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Rev Code 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The following funds had appropriations, which were in excess of estimated resources as reported on the Official Certificate of Estimated Resources:

November 30, 2002

Fund	Estimated Resources	Appropriations	Variance
Nonmajor Fund: <i>Private Purpose Trust Fund:</i> Scholarship Fund	\$7,803	(\$32,000)	(\$24,197)

June 30, 2003

Fund	Estimated Resources	Appropriations	Variance
Nonmajor Fund: <i>Special Revenue Fund:</i> Miscellaneous State Grants: Safe School Fund	\$2,075	(\$6,063)	(\$3,988)

We recommend that the District review appropriations and estimated resources, on a monthly basis, and make the necessary revisions to the budget and the County Auditor in order to comply with legal budgetary requirements.

**BAY VILLAGE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

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

Finding Number	2003-004
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Ohio Rev. Code Section 9.38, provides in part, that public officials shall deposit all public money received the next business day of receipt, if the total of such moneys received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period; however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the money until the time of deposit. If however, the public official is governed by a legislative authority, only that legislative authority may adopt such a policy.

During the audit period, twenty-three of sixty extracurricular receipts tested were not deposited in accordance with the above provisions. The extracurricular receipt amounts for these types of collections varied between \$22 and \$15,838 for fiscal year 2003. The District's Policy is to deposit all revenue amounts within 24 hours of receiving the revenue.

Further, one of twenty Day Care Tuition receipts tested was not deposited in accordance with the above provisions. The receipt amount for this collection was \$6,662. The District did not follow their policy, which was to deposit the revenue amount within 24 hours of receiving the revenue.

Failure to deposit public money in a timely manner increases the District's exposure to theft, loss, or potential loss of investment income.

The District should deposit public money with the Treasurer's Office or the District's designated Depository in accordance with the aforementioned section of the code.

3. FINDINGS FOR FEDERAL AWARDS

None.

**BAY VILLAGE CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 JUNE 30, 2003**

**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:
2002-10818-001	Expenditures plus encumbrances exceeded appropriations at the legal level of control	No	Not Corrected, re-issued as 2003-001
2002-10818-002	Certification of Funds	No	Not Corrected, re-issued as 2003-002
2002-10818-003	Appropriations exceeded estimated resources	No	Not Corrected, re-issued as 2003-003
2002-10818-004	Appropriations did not agree to the District's "system"	No	Partially Corrected, see Management Letter



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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
APRIL 8, 2004**