



**Auditor of State
Betty Montgomery**

CITY OF BAY VILLAGE
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Bay Village
Cuyahoga County
350 Dover Center Road
Bay Village, Ohio 44140

To the Members of City Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparisons for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board Statement Nos. 40 and 42 and restated the fund balances of the Governmental Funds as of December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

September 22, 2006

City of Bay Village, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

Financial Highlights

Key Financial highlights for 2005 are as follows:

- Total net assets decreased by \$264,644 or 1.4 percent from 2004.
- Governmental capital assets, net of depreciation, increased by \$4,521,904 or 49.6 percent from 2004.
- Total assets of governmental activities increased \$215,275 over 2004.
- Total liabilities of governmental activities increased by \$360,114 from 2004.
- In total, equity in pooled cash and cash equivalents decreased by \$4,747,402 for governmental activities and increased by \$93,202 for business-type activities over 2004.
- The City issued \$950,000 in general obligation bonds during 2005.
- The City issued \$2,000,000 in notes during 2005.
- A portion of the Service Garage facility burned in September 2005.
- Construction of the new Police Station started in 2004 and continued through 2005.

Using This Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Bay Village as a financial whole or as an entire operating entity. The statements provide a detailed look at our specific financial condition.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Bay Village as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and measures how the City did financially during 2005. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in those assets. The changes in assets are important because it tells whether, for the City as a whole, the financial position has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

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The *Statement of Net Assets* and the *Statement of Activities* are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning of Year and at Year's End

Reporting the City of Bay Village's Most Significant Funds

Fund Financial Statements

The presentation of the City's funds begins on page 18. Fund financial statements provide detailed information about the City's major funds. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Bay Village, the major governmental funds are the general fund, general obligation bond retirement fund, and the police station improvement capital project fund. The sewer fund and the swimming pool fund are the City's major enterprise funds.

Governmental Funds

Most of the City's activities are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. Governmental funds are reported using modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. 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.

Proprietary Funds

The City of Bay Village maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer operations and swimming pool activity. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self-insurance of health related employee benefits and workers' compensation. Because these programs predominately benefit governmental rather than business functions, they have been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 23- 26 of this report.

City of Bay Village, Ohio
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The City of Bay Village as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. The following provides a summary of the City's net assets.

TABLE 1 - NET ASSETS

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$15,248,089	\$19,554,718	\$6,431,877	\$6,520,089	\$21,679,966	\$26,074,807
Capital Assets, Net	13,643,639	9,121,735	6,231,494	6,354,355	19,875,133	15,476,090
<i>Total Assets</i>	<u>28,891,728</u>	<u>28,676,453</u>	<u>12,663,371</u>	<u>12,874,444</u>	<u>41,555,099</u>	<u>41,550,897</u>
Current and Other Liabilities	7,850,005	7,819,641	59,581	68,245	7,909,586	7,887,886
Long-Term Liabilities:						
Due Within One Year	1,774,153	1,507,380	86,721	87,305	1,860,874	1,594,685
Due In More Than One Year	12,627,962	12,564,985	914,828	996,848	13,542,790	13,561,833
<i>Total Liabilities</i>	<u>22,252,120</u>	<u>21,892,006</u>	<u>1,061,130</u>	<u>1,152,398</u>	<u>23,313,250</u>	<u>23,044,404</u>
Invested in Capital Assets, Net of Related Debt	3,624,887	4,549,681	5,321,391	5,360,245	8,946,278	9,909,926
Restricted for:						
Capital Projects	1,415,875	503,178	0	0	1,415,875	503,178
Debt Service	678,377	695,587	0	0	678,377	695,587
Other Purposes	1,941,577	1,944,086	0	0	1,941,577	1,944,086
Unrestricted (Deficit)	(1,021,108)	(908,085)	6,280,850	6,361,801	5,259,742	5,453,716
<i>Total Net Assets</i>	<u>\$6,639,608</u>	<u>\$6,784,447</u>	<u>\$11,602,241</u>	<u>\$11,722,046</u>	<u>\$18,241,849</u>	<u>\$18,506,493</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Bay Village, total assets exceed total liabilities by \$18,241,849 at December 31, 2005.

The largest portion of the City's governmental net assets (55 percent) reflects the investments in capital assets (land, construction in progress, buildings, machinery, equipment, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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Total assets increased slightly by \$4,202 from 2004, and the City's total liabilities increased by \$268,846. Total assets in governmental activities increased by \$215,275 due to the City using available cash resources to fund the immediate needs at the service garage in order to reestablish operations after the September 2005 fire. Total assets in business type activities decreased primarily to depreciation of capital assets and a loss on the investment in the joint venture. Total liabilities increased because of increases in both intergovernmental and claims payable.

The negative unrestricted balance of (\$1,021,108) in governmental activities occurred because the City issued general obligation debt to meet contractual commitments for the community gym and the aquatic facility. As further discussed in Note 18 to the financial statements, the City contributed to the construction of the community gym; however, the asset belongs to the Bay Village City School District. In addition, the debt for the City's aquatic facility, which opened in 2003, is being paid from the City's general obligation bond retirement fund; however, the asset was capitalized in the swimming pool fund which is a business-type activity. Therefore, in both circumstances, the governmental activity assets were reduced due to cash outflows for assets that are not held in governmental activities. In addition, there was a deficit balance of (\$20,697) in the internal service funds which resulted from the recognition of accrued liabilities.

At the end of the current year, the City is able to report positive balances in the nine categories of restricted net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

During the current year, the total net assets of the City's governmental activities decreased by \$144,839. The decrease was due to an increase in total liabilities and a decrease in current assets which includes cash and cash equivalents as discussed above. The total net assets in the business-type activities decreased by \$119,805. This is a result of a decrease in the investment in a joint venture and an increase in depreciation expense.

In order to further understand what makes up the changes in net assets for the current year, the following table provides further details regarding the results of activities for the current year.

City of Bay Village, Ohio
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TABLE 2 - CHANGES IN NET ASSETS

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services	\$665,014	\$621,844	\$1,771,368	\$1,753,443	\$2,436,382	\$2,375,287
Operating Grants and Contributions	736,332	752,838	0	0	736,332	752,838
Capital Grants and Contributions	13,269	40,312	0	0	13,269	40,312
Total Program Revenues	1,414,615	1,414,994	1,771,368	1,753,443	3,185,983	3,168,437
General Revenues:						
Property and Other Local Taxes	6,006,578	5,971,044	0	0	6,006,578	5,971,044
Income Taxes	4,776,746	4,325,970	0	0	4,776,746	4,325,970
Grants and Entitlements	2,893,867	3,142,734	0	0	2,893,867	3,142,734
Other	783,018	492,958	0	3,283	783,018	496,241
Total General Revenues	14,460,209	13,932,706	0	3,283	14,460,209	13,935,989
<i>Total Revenues</i>	<i>15,874,824</i>	<i>15,347,700</i>	<i>1,771,368</i>	<i>1,756,726</i>	<i>17,646,192</i>	<i>17,104,426</i>
Program Expenses						
General Government	3,487,549	3,071,084	0	0	3,487,549	3,071,084
Security of Persons and Property	6,095,608	5,908,478	0	0	6,095,608	5,908,478
Public Health and Welfare	519,409	573,276	0	0	519,409	573,276
Transportation	2,047,722	2,095,783	0	0	2,047,722	2,095,783
Community Environment	790,581	797,815	0	0	790,581	797,815
Basic Utility	1,533,980	1,620,691	0	0	1,533,980	1,620,691
Leisure Time Activities	990,283	1,004,148	0	0	990,283	1,004,148
Interest and Fiscal Charges	488,656	489,775	0	0	488,656	489,775
Sewer	0	0	1,462,780	1,857,765	1,462,780	1,857,765
Swimming Pool	0	0	494,268	458,412	494,268	458,412
Total Program Expenses	15,953,788	15,561,050	1,957,048	2,316,177	17,910,836	17,877,227
<i>Increase (Decrease) in Net Assets</i>						
<i>Before Transfers and Contributions</i>	(78,964)	(213,350)	(185,680)	(559,451)	(264,644)	(772,801)
Transfers and Contributions	(65,875)	(67,375)	65,875	67,375	0	0
Change in Net Assets	(144,839)	(280,725)	(119,805)	(492,076)	(264,644)	(772,801)
<i>Net Assets Beginning of Year</i>	<i>6,784,447</i>	<i>7,065,172</i>	<i>11,722,046</i>	<i>12,214,122</i>	<i>18,506,493</i>	<i>19,279,294</i>
Net Assets End of Year	\$6,639,608	\$6,784,447	\$11,602,241	\$11,722,046	\$18,241,849	\$18,506,493

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Governmental Activities

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2005, property tax accounted for 34 percent of total revenues, and municipal income tax accounted for 27.1 percent. The City's municipal income tax rate of 1.5 percent has remained unchanged since 1983. Grants and entitlements revenue totaling \$2,893,867, accounts for 18.2 percent of total governmental activity revenue. These funds are comprised of distributions from the State and county, the majority of which was estate taxes. Grants and entitlements decreased by \$248,867 due to Ohio Department of Transportation (ODOT) and Federal Emergency Management Assistance (FEMA). In June 2004, the City received \$160,970 from ODOT for a joint project that was completed in 2003. Also in 2004 the City's Fire Department was awarded a \$67,500 FEMA reimbursement basis grant. The majority was received in 2004 and only the remaining portion, \$8,400 was received in 2005. The increase in other revenue was from insurance reimbursements for the service garage fire.

Transportation expenses decreased by \$48,061 which is the net effect of an increase in equipment repair and a decrease in seasonal wages. Basic utility decreased by \$86,711 due to a decrease in accounts payable. Security of persons and property, including the police and fire departments, accounted for \$6,095,608 which is 38 percent of total governmental activity expenses. The three percent increase represents overall wage increases.

Table 3 presents a summary for governmental activities of total cost of services and the net cost of providing these services.

TABLE 3 - GOVERNMENTAL ACTIVITIES

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
General Government	\$3,487,549	\$3,307,241	\$3,071,084	\$2,900,294
Security of Persons and Property	6,095,608	5,940,470	5,908,478	5,831,445
Public Health and Welfare	519,409	391,692	573,276	353,247
Transportation	2,047,722	1,362,804	2,095,783	1,417,434
Community Environment	790,581	729,876	797,815	724,229
Basic Utility	1,533,980	1,533,980	1,620,691	1,620,691
Leisure Time Activities	990,283	784,454	1,004,148	808,941
Interest and Fiscal Charges	488,656	488,656	489,776	489,775
<i>Total Program Expenses</i>	<u>\$15,953,788</u>	<u>\$14,539,173</u>	<u>\$15,561,051</u>	<u>\$14,146,056</u>

City of Bay Village, Ohio
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Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions all reduce the governmental activity expenses. For 2005, there was a difference of \$1,414,615 between the Total Cost of Services and the Net Cost of Services. The most significant contributing factors follow.

- General Government expenses were reduced by \$180,308 from charges for services which were derived primarily from cable franchise fees, facility rentals, and mulch sales.
- Security of Persons and Property expenses were reduced by \$133,423 through charges for services which consist of police fines and fees and court fines and fees from the Rocky River Municipal Court which serves the City of Bay Village. Operating Grants and Contributions further reduced these expenses by \$21,715 which represents public grants and local donations received by both the City's Police and Fire Departments.
- Public Health and Welfare expenses were reduced by \$127,717. The expenses were mainly reduced by charges for services revenue which consisted of building department fees and permits.
- Transportation expenses were reduced by \$684,918 which consists of State shared gasoline taxes and vehicle registration fees.
- Leisure Time Activity expenses were reduced by \$205,829 through charges for services for parks and recreation programs and facility rentals.

Business-Type Activities

Charges for services are the primary source of revenue for the City's sewer and swimming pool operations. In 2005, the sewer fund operating revenue exceeded operating expenses by \$230,685. The sewer rates charged to Bay Village residential and commercial accounts have remained the same since 1997; therefore, revenue is relatively consistent. However, expenses continue to increase due to rising costs for the City's capital and operating contributions to the Rocky River Wastewater Treatment Plant, a joint venture among four municipalities.

In June 2003 the City opened a new aquatic center which consists of a main pool with slide features, water features and a toddler area as well as a separate diving pool. The new facility has an expanded capacity from the old facility, and it also provides concession access from both the pool and the adjacent park area which includes baseball diamonds, tennis courts, and a toddler playground. Revenue from charges for services (pool pass sales, concession sales, and swimming programs) has remained consistent between 2004 and 2005. However, the operating expenses exceeded revenue by \$156,337. This increase, which was approximately \$20,000 from the prior year, is mostly due to maintenance, acquisition of non-capital assets, and utility costs.

Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 18. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,719,490 and total expenditures of \$21,566,140. The most significant fund is the general fund which had an unreserved fund balance at year end of \$1,838,130 compared to expenditures of \$10,332,101. While revenues exceeded expenditures by \$1,103,756, the excess was transferred to other funds. These transferred funds enable the City to fund other departments and capital improvements.

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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The City amended its general fund budget at various times throughout 2005. All recommendations for budget amendments are initially presented to the Finance Committee of City Council for review before they are presented to the whole Council for Ordinance enactment on the change. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control. The general fund supports many of the City's major activities such as the Police and Fire Departments as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the general fund, original budgeted revenues were \$11,204,303, the final budgeted revenue amount was \$11,704,340 and actual revenues were \$11,467,256. The most significant changes from final revenue to actual revenue were decreases in estimated revenue in Property and Other Taxes and Intergovernmental Revenue. The decrease in intergovernmental revenue was mostly due to a decrease in local government funds, and the decrease in fines, licenses and permits occurred because starting in 2005 cable franchise fees started being distributed annually rather than quarterly. Interest increased due to a higher allocation from the prior year.

The original appropriations for the general fund were \$11,341,845 and the final appropriations were \$12,017,475.

- The general government increase was due to increased costs associated with the service garage fire, a decrease of wages for staff assigned to public buildings, and an increase in operating costs for public buildings.
- The decrease of security of persons and property was due to a decrease in police wages and benefits.
- The decrease in transportation was the result of decreased wages.
- The increase in community environment was due to a wage increases.
- The increase in basic utility services was mainly due to wage increases in the service garage, refuse and composting.

Capital Assets and Debt Administration

Capital Assets

Non-depreciable capital assets for governmental activities increased by \$4,138,458. There was a significant increase of \$4,439,459 in construction in progress for the new police station which started in 2004 and continued through 2005. The station opened in May 2006. Land decreased due to the sale of properties. Under depreciable assets, buildings decreased due to depreciation expenses. Machinery and equipment and vehicles increased due to routine replacements and also due to items replaced that were destroyed in the fire. Infrastructure increased due to road improvements.

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Total capital assets for business-type activities decreased by \$122,861. The sewer department purchased a sewer jet truck and the recreation department purchased a vacuum system for the swimming pool. For additional information on capital assets, see Note 8.

**TABLE 4 - CAPITAL ASSETS AT DECEMBER 31,
(NET OF DEPRECIATION)**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$111,100	\$412,101	\$40,000	\$40,000	\$151,100	\$452,101
Construction in Progress	5,827,117	1,387,658	0	0	5,827,117	1,387,658
Land Improvements	351,590	365,062	797,030	836,507	1,148,620	1,201,569
Buildings	1,712,693	1,784,968	1,424,182	1,478,326	3,136,875	3,263,294
Machinery and Equipment	647,196	653,450	650,297	704,082	1,297,493	1,357,532
Vehicles	1,144,645	963,154	189,055	58,413	1,333,700	1,021,567
Infrastructure						
Roads	3,073,024	2,745,918	0	0	3,073,024	2,745,918
Sewer Lines	0	0	3,130,930	3,237,027	3,130,930	3,237,027
Culverts	91,673	94,306	0	0	91,673	94,306
Traffic Signals	684,601	715,118	0	0	684,601	715,118
Total	\$13,643,639	\$9,121,735	\$6,231,494	\$6,354,355	\$19,875,133	\$15,476,090

Debt

As of December 31, 2005, the City of Bay Village had \$14,147,747 in bonds, loans, and notes outstanding with \$1,467,007 due within one year.

TABLE 5 - DEBT

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$11,221,644	\$11,486,201	\$400,000	\$450,000	\$11,621,644	\$11,936,201
Special Assessment Bonds	16,000	24,000	0	0	16,000	24,000
Notes	2,000,000	1,500,000	0	0	2,000,000	1,500,000
OPWC Loan	0	0	510,103	544,110	510,103	544,110
Totals	\$13,237,644	\$13,010,201	\$910,103	\$994,110	\$14,147,747	\$14,004,311

The General Obligation Bonds are composed of 1) Various Improvement; 2) Street Improvement; 3) Motorized Equipment; 4) Real Estate Acquisition; 5) Recreational Facility for the Aquatic Center; 6) Recreational Facility for the Community Gymnasium; and 7) Police Station Improvement. Principal and interest for these bonds are paid from tax money receipted into the debt service fund.

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The Special Assessment Bonds consist of the Cahoon Road Street Improvement and Sidewalk Improvement bonds. Principal and interest for these bonds are paid from the collection of special assessments by the County Auditor.

The OPWC Loan is paid semi-annually from the sewer fund. This zero-interest loan will be paid in full in the year 2020.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5 percent of total assessed valuation. The City's overall legal debt margin was \$37,078,359 on December 31, 2005.

The Notes are composed of 1) Police Station Improvement and 2) Park Improvement. The notes mature in July 2006.

Note 13 of the Basic Financial Statements includes additional information about the City's debt.

Current Financial Related Activities

The City of Bay Village remains committed to improving facilities and services and management continually reviews and plans in relation to annual and projected budgets.

The City's income tax rate of 1.5 percent has remained unchanged since 1983. During 2003 the County Auditor reassessed property valuations, and as a result of the reassessments, increased property tax distributions from the Cuyahoga County were realized beginning in 2004. The next appraisal will occur in 2007 which may also increase revenue from property tax.

The City has adopted a street improvement plan. Since 1994 the City has spent approximately \$700,000 annually on maintenance and resurfacing projects. During 2005, thirty-three individual, or significant portions of major roads, were addressed under the improvement plan.

As previously noted, sewer rates have remained unchanged despite increasing capital and operating contributions to the Rocky River Wastewater Treatment Plant. The City has been able to offset the costs by reducing inflow to the Plant. This is primarily the result of the City's sewer correction project which helps eliminate inflow and infiltration to sanitary sewer lines.

The City maintained its contract with Browning-Ferris Industries (BFI) for trash removal which assists in maintaining service costs. The cost of trash removal is paid from revenue received from property tax assessments; therefore, residents do not incur additional trash removal costs. The City's service department provides special pick-up services on an as-needed basis. The service department also handles leaf collection between October and December.

Although renovation work at the service garage from the September 2005 fire did not begin until May 2006, the service department was able to maintain all levels of service provided to the citizens for park maintenance, leaf collection, street and sewer maintenance and snow removal. The renovation work is expected to be complete before the end of 2006.

City of Bay Village, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The City continues to purchase vehicles and capital equipment on an annual basis as it has over the past five years. Sixty percent of the Police Department vehicles are four years old or less. Two new police vehicles were acquired in 2005, and in February 2006 City Council authorized the purchase of one new vehicle. The new police station opened in May 2006. The primary fire and emergency medical vehicles are less than ten years old and two fire department utility vehicles are five years old or less.

The City also purchased new vehicles and capital equipment for the service, street, community service, and recreation departments. The main acquisition of vehicles and equipment for the service, street, and parks departments was to replace the assets destroyed in the fire. Acquisitions for other City departments were routine replacements.

The citizens of Bay Village continue to enjoy a variety of recreational facilities. The City maintains four parks each with a combination of tennis courts, ball diamonds, soccer fields, walking trails and playground equipment. The swimming pool opened in 2003 and the community gym, which offers fitness equipment, a walking track, program activities and open gym hours opened in 2004.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need financial information contact the Finance Director, City of Bay Village, 350 Dover Center Road, Bay Village, Ohio, 44140, telephone 440-871-2200 or email at spresley@cityofbayvillage.com. Other information about the City is available on our website, www.cityofbayvillage.com.

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City of Bay Village, Ohio

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,326,055	\$1,371,084	\$6,697,139
Accounts Receivable	104,348	115,999	220,347
Intergovernmental Receivable	1,434,225	0	1,434,225
Material and Supplies Inventory	83,879	5,227	89,106
Prepaid Items	60,713	0	60,713
Municipal Income Taxes Receivable	1,687,553	0	1,687,553
Property Taxes Receivable	6,359,234	0	6,359,234
Special Assessments Receivable	69,423	0	69,423
Deferred Charges	122,659	0	122,659
Investment in Joint Venture	0	4,939,567	4,939,567
Capital Assets, Non-Depreciable	5,938,217	40,000	5,978,217
Capital Assets, Depreciable, Net	7,705,422	6,191,494	13,896,916
<i>Total Assets</i>	<u>28,891,728</u>	<u>12,663,371</u>	<u>41,555,099</u>
Liabilities			
Accounts Payable	142,366	7,619	149,985
Contracts Payable	464,740	0	464,740
Accrued Wages and Benefits	93,252	8,334	101,586
Matured Compensated Absences Payable	4,111	0	4,111
Intergovernmental Payable	350,305	7,788	358,093
Deferred Revenue	6,117,542	0	6,117,542
Vacation Benefit Payable	516,202	34,642	550,844
Accrued Interest Payable	36,940	1,198	38,138
Claims Payable	124,547	0	124,547
Long-Term Liabilities:			
Due Within One Year	1,774,153	86,721	1,860,874
Due In More Than One Year	12,627,962	914,828	13,542,790
<i>Total Liabilities</i>	<u>22,252,120</u>	<u>1,061,130</u>	<u>23,313,250</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,624,887	5,321,391	8,946,278
Restricted for:			
Capital Projects	1,415,875	0	1,415,875
Debt Service	678,377	0	678,377
Street Construction	743,504	0	743,504
Police Pension	33,806	0	33,806
Fire Pension	31,701	0	31,701
Accrued Benefits	650,977	0	650,977
Cahoon Park	113,694	0	113,694
Waldeck Estate	168,837	0	168,837
Other Purposes	199,058	0	199,058
Unrestricted (Deficit)	(1,021,108)	6,280,850	5,259,742
<i>Total Net Assets</i>	<u>\$6,639,608</u>	<u>\$11,602,241</u>	<u>\$18,241,849</u>

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$3,487,549	\$180,308	\$0	\$0
Security of Persons and Property	6,095,608	133,423	21,715	0
Public Health and Welfare	519,409	119,074	8,643	0
Transportation	2,047,722	0	684,918	0
Community Environment	790,581	29,666	17,770	13,269
Basic Utility Services	1,533,980	0	0	0
Leisure Time Activities	990,283	202,543	3,286	0
Interest and Fiscal Charges	488,656	0	0	0
<i>Total Governmental Activities</i>	<u>15,953,788</u>	<u>665,014</u>	<u>736,332</u>	<u>13,269</u>
Business-Type Activities				
Sewer	1,462,780	1,433,437	0	0
Swimming Pool	494,268	337,931	0	0
<i>Total Business-Type Activities</i>	<u>1,957,048</u>	<u>1,771,368</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$17,910,836</u>	<u>\$2,436,382</u>	<u>\$736,332</u>	<u>\$13,269</u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Emergency Paramedic
- Parks and Recreation
- Police Pension
- Fire Pension
- Debt Service

Municipal Income Taxes Levied for:

- General Purposes
- Accrued Benefits
- Capital Projects

Grants and Entitlements not Restricted
to Specific Programs

- Interest
- Miscellaneous

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$3,307,241)	\$0	(\$3,307,241)
(5,940,470)	0	(5,940,470)
(391,692)	0	(391,692)
(1,362,804)	0	(1,362,804)
(729,876)	0	(729,876)
(1,533,980)	0	(1,533,980)
(784,454)	0	(784,454)
(488,656)	0	(488,656)
(14,539,173)	0	(14,539,173)
0	(29,343)	(29,343)
0	(156,337)	(156,337)
0	(185,680)	(185,680)
(14,539,173)	(185,680)	(14,724,853)
3,388,025	0	3,388,025
608,336	0	608,336
200,683	0	200,683
120,894	0	120,894
120,894	0	120,894
1,567,746	0	1,567,746
4,490,141	0	4,490,141
95,535	0	95,535
191,070	0	191,070
2,893,867	0	2,893,867
250,732	0	250,732
532,286	0	532,286
14,460,209	0	14,460,209
(65,875)	65,875	0
(144,839)	(119,805)	(264,644)
6,784,447	11,722,046	18,506,493
<u>\$6,639,608</u>	<u>\$11,602,241</u>	<u>\$18,241,849</u>

City of Bay Village, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	General	General Obligation Bond Retirement	Police Station Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$1,228,069	\$204,931	\$1,554,354	\$2,165,795	\$5,153,149
Accounts Receivable	104,348	0	0	0	104,348
Intergovernmental Receivable	863,428	109,270	0	461,527	1,434,225
Materials and Supplies Inventory	657	0	0	83,222	83,879
Prepaid Items	60,713	0	0	0	60,713
Municipal Income Taxes Receivable	1,586,300	0	0	101,253	1,687,553
Property Taxes Receivable	3,586,580	1,659,970	0	1,112,684	6,359,234
Special Assessments Receivable	0	0	0	69,423	69,423
<i>Total Assets</i>	<u>\$7,430,095</u>	<u>\$1,974,171</u>	<u>\$1,554,354</u>	<u>\$3,993,904</u>	<u>\$14,952,524</u>
Liabilities					
Accounts Payable	\$66,526	\$0	\$4,719	\$69,726	\$140,971
Contracts Payable	0	0	464,740	0	464,740
Accrued Wages and Benefits	68,731	0	0	24,521	93,252
Matured Compensated Absences Payable	4,111	0	0	0	4,111
Intergovernmental Payable	267,296	0	0	15,348	282,644
Deferred Revenue	5,133,644	1,769,240	0	1,556,627	8,459,511
<i>Total Liabilities</i>	<u>5,540,308</u>	<u>1,769,240</u>	<u>469,459</u>	<u>1,666,222</u>	<u>9,445,229</u>
Fund Balances					
Reserved for Encumbrances	51,657	0	973,300	79,682	1,104,639
Unreserved, Undesignated, Reported in:					
General Fund	1,838,130	0	0	0	1,838,130
Special Revenue Funds	0	0	0	1,665,872	1,665,872
Debt Service Funds	0	204,931	0	325,497	530,428
Capital Projects Funds	0	0	111,595	256,631	368,226
<i>Total Fund Balances</i>	<u>1,889,787</u>	<u>204,931</u>	<u>1,084,895</u>	<u>2,327,682</u>	<u>5,507,295</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,430,095</u>	<u>\$1,974,171</u>	<u>\$1,554,354</u>	<u>\$3,993,904</u>	<u>\$14,952,524</u>

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005*

Total Governmental Fund Balances		\$5,507,295
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,643,639
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Municipal Income Taxes	1,006,569	
Delinquent Property Taxes	241,692	
Intergovernmental	1,024,285	
Special Assessments	69,423	
Total	2,341,969	
Bond issuance costs will be amortized over the life of the bond on the statement of net assets.		122,659
Two internal service funds are used by management to charge the cost of insurance and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(20,697)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(36,940)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(516,202)
Long-term liabilities are not due and payable in the current period and not reported in the funds:		
General Obligation Bonds	(11,165,000)	
Bond Premium	(56,644)	
Special Assessment Bonds	(16,000)	
Notes Payable	(2,000,000)	
Compensated Absences	(1,119,060)	
Capital Lease Payable	(45,411)	
Total	(14,402,115)	
<i>Net Assets of Governmental Activities</i>		\$6,639,608

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

	General	General Obligation Bond Retirement	Police Station Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Taxes	\$3,385,010	\$1,567,308	\$0	\$1,051,587	\$6,003,905
Municipal Income Taxes	4,379,865	0	0	279,566	4,659,431
Charges for Services	30,258	0	0	180,686	210,944
Fines, Licenses and Permits	377,505	0	0	2,989	380,494
Intergovernmental	2,525,893	218,540	0	820,391	3,564,824
Special Assessments	0	0	0	39,601	39,601
Interest	227,574	16,066	0	7,092	250,732
Contributions and Donations	0	0	0	33,703	33,703
Rentals	18,990	0	0	24,580	43,570
Miscellaneous	490,762	0	0	41,524	532,286
<i>Total Revenues</i>	<u>11,435,857</u>	<u>1,801,914</u>	<u>0</u>	<u>2,481,719</u>	<u>15,719,490</u>
Expenditures					
Current:					
General Government	3,248,368	1,443	0	18,973	3,268,784
Security of Persons and Property	4,340,056	0	0	1,459,970	5,800,026
Public Health and Welfare	261,494	0	0	39,875	301,369
Transportation	262,926	0	0	1,740,585	2,003,511
Community Environment	717,971	0	0	20,161	738,132
Basic Utility Services	1,499,896	0	0	0	1,499,896
Leisure Time Activities	0	0	0	1,012,583	1,012,583
Capital Outlay	0	0	4,421,788	747,962	5,169,750
Debt Service:					
Principal Retirement	1,390	1,225,000	0	8,000	1,234,390
Interest and Fiscal Charges	0	492,862	0	1,665	494,527
Bond Issuance Costs	0	43,172	0	0	43,172
<i>Total Expenditures</i>	<u>10,332,101</u>	<u>1,762,477</u>	<u>4,421,788</u>	<u>5,049,774</u>	<u>21,566,140</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,103,756</u>	<u>39,437</u>	<u>(4,421,788)</u>	<u>(2,568,055)</u>	<u>(5,846,650)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	0	0	0	285,896	285,896
General Obligation Bonds Issued	0	0	0	950,000	950,000
Premium on Bonds	0	12,920	0	0	12,920
Notes Issued	0	1,500,000	500,000	0	2,000,000
Current Refunding	0	(1,500,000)	0	0	(1,500,000)
Inception of Capital Lease	46,801	0	0	0	46,801
Transfers In	200,000	0	0	1,306,250	1,506,250
Transfers Out	(1,306,250)	(65,875)	0	(200,000)	(1,572,125)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,059,449)</u>	<u>(52,955)</u>	<u>500,000</u>	<u>2,342,146</u>	<u>1,729,742</u>
<i>Net Change in Fund Balances</i>	44,307	(13,518)	(3,921,788)	(225,909)	(4,116,908)
<i>Fund Balances Beginning of Year- Restated (See Note 3)</i>	<u>1,845,480</u>	<u>218,449</u>	<u>5,006,683</u>	<u>2,553,591</u>	<u>9,624,203</u>
<i>Fund Balances End of Year</i>	<u>\$1,889,787</u>	<u>\$204,931</u>	<u>\$1,084,895</u>	<u>\$2,327,682</u>	<u>\$5,507,295</u>

See accompanying notes to the basic financial statement:

City of Bay Village, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$4,116,908)

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

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

Capital Asset Additions	5,708,746	
Current Year Depreciation	(686,456)	
Total	5,022,290	5,022,290

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (500,386)

Other financing sources in the governmental funds only affect long-term liabilities in the statement of net assets.

General Obligation Bonds Issued	(950,000)	
Premium on Bonds	(12,920)	
Refunding Notes Issued	(2,000,000)	
Total	(2,962,920)	(2,962,920)

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

Delinquent Property Taxes	2,673	
Municipal Income Taxes	117,315	
Intergovernmental	44,941	
Special Assessments	(9,595)	
Total	155,334	155,334

Repayment of bond, notes and capital lease principal is an expenditure in the governmental funds. but the repayment reduces long-term liabilities in the statement of net assets. 2,734,390

Inception of capital lease is an other financing source in the governmental funds, but increases liabilities in governmental activities. (46,801)

In the statement of activities, interest is accrued on outstanding bonds, bond premium and bond issuance costs are amortized over the term of the bonds, whereas in governmental funds an interest expenditure is reported when due and premiums and issuance costs are reported when the bonds are issued.

Accrued Interest	13,512	
Amortization of Premium on Bonds	2,477	
Amortization of Issuance Costs	(10,118)	
Total	5,871	5,871

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds an expenditure is reported when the bonds are issued. 43,172

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

Compensated Absences	(56,896)	
Vacation Benefits Payable	(43,215)	
Total	(100,111)	(100,111)

The internal service funds used by management to charge the costs of insurance to individual funds is not reported in entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change in governmental funds is reported for the year. (378,770)

Change in Net Assets of Governmental Activities (\$144,839)

City of Bay Village, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Property and Other Taxes	\$3,221,939	\$3,495,400	\$3,385,010	(\$110,390)
Municipal Income Taxes	3,944,299	4,279,070	4,313,443	34,373
Charges for Services	23,735	25,750	30,258	4,508
Fines, Licenses and Permits	311,386	337,815	296,940	(40,875)
Intergovernmental	2,559,102	2,776,305	2,497,616	(278,689)
Interest	59,915	65,000	219,507	154,507
Rentals	18,435	20,000	18,990	(1,010)
Miscellaneous	465,492	505,000	505,492	492
<i>Total Revenues</i>	<u>10,604,303</u>	<u>11,504,340</u>	<u>11,267,256</u>	<u>(237,084)</u>
Expenditures				
Current:				
General Government	2,861,465	3,377,269	3,316,623	60,646
Security of Persons and Property	4,604,520	4,381,145	4,350,540	30,605
Public Health and Welfare	259,203	263,203	260,892	2,311
Transportation	280,821	255,821	232,354	23,467
Community Environment	729,720	747,170	728,995	18,175
Basic Utility Services	1,622,616	1,686,617	1,664,186	22,431
<i>Total Expenditures</i>	<u>10,358,345</u>	<u>10,711,225</u>	<u>10,553,590</u>	<u>157,635</u>
<i>Excess of Revenues Over Expenditures</i>	<u>245,958</u>	<u>793,115</u>	<u>713,666</u>	<u>(79,449)</u>
Other Financing Sources (Uses)				
Advances In	400,000	0	0	0
Transfers In	200,000	200,000	200,000	0
Transfers Out	(983,500)	(1,306,250)	(1,306,250)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(383,500)</u>	<u>(1,106,250)</u>	<u>(1,106,250)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(137,542)	(313,135)	(392,584)	(79,449)
<i>Fund Balance Beginning of Year</i>	1,287,446	1,287,446	1,287,446	0
Prior Year Encumbrances Appropriated	97,270	97,270	97,270	0
<i>Fund Balance End of Year</i>	<u>\$1,247,174</u>	<u>\$1,071,581</u>	<u>\$992,132</u>	<u>(\$79,449)</u>

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Swimming Pool	Total	
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$1,307,075	\$64,009	\$1,371,084	\$172,906
Accounts Receivable	115,999	0	115,999	0
Materials and Supplies Inventory	5,227	0	5,227	0
<i>Total Current Assets</i>	<u>1,428,301</u>	<u>64,009</u>	<u>1,492,310</u>	<u>172,906</u>
<i>Noncurrent Assets</i>				
Investment in Joint Venture	4,939,567	0	4,939,567	0
Non-Depreciable Capital Assets	40,000	0	40,000	0
Depreciable Capital Assets, Net	3,866,711	2,324,783	6,191,494	0
<i>Total Noncurrent Assets</i>	<u>8,846,278</u>	<u>2,324,783</u>	<u>11,171,061</u>	<u>0</u>
<i>Total Assets</i>	<u>10,274,579</u>	<u>2,388,792</u>	<u>12,663,371</u>	<u>172,906</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	5,956	1,663	7,619	1,395
Accrued Wages and Benefits	8,334	0	8,334	0
Intergovernmental Payable	7,788	0	7,788	67,661
Accrued Interest Payable	1,198	0	1,198	0
Vacation Benefit Payable	34,642	0	34,642	0
Compensated Absences Payable	2,714	0	2,714	0
Claims Payable	0	0	0	124,547
General Obligation Bond Payable	50,000	0	50,000	0
OPWC Loans Payable	34,007	0	34,007	0
<i>Total Current Liabilities</i>	<u>144,639</u>	<u>1,663</u>	<u>146,302</u>	<u>193,603</u>
<i>Long-Term Liabilities (net of current portion)</i>				
Compensated Absences Payable	88,732	0	88,732	0
General Obligation Bond Payable	350,000	0	350,000	0
OPWC Loans Payable	476,096	0	476,096	0
<i>Total Long-Term Liabilities</i>	<u>914,828</u>	<u>0</u>	<u>914,828</u>	<u>0</u>
<i>Total Liabilities</i>	<u>1,059,467</u>	<u>1,663</u>	<u>1,061,130</u>	<u>193,603</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,996,608	2,324,783	5,321,391	0
Unrestricted (Deficit)	6,218,504	62,346	6,280,850	(20,697)
<i>Total Net Assets</i>	<u>\$9,215,112</u>	<u>\$2,387,129</u>	<u>\$11,602,241</u>	<u>(\$20,697)</u>

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005*

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Swimming Pool	Total	
Operating Revenues				
Charges for Services	\$1,433,437	\$337,931	\$1,771,368	\$1,104,249
Other	0	0	0	12,599
<i>Total Operating Revenues</i>	<u>1,433,437</u>	<u>337,931</u>	<u>1,771,368</u>	<u>1,116,848</u>
Operating Expenses				
Personal Services	381,429	183,129	564,558	0
Benefits	123,726	28,317	152,043	0
Materials and Supplies	38,689	55,357	94,046	0
Contractual Services	504,115	92,342	596,457	245,063
Claims	0	0	0	1,259,205
Depreciation	154,793	135,123	289,916	0
<i>Total Operating Expenses</i>	<u>1,202,752</u>	<u>494,268</u>	<u>1,697,020</u>	<u>1,504,268</u>
<i>Operating Income (Loss)</i>	<u>230,685</u>	<u>(156,337)</u>	<u>74,348</u>	<u>(387,420)</u>
Non Operating Revenues (Expenses)				
Interest	0	0	0	8,650
Interest and Fiscal Charges	(15,750)	0	(15,750)	0
Equity in Loss of Joint Venture	(244,278)	0	(244,278)	0
<i>Total Non Operating Revenues (Expenses)</i>	<u>(260,028)</u>	<u>0</u>	<u>(260,028)</u>	<u>8,650</u>
<i>Loss Before Transfers</i>	<u>(29,343)</u>	<u>(156,337)</u>	<u>(185,680)</u>	<u>(378,770)</u>
Transfers In	65,875	0	65,875	300,000
Transfers Out	0	0	0	(300,000)
<i>Change in Net Assets</i>	<u>36,532</u>	<u>(156,337)</u>	<u>(119,805)</u>	<u>(378,770)</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>9,178,580</u>	<u>2,543,466</u>	<u>11,722,046</u>	<u>358,073</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$9,215,112</u>	<u>\$2,387,129</u>	<u>\$11,602,241</u>	<u>(\$20,697)</u>

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Swimming Pool	Total	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$1,427,680	\$337,931	\$1,765,611	\$0
Cash Received from Transactions with Other Funds	0	0	0	1,104,249
Cash Payments to Suppliers for Materials and Supplies	(48,588)	(55,357)	(103,945)	0
Cash Payments for Employee Services and Benefits	(508,466)	(211,747)	(720,213)	0
Cash Payments for Contractual Services	(502,607)	(92,342)	(594,949)	(262,297)
Cash Payments for Claims	0	0	0	(1,227,140)
Other Operating Revenues	0	0	0	12,599
Other Operating Expenses	0	0	0	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>368,019</u>	<u>(21,515)</u>	<u>346,504</u>	<u>(372,589)</u>
Cash Flows from Noncapital Financing Activities				
Transfers In	<u>65,875</u>	<u>0</u>	<u>65,875</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(161,929)	(5,126)	(167,055)	0
Principal Paid on General Obligation Bonds	(50,000)	0	(50,000)	0
Interest Paid on General Obligation Bonds	(15,875)	0	(15,875)	0
Principal Paid on OPWC Loan	<u>(34,007)</u>	<u>0</u>	<u>(34,007)</u>	<u>0</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(261,811)</u>	<u>(5,126)</u>	<u>(266,937)</u>	<u>0</u>
Cash Flows from Investing Activities				
Capital Contributed to Joint Venture	(52,240)	0	(52,240)	0
Interest on Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,650</u>
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>(52,240)</u>	<u>0</u>	<u>(52,240)</u>	<u>8,650</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	119,843	(26,641)	93,202	(363,939)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,187,232</u>	<u>90,650</u>	<u>1,277,882</u>	<u>536,845</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,307,075</u>	<u>\$64,009</u>	<u>\$1,371,084</u>	<u>\$172,906</u>

(continued)

City of Bay Village, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2005

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Swimming Pool	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used for) Operating Activities				
Operating Income (Loss)	\$230,685	(\$156,337)	74,348	(\$387,420)
<i>Adjustments:</i>				
Depreciation	154,793	135,123	289,916	0
(Increase) Decrease in Assets:				
Accounts Receivable	(5,757)	0	(5,757)	0
Materials and Supplies Inventory	(4,867)	0	(4,867)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	(2,972)	(301)	(3,273)	(34,039)
Contracts Payable	(552)	0	(552)	0
Claims Payable	0	0	0	32,065
Accrued Wages and Benefits	(1,471)	0	(1,471)	0
Vacation Benefit Payable	(3,911)	0	(3,911)	0
Compensated Absences Payable	1,403	0	1,403	0
Intergovernmental Payable	668	0	668	16,805
<i>Total Adjustments</i>	137,334	134,822	272,156	14,831
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$368,019	(\$21,515)	\$346,504	(\$372,589)

See accompanying notes to the basic financial statements

City of Bay Village, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$62,076</u></u>
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Liabilities

Undistributed Monies	<u><u>\$62,076</u></u>
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See accompanying notes to the basic financial statements

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City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 - Description of City and Reporting Entity

The City of Bay Village (the “City”) was incorporated in 1908, and adopted its first charter in April, 1949. The Charter provides for a Mayor-Council form of government. The Mayor is elected for a four-year term. Six Council members and a Council President are all elected to two year terms. The Director of Law and the Director of Finance are appointed by the Mayor.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police and fire protection, a street maintenance force, sanitation services, planning and zoning departments, parks and recreation system, a sewage system, and a general administrative staff to provide support for the service groups. The operations of these departments do not have separate legal standing and are, therefore, included as part of the primary government.

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

The Rocky River Wastewater Treatment Plant is a joint venture among the Cities of Bay Village, Westlake, Rocky River and Fairview Park. The Rocky River Wastewater Treatment Plant is governed by a management committee consisting of the elected mayors of the four cities and a fifth person nominated and elected by the mayors. The committee has complete authority over all aspects of the plant's operation.

The City has an explicit and measurable interest in the Rocky River Wastewater Treatment Plant. There exists a residual interest in the assets upon dissolution of the joint venture. The City also has an ongoing financial responsibility for its share of the joint venture liabilities (See Note 15).

The City is associated with the West Shore Council of Governments, Safe Air for Environment (S.A.F.E.) Council of Governments and the West Shore Area Rescue Association. These are jointly governed organizations and are presented in Note 16.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

The City'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 City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

B. Fund Accounting

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

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 balances. The following are the City's major governmental funds:

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

General Obligation Bond Retirement Debt Service Fund This fund is used to account for the accumulation of resources to pay debt principal, interest and related costs for general debt.

Police Station Improvement Capital Projects Fund This fund accounts for the costs associated with constructing the police station.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund This fund is used to account for revenues generated from charges for sanitary sewer services provided to the residential and commercial users of the City.

Swimming Pool Fund This fund is used to account for revenues generated from charges for pool passes, pool programs, and concession sales.

Internal Service Funds Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on a self-insurance program for employee medical benefits and workers' compensation.

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 City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for contractor's deposits and senior program deposits.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

C. Measurement Focus

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

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 (e.g., revenues and other financing sources) and uses (e.g., 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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 60 days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the 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 City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants, fees and rentals.

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 December 31, 2005, but which were levied to finance year 2006 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.

Expenses/Expenditures 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. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

Investments are reported at fair value which is based in quoted market prices, with the exception of nonparticipating repurchase agreements and nonnegotiable certificate of deposits, which are reported at cost.

During the year, the City's investments were limited to a Repurchase Agreement, Federal Farm Credit Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Notes, and Federal Home Loan Mortgage Corporation Notes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$227,574, which includes \$182,019 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. 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. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	20 - 50 years
Equipment	5 - 20 years
Vehicles	3 - 12 years
Infrastructure	20 - 50 years

The City's infrastructure consists of roads, culverts, traffic signals, sewers lines and only includes infrastructure acquired after December 31, 1980.

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. 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 employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, special termination benefits 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. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the resources restricted for the operations of the Bay family service, alcohol intervention, and the state highway operations.

The government-wide statement of net assets reports \$4,035,829 of restricted assets, of which \$1,170,511 is restricted by enabling legislation.

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

N. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, from grants or outside contributions of resources restricted to capital acquisition and construction, or from other funds within the City.

O. Deferred Charges

Bond issuance costs are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

P. Bond Premium

On government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

Q. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources in effect when final appropriations were passed by Council.

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

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services and other operating revenue for the sewer and swimming pool funds. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

U. Estimates

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balance/Net Assets

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

GASB Statement No. 40 establishes new disclosure requirements associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

During 2005, a fund reclassification had the following effect on fund balance of governmental funds.

	General Fund	General Obligation Bond Retirement	Police Station Improvement	Other Governmental Funds	Total
Fund Balance December 31, 2004	\$1,734,618	\$218,449	\$5,006,683	\$2,553,591	\$9,513,341
Fund Reclassification	110,862	0	0	0	110,862
Restated Fund Balance December 31, 2004	<u>\$1,845,480</u>	<u>\$218,449</u>	<u>\$5,006,683</u>	<u>\$2,553,591</u>	<u>\$9,624,203</u>

This adjustment also decreased net assets of internal service funds at December 31, 2004 by \$110,862 from \$468,935 to \$358,073.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 4 – Fund Deficits

The following funds had deficit fund balances as of December 31, 2005:

Special Revenue Funds	
Emergency Paramedic	\$5,351
Youth Activities	2,604
Internal Service Fund	
Health Insurance	90,533

The deficits in the funds resulted from the recognition of accrued liabilities. The general fund is responsible for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for 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 the GAAP basis are as follows:

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).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Net Change in Fund Balance

GAAP Basis	\$44,307
Net Adjustment for Revenue Accruals	(83,335)
Beginning Fair Value Adjustments for Investments	(11,957)
Ending Fair Value Adjustment for Investments	(9,389)
Beginning Unrecorded Cash	(117,723)
Ending Unrecorded Cash	7,002
Net Adjustment for Expenditure Accruals	16,846
Encumbrances	<u>(238,335)</u>
Budget Basis	<u><u>(\$392,584)</u></u>

Note 6 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

Deposits

Custodial Credit Risk Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year-end, \$3,164,343 of the City's bank balance of \$3,564,343 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investment of the money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Investments

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	Fair Value	Average Maturity
Federal Home Loan Bank Bonds	\$986,405	3/30/2006 - 5/31/06
Federal National Mortgage Association Notes	699,168	6/2/06 - 8/22/06
Federal Home Loan Mortgage Corporation Notes	1,480,505	1/15/06 - 7/25/06
	\$3,166,078	

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, the Federal National Mortgage Association Notes and the Federal Home Loan Mortgage Corporation Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in the State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

Credit Risk The Federal Home Loan Bank Bonds, the Federal National Mortgage Association Notes and the Federal Home Loan Mortgage Corporation Notes carry a rating of AAA by Standard & Poor's. The City has no investment policy that addresses credit risk.

Concentration of Credit Risk The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2005:

Investments	Average Maturity
Federal Home Loan Bank Bonds	31.16%
Federal National Mortgage Association Notes	22.08%
Federal Home Loan Mortgage Corporation Notes	46.76%

Note 7 - Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, special assessments, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts (billings for user charged services and court fines).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Special assessments expected to be collected in more than one year amount to \$8,000 in the special assessment bond retirement fund. The amount of delinquent special assessments outstanding at year-end is \$24,600.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility real and tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes which become a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2005 was \$14.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$452,287,630
Public Utility Property	5,814,080
Tangible Personal Property	<u>3,216,656</u>
Total Valuation	<u><u>\$461,318,366</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Bay Village. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Income Tax

The City levies a municipal income tax of one and one half percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case the City allows a credit of up to one percent of earnings for income tax paid to another municipality which reduces the effective tax rate to one half percent for such earnings.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, ninety-four percent of the annual income tax proceeds were credited to the general fund, two percent to the accrued benefits special revenue fund and four percent to the equipment replacement capital projects fund.

The Regional Income Tax Agency administers and collects income taxes for the City. Amounts collected are remitted to the City twice each month.

C. Intergovernmental Receivables

A summary of the governmental activities principal items of intergovernmental receivables follow:

	<u>Amount</u>
Local Government	\$502,440
Gasoline Tax	174,120
Gasoline Excise Tax	87,312
Motor Vehicle Tax	45,876
Permissive Tax	53,904
Homestead and Rollback	418,539
Estate Tax	119,892
Grants	26,581
Liquor Permits	<u>5,561</u>
Total	<u><u>\$1,434,225</u></u>

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 8 – Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$412,101	\$0	(\$301,001)	\$111,100
Construction in Progress	1,387,658	4,439,459	0	5,827,117
<i>Total Capital Assets, Not Being Depreciated</i>	1,799,759	4,439,459	(301,001)	5,938,217
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	748,257	19,451	0	767,708
Buildings	3,807,504	0	(83,500)	3,724,004
Machinery and Equipment	2,204,442	121,428	(33,342)	2,292,528
Vehicles	3,709,760	524,087	(328,190)	3,905,657
Infrastructure:				
Roads	9,699,276	604,321	(419,700)	9,883,897
Culverts	143,103	0	0	143,103
Traffic Signals	915,500	0	0	915,500
<i>Total Capital Assets, Being Depreciated</i>	21,227,842	1,269,287	(864,732)	21,632,397
Less Accumulated Depreciation:				
Land Improvements	(383,195)	(32,923)	0	(416,118)
Buildings	(2,022,536)	(72,275)	83,500	(2,011,311)
Machinery and Equipment	(1,550,992)	(126,499)	32,159	(1,645,332)
Vehicles	(2,746,606)	(271,576)	257,170	(2,761,012)
Infrastructure:				
Roads	(6,953,358)	(150,033)	292,518	(6,810,873)
Culverts	(48,797)	(2,633)	0	(51,430)
Traffic Signals	(200,382)	(30,517)	0	(230,899)
<i>Total Accumulated Depreciation</i>	(13,905,866)	(686,456)	665,347	(13,926,975)
Total Capital Assets, Being Depreciated, Net	7,321,976	582,831	(199,385)	7,705,422
Governmental Activities Capital Assets, Net	\$9,121,735	\$5,022,290	(\$500,386)	\$13,643,639

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Business-Type Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$40,000	\$0	\$0	\$40,000
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	895,722	0	0	895,722
Buildings	1,706,678	0	0	1,706,678
Machinery and Equipment	794,863	5,126	0	799,989
Vehicles	641,029	161,929	0	802,958
Infrastructure:				
Sewer Lines	6,228,763	0	0	6,228,763
<i>Total Capital Assets, Being Depreciated</i>	<u>10,267,055</u>	<u>167,055</u>	<u>0</u>	<u>10,434,110</u>
Less Accumulated Depreciation:				
Land Improvements	(59,215)	(39,477)	0	(98,692)
Buildings	(228,352)	(54,144)	0	(282,496)
Machinery and Equipment	(90,781)	(58,911)	0	(149,692)
Vehicles	(582,616)	(31,287)	0	(613,903)
Infrastructure:				
Sewer Lines	(2,991,736)	(106,097)	0	(3,097,833)
<i>Total Accumulated Depreciation</i>	<u>(3,952,700)</u>	<u>(289,916)</u>	<u>0</u>	<u>(4,242,616)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,314,355</u>	<u>(122,861)</u>	<u>0</u>	<u>6,191,494</u>
Business-Type Activities Capital Assets, Net	<u>\$6,354,355</u>	<u>(\$122,861)</u>	<u>\$0</u>	<u>\$6,231,494</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$48,953
Security of Persons and Property	120,366
Public Health and Welfare	267,202
Transportation	150,033
Leisure Time Activities	59,498
Community Environment	40,404
Total Depreciation Expense	<u>\$686,456</u>

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 9 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with Clarendon National for their insurance. The types and amounts of coverage are as follows:

Type of Coverage	Coverage
Property/Inland Marine	\$1,986,230
Third Party Liability Umbrella	5,000,000
Public Official and Liability	1,000,000
Boiler	4,000,000
General Liability	1,000,000/2,000,000
Automobile Liability, Comprehensive and Collision	1,000,000
Law Enforcement	1,000,000

Settled claims have not exceeded commercial insurance coverage in any of the past three years and there was no significant change in insurance coverage from the prior year.

The City participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for injured employees. The maintenance of these benefits is accounted for in the Workers' Compensation internal service fund. The claims liability of \$1,745 reported in the fund at December 31, 2005 is based on an estimate of costs relating to incurred but not reported claims.

The City manages the hospital/medical, dental, and life insurance benefits for its employees on a self-insured basis using an internal service fund. A third party administrator processes and pays the claims. The City purchases stop-loss coverage to insure against catastrophic claims. Incurred but not reported claims of \$122,802 have been accrued as a liability at December 31, 2005, based on an estimate by the third party administrator. An excess coverage insurance (stop-loss) policy covers claims in excess of \$30,000 per employee.

The claims liability of \$124,547 reported in the fund at December 31, 2005, was estimated by reviewing current claims and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in the fund's claims liability amount in 2004 and 2005 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2004	\$88,048	\$979,104	\$974,670	\$92,482
2005	92,482	1,259,205	1,227,140	124,547

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City of Bay Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administer three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provide retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$437,193, \$415,367, and \$363,874, respectively; 87.94 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$2,538 made by the City and \$1,592 made by the plan members.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police for the years ended December 31, 2005, 2004 and 2003 were \$209,030 \$176,361, and \$164,531 respectively. The City's

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

contributions to the OP&F for fire for the years ended December 31, 2005, 2004 and 2003 were \$245,855 \$266,227, and \$268,496 respectively. The full amounts for the police and fire department have been contributed for 2004 and 2003. 68.54 percent for the police department and 71.52 percent for the fire department has been contributed for 2005.

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.0 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$183,117. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$137,871 for police and \$117,254 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004; (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,812 for police and 10,528 for firefighters.

Note 12 – Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Employees earn vacation at different rates, depending on years of service. In general, vacation earned in any one year must be used the following year, and cannot be carried over except with the written approval of the Mayor. At the time of separation an employee is entitled to payment for any earned but unused vacation within statutory limits. Fire Department employees are limited to the payment of six weeks of accumulated but unused vacation by collective bargaining agreement. Overtime is paid in the period in which it is worked, except for the Police and Fire Department Employees, who may accumulate overtime within statutory limits. At the time of separation, these employees are entitled to payment for any accumulated but unused overtime.

Sick leave may be accumulated without limit. Upon retirement or death, employees are entitled to payment of any accumulated but unused sick leave as follows: Police (including dispatchers and jailers) and Fire Department employees at 50 percent and 40 percent respectively, provided the employee has at least 15 years of service. All other employees are paid 25 percent of accumulated but unused sick leave after 10 years, 40 percent after 15 years and 50 percent after 20 years.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds and loans follows:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
Governmental Activities				
<i>General Obligation Bonds:</i>				
Various Improvements	1997	2007	4.94 %	\$700,000
Street Improvements	2001	2006	3.30	1,300,000
Motorized Equipment	2001	2006	3.30	200,000
Real Estate Acquisition	2001	2006	3.30	300,000
Various Improvements	2002	2007	3.21	1,200,000
Recreation Facilities-Community Gym	2002	2017	4.13	1,100,000
Recreation Facilities-Aquatics Facility	2002	2022	4.23	2,600,000
Street Improvements	2003	2010	2.70	700,000
Police Station Improvements	2003	2028	4.40	5,000,000
Street Improvements	2004	2011	2.05-3.40	700,000
Police Station Improvements	2004	2010	2.05-3.40	300,000
Street Improvements	2005	2012	3.39	700,000
Various Purpose	2005	2010	3.50	250,000
<i>Long-Term Notes:</i>				
Police Station Improvements	2005	2006	3.50	1,800,000
Park Improvements	2005	2006	3.50	125,000
Park Improvements	2005	2006	3.50	75,000
<i>Special Assessment Bonds</i>				
<i>with Governmental Commitment:</i>				
Street Improvements-Cahoon Road	1987	2007	7.75	120,000
Sidewalk Improvements	1997	2007	4.49	130,000
<i>Business Type Activities</i>				
<i>General Obligation Bonds:</i>				
Sewer Improvements	2003	2013	3.22	500,000
<i>OPWC Loan</i>				
Ohio Public Works Commission Loan	2000	2020	0.00	714,147

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Changes in bonds and other long-term obligations of the City during 2005 were as follows:

	Principal Outstanding 12/31/04	Additions	Deletions	Principal Outstanding 12/31/05	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
Various Improvements	\$210,000	\$0	\$70,000	\$140,000	\$70,000
Street Improvements	520,000	0	260,000	260,000	260,000
Motorized Equipment	80,000	0	40,000	40,000	40,000
Real Estate Acquisition	120,000	0	60,000	60,000	60,000
Various Improvements	720,000	0	240,000	480,000	240,000
Recreation Facilities - Community Gym	950,000	0	75,000	875,000	75,000
Recreation Facilities - Aquatics Facility	2,340,000	0	130,000	2,210,000	130,000
Street Improvements	600,000	0	100,000	500,000	100,000
Police Station Improvements	4,900,000	0	100,000	4,800,000	100,000
Street Improvements	700,000	0	100,000	600,000	100,000
Police Station Improvements	300,000	0	50,000	250,000	50,000
Street Improvements	0	700,000	0	700,000	100,000
Various Purpose	0	250,000	0	250,000	50,000
Unamortized Premium	46,201	12,920	2,477	56,644	0
<i>Total General Obligation Bonds</i>	<u>11,486,201</u>	<u>962,920</u>	<u>1,227,477</u>	<u>11,221,644</u>	<u>1,375,000</u>
<i>Special Assessment Bonds</i>					
<i>with Governmental Commitment:</i>					
Street Improvements - Cahoon Road	18,000	0	6,000	12,000	6,000
Sidewalk Improvements	6,000	0	2,000	4,000	2,000
<i>Total Special Assessment Bonds</i>	<u>24,000</u>	<u>0</u>	<u>8,000</u>	<u>16,000</u>	<u>8,000</u>
<i>Long-Term Notes:</i>					
Police Station Improvements	300,000	300,000	300,000	300,000	0
Police Station Improvements	1,000,000	1,000,000	1,000,000	1,000,000	0
Police Station Improvements	0	500,000	0	500,000	0
Park Improvements	200,000	200,000	200,000	200,000	0
<i>Total Long-Term Notes</i>	<u>1,500,000</u>	<u>2,000,000</u>	<u>1,500,000</u>	<u>2,000,000</u>	<u>0</u>
Compensated Absences	1,062,164	141,632	84,736	1,119,060	376,271
Capital Lease	0	46,801	1,390	45,411	14,882
<i>Total Governmental Activities</i>	<u>\$14,072,365</u>	<u>\$3,151,353</u>	<u>\$2,821,603</u>	<u>\$14,402,115</u>	<u>\$1,774,153</u>
Business-Type Activities					
<i>General Obligation Bonds:</i>					
Sewer Improvements	\$450,000	\$0	\$50,000	\$400,000	\$50,000
<i>OPWC Loan:</i>					
Ohio Public Works Commission Loan	544,110	0	34,007	510,103	34,007
Compensated Absences	90,043	1,403	0	91,446	2,714
<i>Total Business-Type Activities</i>	<u>\$1,084,153</u>	<u>\$1,403</u>	<u>\$84,007</u>	<u>\$1,001,549</u>	<u>\$86,721</u>

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

General obligation bonds will be paid from tax money receipted into the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

Compensated absences will be paid from the general fund, the emergency paramedic, parks and recreation, youth activities and the street construction special revenue funds and the sewer enterprise fund. However, if compensated absences are paid out at termination (i.e. resignation or retirement), then the balances to which the employee is entitled are paid from the Accrued Benefits Fund.

The sewer improvements general obligation bonds and OPWC loans will be paid with monies from the sewer enterprise fund and is used for sewer improvements.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and that have a new maturity beyond the end of the year in which the report is issued have been reported as long-term obligations in the government-wide statements. The notes were backed by the full faith of the City of Bay Village.

The City's overall legal debt margin was \$37,078,359 and an unvoted debt margin of \$22,641,476 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

Years	Governmental Activities					
	General		Special		Total	
	Obligation Bonds		Assessment Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$1,375,000	\$442,161	\$8,000	\$1,110	\$1,383,000	\$443,271
2007	1,015,000	397,666	8,000	555	1,023,000	398,221
2008	705,000	366,028	0	0	705,000	366,028
2009	830,000	344,154	0	0	830,000	344,154
2010	830,000	313,779	0	0	830,000	313,779
2011-2015	2,450,000	1,193,655	0	0	2,450,000	1,193,655
2016-2020	1,900,000	735,100	0	0	1,900,000	735,100
2021-2025	1,385,000	337,594	0	0	1,385,000	337,594
2026-2030	675,000	64,800	0	0	675,000	64,800
Total	<u>\$11,165,000</u>	<u>\$4,194,937</u>	<u>\$16,000</u>	<u>\$1,665</u>	<u>\$11,181,000</u>	<u>\$4,196,602</u>

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Business Type Activities						
Years	General		OPWC	Total		
	Obligation Bonds			Principal	Principal	
	Principal	Interest			Principal	Interest
2006	\$50,000	\$14,375	\$34,007	\$84,007	\$14,375	
2007	50,000	12,875	34,007	84,007	12,875	
2008	50,000	11,375	34,007	84,007	11,375	
2009	50,000	9,875	34,007	84,007	9,875	
2010	50,000	8,000	34,007	84,007	8,000	
2011-2015	150,000	12,000	170,035	320,035	12,000	
2016-2020	0	0	170,033	170,033	0	
2021-2025	0	0	0	0	0	
Total	<u>\$400,000</u>	<u>\$68,500</u>	<u>\$510,103</u>	<u>\$910,103</u>	<u>\$68,500</u>	

Note 14 – Capital Lease

In 2005, the City entered into a lease for lift equipment for the City’s service garage. The City’s lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases”, and has been recorded on the government-wide statements. The equipment has been capitalized in the amount of \$45,411, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2005.

Year Ending December 31,	
2006	\$16,680
2007	16,679
2008	15,289
Total Minimum Lease Payments	48,648
Less: Amount Representing Interest	(3,237)
Present Value of Minimum Lease Payments	\$45,411

Note 15 - Joint Venture

Rocky River Wastewater Treatment Plant

The Rocky River Wastewater Treatment Plant (the “Plant”) is a joint venture among the cities of Fairview Park, Bay Village, Rocky River and Westlake. The Plant is governed by a Management Committee consisting of the elected mayors of the four member cities and a fifth person nominated and elected by the mayors. The Management Committee has complete authority over all aspects of the Plant’s operation. The Plant supplies all participating residents of the member cities with sewer services. Each city owns the sewer lines located in its city and bills its residents for usage. Continued existence of the Plant is dependent on the City’s continued participation, and the City does have an equity interest in the Plant. The City’s equity interest is \$4,939,567 which represents 13.06 percent of the total equity in the Plant. The Plant is not

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116.

Note 16 - Jointly Governed Organizations

A. West Shore Council of Governments

The West Shore Council of Governments helps foster cooperation between municipalities in areas effecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each city's degree of control is limited to its representation on the board. In 2005, the City contributed \$35,333, which represents 10.02 percent of total contributions. Complete financial information statements can be obtained from the City of Bay Village, 350 Dover Center Road, Bay Village, Ohio 44140.

The Council has established two subsidiary organizations, the West Shore Hazardous Materials Committee ("HAZMAT") which provides hazardous material protection and assistance, and the West Shore Enforcement Bureau which provides extra assistance to cities in the form of a swat team.

B S.A.F.E. Council of Governments

The S.A.F.E. Council of Governments was formed between municipalities to oppose changes to Cleveland Hopkins International Airport's traffic pattern. The Cities of Rocky River, Bay Village, Fairview Park, and Westlake govern by a board consisting of the elected mayors. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. The City did not make any contributions to S.A.F.E. in 2005. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116.

C. West Shore Area Rescue Association

The West Shore Area Rescue Association (WESHARE) helps foster cooperation between municipalities and hospitals to provide optimum emergency medical services. The Board is comprised of one member from each of the nine participating entities. The Board exercises total control over the operation of the Council including budgeting, contracting, and designating management.

Budgets are adopted by the Board. Each city's degree of control is limited to its representation on the Board. In 2005, the City contributed \$300 which represented 8.3 percent of total contributions.

Note 17 - Contingencies

A. Grants

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

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Litigation

The City is a party to legal proceedings seeking damages. The City management, including the Law Director, is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 18 - Community Gymnasium Joint Operating Agreement

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

The agreements include termination provisions which allow either the City or the School District 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. The Gym and joint use areas are owned by the School District.

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

The City is responsible for maintaining liability insurance for activities in the Gym under the City's supervision with coverage limits not less than \$5,000,000 for bodily injury per person, \$5,000,000 for each occurrence, and \$2,000,000 excess liability umbrella insurance. The School District is responsible for fire and liability insurance. The City and School District also have additional annual obligations for housekeeping, custodial, equipment, supply and utility costs.

Note 19 - Interfund Transfers

Transfers are primarily from the general fund to various funds within the City. The transfers from the general fund were to help finance the various programs accounted for in other funds. The transfer from the general obligation bond retirement fund to the sewer fund was made for the payment of debt. The transfers from the public improvement fund were used to finance road improvements and to move monies to the general fund related to the sale of property. Transfers made during the year ended December 31, 2005 were as follows:

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

<u>Transfer To</u>	<u>Governmental Activities</u>			<u>Totals</u>
	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Other Governmental Fund</u>	
<u>Governmental Activities</u>				
General	\$0	\$0	\$200,000	\$200,000
Parks & Recreation	425,000	0	0	425,000
Youth Activities	96,250	0	0	96,250
SCMR	375,000	0	0	375,000
Cahoon Park	52,500	0	0	52,500
Bay Family Services	36,000	0	0	36,000
Emergency Paramedic	41,500	0	0	41,500
Police Pension	130,000	0	0	130,000
Fire Pension	150,000	0	0	150,000
Community Diversion	0	0	0	0
Walker Road Park Improvement	0	0	0	0
<i>Total Governmental Activities</i>	1,306,250	0	200,000	1,506,250
<u>Business-Type Activities</u>				
Sewer	0	65,875	0	65,875
Total	<u>\$1,306,250</u>	<u>\$65,875</u>	<u>\$200,000</u>	<u>\$1,572,125</u>

Note 20 – Impairment of a Capital Asset

On September 16, 2005, the service garage was partially destroyed by a fire. Some contents and vehicles were also destroyed.

As of December 31, 2005 the City received \$473,168 from its insurance company. Of that amount \$273,168 was to repair or replace vehicles. The remaining \$200,000 was for the purpose of continuing operations. The City used these funds to lease a building to house the mechanics operations and trailers for office and field staff.

As of December 31, 2005, debris was removed from the service garage and the building was secured. However, the City was in the process of working with appraisers and insurance representatives to determine the extent of damage. Therefore, as of December 31, 2005 financial statements include the original cost of the building, less accumulated depreciation, until the percent of damage is determined.

Building renovations did not begin until May 2006. As of the date of these financial statements, the City was still in the process of working with appraisers, insurance representatives, and contractors to determine the full scope of renovations required.

City of Bay Village, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 21 - Subsequent Event

On July 6, 2006, the City retired \$2,000,000 in general obligation bond anticipation notes and issued \$2,500,000 in new notes with a maturity date of July 6, 2007 and an interest rate of 3.96 percent. The following table summarizes the activity.

Note Issuance	Retired	Issued
Police Station Improvements	\$300,000	\$300,000
Police Station Improvements	1,000,000	1,000,000
Police Station Improvements	500,000	500,000
Park Improvement	200,000	200,000
Police Station Improvements	0	500,000
<i>Total Notes</i>	\$2,000,000	\$2,500,000

On July 13, 2006, the City issued \$1,200,000 in general obligation bonds at an interest rate of 3.97 percent for various purposes.

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Auditor of State Betty Montgomery

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

City of Bay Village
Cuyahoga County
350 Dover Center Road
Bay Village, Ohio 44140

Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2006, wherein we noted the City restated the fund balance of the Governmental Funds as of December 31, 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated September 22, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-002 and 2005-003. In a separate letter to the City's management dated September 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and City Council. It is not intended for 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

September 22, 2006

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

Items appearing with an asterisk (*) denote comments which have been previously reported in our audit of fiscal year ended December 31, 2004 financial statements in which no corrective action has been taken.

FINDING NUMBER	2005-001
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Bank Reconciliations*

Reconciling the City's cash accounts with its ledgers, including fund balance, is a critical control procedure to ensure cash is adequately safeguarded and to provide accurate financial information. During the course of the audit, we noted the following areas that affected the cash reconciliations:

- The Key Bank General Account had a deposit carried as a reconciling item (in the amount of \$900.28) for over 4 months that should have been posted to the books as soon as it was discovered. Also multiple bank fees and chargebacks from the bank were carried for 4 months or greater that should have been expensed immediately and not carried as reconciling items. We also noted a miscellaneous adjustment being carried on the Huntington Bank – accounts payable account in the amount of \$898.10. This amount has been carried as a reconciling item since July 2004 and has yet to be recorded on the books.
- The National City General Account, The Fifth Third Bank General Account II and the Huntington National Bank Sewer account had reconciled amounts of \$620, \$1,920, and \$106, respectively, that didn't agree to the City's main cash reconciliation. These individual reconciliations should be used as a control to ensure the account is reconciled.
- The Huntington Bank Payroll account shows \$89,607.27 in outstanding checks while the actual outstanding check list shows \$91,202.61 at December 31, 2005. The difference of \$1,595.34 would cause this account to have a negative balance if all of these checks were to clear. The Key Bank – General Account and the Huntington Bank – Accounts Payable Account also showed minor discrepancies between the amount listed as outstanding checks on the bank reconciliation and the amount of actual checks outstanding. The Huntington Bank, Accounts Payable account reconciliation shows \$69,829.97 in outstanding checks and the actual outstanding check listing equals \$69,610.58.
- The accounts payable account had 56 outstanding checks (28%) that were outstanding greater than 1 year and some dating as far back as 2000. The payroll account had 13 outstanding checks (21%) that were greater than 1 year and some dating as far back as July 2002.
- In addition, the City maintains an old payroll clearance account with 24 outstanding checks dating between January 3, 1997 and March 8, 2002. It was brought to our attention that this account was closed in 2006 and that all remaining outstanding checks were re-issued or the payee was notified of the unclaimed monies.

We recommend the City establish a policy which sets a reasonable amount of time for carrying outstanding checks on their reconciliations. After the established time, the check should be voided and the funds (check amount) should be held in an unclaimed monies fund in accordance with Ohio Rev. Code Section 9.39, and Auditor of State Audit Bulletin 91-11. We further recommend all reconciling items be processed timely so stale dated items are not carried on the reconciliations. Also, support for reconciling items should equal the amount being carried on the reconciliation.

Client Response:

The City has taken the appropriate steps in reconciling the bank statements and eliminating reconciling items in a timelier manner. Stale checks will be voided and reissued to insure better compliance. Inactive bank accounts will be closed.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(CONTINUED)**

FINDING NUMBER	2005-002
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Negative Cash Fund Balances

Ohio Rev. Code Section 5705.10 states, in part, that money paid into any fund shall be used only for the purposes for which such fund is established.

The following funds had negative cash fund balances:

FUND	AMOUNT	DATE
Youth Activities	(\$3,925.58)	January 2005
State Highway	(4,667.46)	January 2005
Health Insurance	(21,029.15)	January 2005
Youth Activities	(11,360.74)	February 2005
Community Diversion Fund	(504.43)	February 2005
State Highway	(30,414.67)	February 2005
Health Insurance	(109,786.42)	February 2005
Parks & Recreation	(2,747.90)	March 2005
Youth Activities	(16,812.71)	March 2005
Community Diversion Fund	(213.13)	March 2005
State Highway	(26,876.29)	March 2005
Health Insurance	(165,689.50)	March 2005
Parks & Recreation	(61,647.54)	April 2005
Youth Activities	(30,451.07)	April 2005
State Highway	(23,035.84)	April 2005
Parks & Recreation	(80,530.29)	May 2005
Youth Activities	(38,147.59)	May 2005
Community Diversion Fund	(1,333.43)	May 2005
State Highway	(19,232.92)	May 2005
Community Diversion Fund	(1,071.18)	June 2005
State Highway	(15,475.59)	June 2005
Health Insurance	(44,239.11)	June 2005
General Insurance Fund	(70,008.65)	June 2005
Youth Activities	(5,073.02)	July 2005
Community Diversion Fund	(664.43)	July 2005
State Highway	(12,881.47)	July 2005
Health Insurance	(90,132.79)	July 2005
General Insurance Fund	(70,008.65)	July 2005
State Highway	(6,943.72)	August 2005
Health Insurance	(142,024.47)	August 2005
State Highway	(3,012.35)	September 2005
Health Insurance	(216,211.46)	September 2005
Parks & Recreation	(22,103.08)	October 2005
Youth Activities	(7,163.67)	October 2005
Health Insurance	(242,071.41)	October 2005
Community Diversion	(87.43)	November 2005
Health Insurance	(262,806.50)	November 2005

These negative cash fund balances were corrected by year end. These deficit balances indicate that money from another fund was used to pay expenditures for these funds.

We recommend the City monitor the monthly cash fund balance reports and advance money, with the approval of Council, from the General Fund if cash deficits occur.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(CONTINUED)**

FINDING NUMBER	2005-002
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Negative Cash Fund Balances (Continued)

Client Response:

In all cases the negative balances were timing issues that resolved themselves either from transfers from the General Fund after final Budget approval or the receipt of revenues. If necessary the City will look to advance funds to avoid these situations in the future.

FINDING NUMBER	2005-003
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Purchase Order Certification*

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 legislative authority can authorize the drawing of a warrant for the payment of the amount due. City Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(CONTINUED)**

FINDING NUMBER	2005-003
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Purchase Order Certification* (Continued)

Twelve of sixty-one (19.6%) purchase orders tested, representing \$55,162 of \$113,667 (48.5%), included an invoice that was dated before the purchase order date. Although purchase orders were certified by the Finance Director after the fact, invoices received before a purchase order is prepared precludes the Finance Director from certifying funds are available before the expenditure is made. Furthermore, "then and now" certificates were not issued.

This weakness allowed goods and services to be ordered and received without proper approval. Further, the City may allow goods or services to be ordered and received without having adequate monies and/or appropriations available to pay for the obligation.

Unless the City uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

We further recommend the City review its policies and procedures to ensure the requirement to obtain a properly authorized purchase order prior to placing orders or obtaining services is strictly enforced.

Client Response:

The City continues to remind its departments that PO's must be completed and certified by the Finance Department before ordering goods or services. And we are working with them to explain the proper use of Blanket PO's in an effort to eliminate the occurrence of goods or services being order before a PO is certified by the Finance Department.

CITY OF BAY VILLAGE
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.39 - Appropriations exceeding estimated resources available for expenditure.	Yes	N/A



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CITY OF BAY VILLAGE

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
DECEMBER 12, 2006**