

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2016

RENEE MAHONEY, CPA, DIRECTOR OF FINANCE



Dave Yost • Auditor of State

Members of Council & Mayor
City of Bay Village
350 Dover Center Road
Bay Village, Ohio 44140

We have reviewed the *Independent Auditor's Report* of the City of Bay Village, Cuyahoga County, prepared by Julian & Grube, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Bay Village is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 11, 2017

This page intentionally left blank.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 17
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	19
Statement of Activities.....	20 - 21
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	22
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25 - 26
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	27
Statement of Net Position - Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds.....	29
Statement of Cash Flows - Proprietary Funds	30 - 31
Statement of Fiduciary Assets and Liabilities - Fiduciary Funds	32
Notes to the Basic Financial Statements.....	33 - 77
Required Supplementary Information:	
Schedule of the City’s Proportionate Share of the Net Pension Liability/Net Pension Asset:	
Ohio Public Employees Retirement System (OPERS)	80
Ohio Police and Fire (OP&F) Pension Fund	81
Schedule of City Contributions:	
Ohio Public Employees Retirement System (OPERS)	82 - 83
Ohio Police and Fire (OP&F) Pension Fund	84 - 85
Notes to Required Supplementary Information	86
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	87 - 88

This page intentionally left blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

To the Members of Council and Mayor:

Report on the Financial Statements

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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Bay Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City of Bay Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City of Bay Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liability/net pension asset and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017, on our consideration of the City of Bay Village'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bay Village's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 22, 2017

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

The management's discussion and analysis of the City of Bay Village's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. 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 and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The total net position of the City increased \$1,118,300 from 2015's net position. Net position of governmental activities increased \$936,835 or 4.84% from 2015 and net position of business-type activities increased \$181,465 or 1.79% from 2015.
- General revenues accounted for \$15,557,668 or 86.95% of total governmental activities revenue. Program specific revenues accounted for \$2,334,377 or 13.05% of total governmental activities revenue.
- The City had \$16,742,550 in expenses related to governmental activities; \$2,334,377 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$14,408,173 were offset by general revenues (primarily property taxes, municipal income taxes and unrestricted grants and entitlements) of \$15,557,668.
- The general fund had revenues of \$12,275,145 in 2016. This represents an increase of \$649,929 from 2015. The expenditures and other financing uses of the general fund, which totaled \$11,107,459 in 2016, increased \$143,900 from 2015. The net increase in fund balance for the general fund was \$1,167,686 or 34.96%.
- The general obligation bond retirement fund had revenues and other financing sources of \$4,661,178 in 2016. The expenditures and other financing uses of the general obligation bond retirement fund totaled \$4,593,113 in 2016. The net increase in fund balance for the general obligation bond retirement fund was \$68,055 or 1.36%.
- Net position for the business-type activities, which are made up of the sewer and swimming pool enterprise funds, increased in 2016 by \$217,920.
- The sewer enterprise fund had operating revenues of \$2,383,470 and operating expenses of \$2,164,897. The sewer fund had \$3,919 in non-operating revenues, \$72,890 in non-operating expenses and transfers-in of \$212,660. Net position of the sewer fund increased \$362,262 or 4.18%.
- The swimming pool enterprise fund had operating revenues of \$353,189 and operating expenses of \$511,561. The net position of the swimming pool fund decreased \$180,092 or 13.34%.
- In the general fund, the actual revenues came in \$300,520 higher than they were in the final budget and actual expenditures and other financing uses were \$336,810 less than the amount in the final budget. Budgeted expenditures and other financing uses were increased \$1,007,500 from the original to the final budget and budgeted revenues were increased \$475,195 from the original to the final budget.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. 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 remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in that net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net position and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer and swimming pool operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 12.

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and general obligation bond retirement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-27 of this report.

Proprietary Funds

The City maintains two 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 and swimming pool operations. Both of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 28-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33-77 of this report.

Required Supplementary Information (RSI)

The RSI contains information regarding the City's proportionate share of the Ohio Public Employees Retirement System's (OPERS) and Ohio Police and Fire (OP&F) net pension liability/net pension asset and the City's schedule of contributions to OPERS and OP&F. The RSI can be found on pages 80-86 of this report.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position at December 31, 2016 compared to 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current assets	\$ 25,873,817	\$ 24,266,851	\$ 4,819,128	\$ 4,451,639	\$ 30,692,945	\$ 28,718,490
Capital assets, net	23,911,593	23,459,198	8,129,463	8,508,444	32,041,056	31,967,642
Total assets	49,785,410	47,726,049	12,948,591	12,960,083	62,734,001	60,686,132
<u>Deferred outflows of resources</u>	5,247,394	2,047,019	382,140	118,931	5,629,534	2,165,950
<u>Liabilities</u>						
Current liabilities	2,304,109	2,088,055	79,538	195,079	2,383,647	2,283,134
Long-term liabilities:						
Due within one year	824,276	889,015	149,802	147,254	974,078	1,036,269
Other amounts	24,289,420	20,201,515	2,774,391	2,599,150	27,063,811	22,800,665
Total liabilities	27,417,805	23,178,585	3,003,731	2,941,483	30,421,536	26,120,068
<u>Deferred inflows of resources</u>	7,315,851	7,232,170	20,073	12,069	7,335,924	7,244,239
<u>Net Position</u>						
Net investment in capital assets	16,337,561	15,726,647	6,268,219	6,468,250	22,605,780	22,194,897
Restricted	800,889	1,056,763	-	-	800,889	1,056,763
Unrestricted	3,160,698	2,578,903	4,038,708	3,657,212	7,199,406	6,236,115
Total net position	\$ 20,299,148	\$ 19,362,313	\$ 10,306,927	\$ 10,125,462	\$ 30,606,075	\$ 29,487,775

During a prior year, the City adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension asset/liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 68 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension asset/liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government’s financial position. At December 31, 2016, the City’s assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$30,606,075. At year-end, net positions were \$20,299,148 and \$10,306,927 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City’s assets. At year-end, capital assets represented 51.07% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, software, vehicles, and infrastructure. Net investment in capital assets at December 31, 2016 was \$16,337,561 and \$6,268,219 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City’s net position, \$800,889, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$3,160,698 may be used to meet the government’s ongoing obligations to citizens and creditors.

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The table below shows the comparative analysis of changes in net position for 2016 compared to 2015. The net position at December 31, 2015.

	Change in Net Position					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,422,429	\$ 1,641,227	\$ 2,731,399	\$ 2,741,433	\$ 4,153,828	\$ 4,382,660
Operating grants and contributions	869,163	905,825	-	-	869,163	905,825
Capital grants and contributions	<u>42,785</u>	<u>155,872</u>	<u>-</u>	<u>-</u>	<u>42,785</u>	<u>155,872</u>
Total program revenues	<u>2,334,377</u>	<u>2,702,924</u>	<u>2,731,399</u>	<u>2,741,433</u>	<u>5,065,776</u>	<u>5,444,357</u>
General revenues:						
Property taxes	6,858,202	6,523,670	-	-	6,858,202	6,523,670
Income taxes	6,717,054	6,573,233	-	-	6,717,054	6,573,233
Grants and entitlements	1,656,539	1,425,926	-	-	1,656,539	1,425,926
Investment earnings	127,552	88,053	-	-	127,552	88,053
Other	<u>198,321</u>	<u>91,245</u>	<u>5,260</u>	<u>5,460</u>	<u>203,581</u>	<u>96,705</u>
Total general revenues	<u>15,557,668</u>	<u>14,702,127</u>	<u>5,260</u>	<u>5,460</u>	<u>15,562,928</u>	<u>14,707,587</u>
Total revenues	<u>17,892,045</u>	<u>17,405,051</u>	<u>2,736,659</u>	<u>2,746,893</u>	<u>20,628,704</u>	<u>20,151,944</u>
Expenses:						
General government	3,628,596	3,596,258	-	-	3,628,596	3,596,258
Security of persons and property	8,128,372	7,180,888	-	-	8,128,372	7,180,888
Public health and welfare	382,935	646,254	-	-	382,935	646,254
Transportation	868,885	1,755,517	-	-	868,885	1,755,517
Community environment	569,451	579,287	-	-	569,451	579,287
Leisure time activity	1,133,427	1,131,228	-	-	1,133,427	1,131,228
Basic utility	1,792,251	1,728,569	-	-	1,792,251	1,728,569
Other	1,000	-	-	-	1,000	-
Interest and fiscal charges	237,633	242,086	-	-	237,633	242,086
Sewer	-	-	2,235,141	3,127,559	2,235,141	3,127,559
Swimming pool	<u>-</u>	<u>-</u>	<u>532,713</u>	<u>494,979</u>	<u>532,713</u>	<u>494,979</u>
Total expenses	<u>16,742,550</u>	<u>16,860,087</u>	<u>2,767,854</u>	<u>3,622,538</u>	<u>19,510,404</u>	<u>20,482,625</u>
Increase (decrease) in net position before transfers	1,149,495	544,964	(31,195)	(875,645)	1,118,300	(330,681)
Transfers	<u>(212,660)</u>	<u>(323,558)</u>	<u>212,660</u>	<u>323,558</u>	<u>-</u>	<u>-</u>
Change in net position	936,835	221,406	181,465	(552,087)	1,118,300	(330,681)
Net position at beginning of year	<u>19,362,313</u>	<u>19,140,907</u>	<u>10,125,462</u>	<u>10,677,549</u>	<u>29,487,775</u>	<u>29,818,456</u>
Net position at end of year	<u>\$ 20,299,148</u>	<u>\$ 19,362,313</u>	<u>\$ 10,306,927</u>	<u>\$ 10,125,462</u>	<u>\$ 30,606,075</u>	<u>\$ 29,487,775</u>

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Governmental Activities

Governmental activities net position increased \$936,835 in 2016.

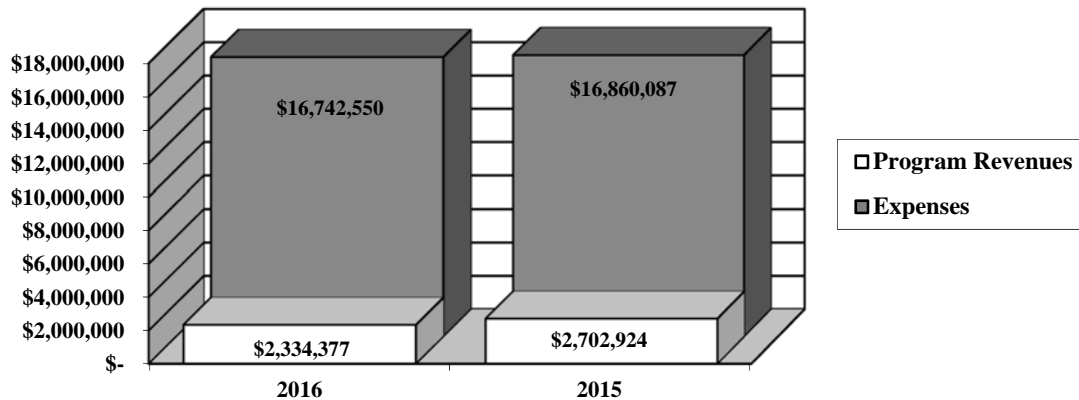
Security of persons and property, which includes police and fire department operations, accounted for \$8,128,372 or 48.92% of the total expenses of the City. Security of persons and property expenses were partially funded by \$54,301 in direct charges to users of the services. General government expenses totaled \$3,628,596. General government expenses were partially funded by \$918,937 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$869,163 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of this total, \$813,308 subsidized transportation programs.

General revenues totaled \$15,557,668, and amounted to 86.95% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$13,575,256, as well as grants and entitlements not restricted to specific programs, including local government, making up \$1,656,539.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The graph below shows total governmental expenses and the portion of those expenses offset by program revenues:

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF BAY VILLAGE, OHIO

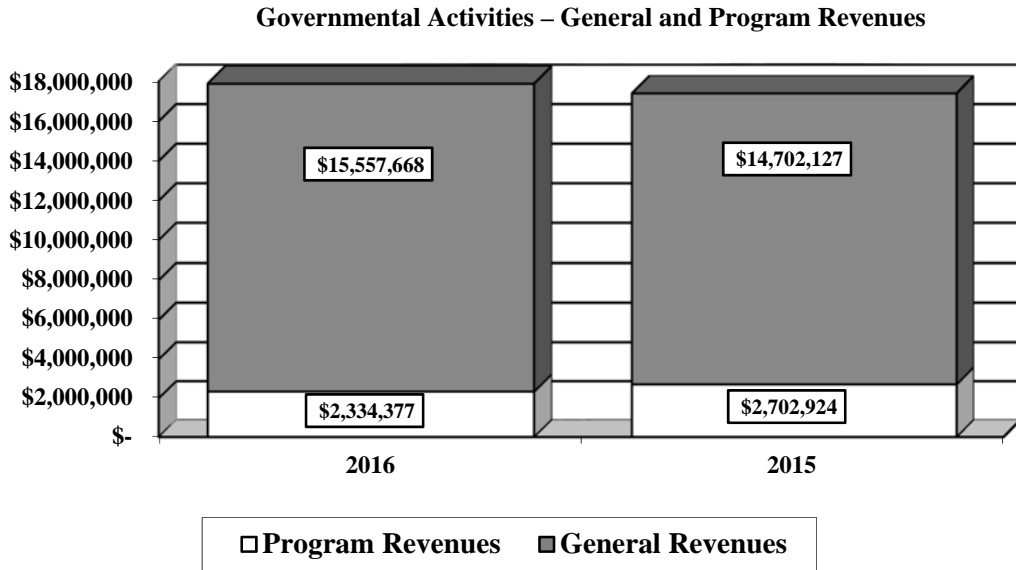
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements for 2016 compared to 2015.

	Governmental Activities			
	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 3,628,596	\$ 2,704,302	\$ 3,596,258	\$ 2,703,257
Security of persons and property	8,128,372	8,043,791	7,180,888	7,106,032
Public health and welfare	382,935	377,160	646,254	641,284
Transportation	868,885	18,121	1,755,517	754,897
Community environment	569,451	204,626	579,287	168,627
Leisure time activities	1,133,427	1,029,289	1,131,228	812,411
Basic utility services	1,792,251	1,792,251	1,728,569	1,728,569
Other	1,000	1,000	-	-
Interest and fiscal charges	237,633	237,633	242,086	242,086
Total Expenses	\$ 16,742,550	\$ 14,408,173	\$ 16,860,087	\$ 14,157,163

The dependence upon general revenues for governmental activities is apparent, with 86.06% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2016 and 2015.



Business-type Activities

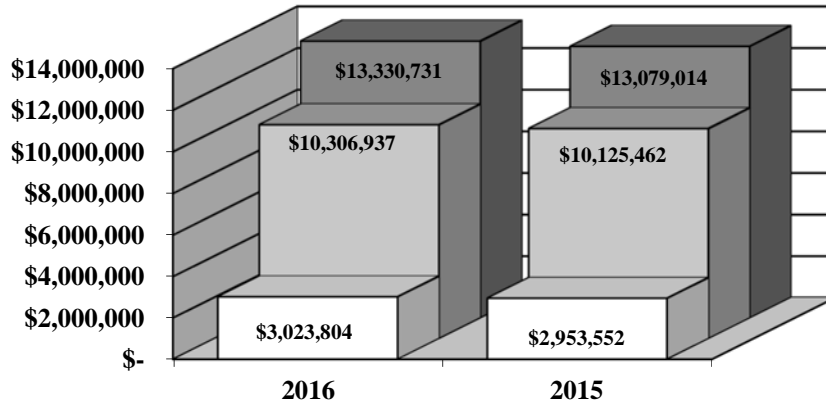
Business-type activities include the sewer and swimming pool enterprise funds. These programs had program revenues of \$2,731,399, general revenues of \$5,260, transfers-in of \$212,660 and expenses of \$2,767,854 for 2016.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

The graph below shows the business-type activities assets and deferred outflows, liabilities and deferred inflows and net position at December 31, 2016 and December 31, 2015.

Net Position in Business – Type Activities



Liabilities and deferred inflows
 Net Position
 Assets and deferred outflows

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 22) reported a combined fund balance of \$12,797,596 which is \$1,581,229 higher than last year's total of \$11,216,367. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2016 for all major and non-major governmental funds.

	Fund Balances 12/31/16	Fund Balances 12/31/15	Change
Major funds:			
General	\$ 4,508,078	\$ 3,340,392	\$ 1,167,686
General obligation bond retirement	5,072,133	5,004,068	68,065
Other nonmajor governmental funds	3,217,385	2,871,907	345,478
Total	\$ 12,797,596	\$ 11,216,367	\$ 1,581,229

CITY OF BAY VILLAGE, OHIO

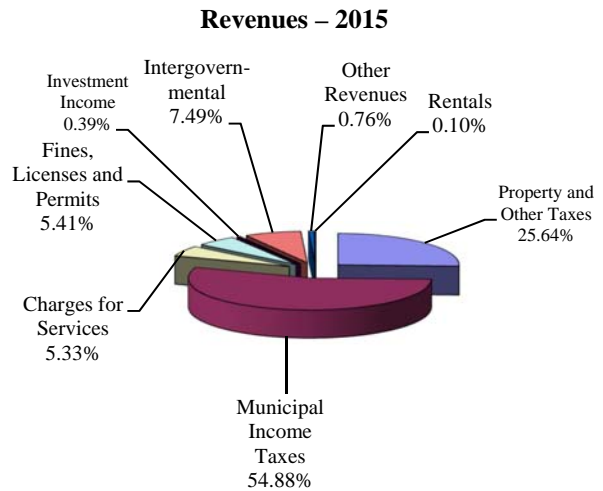
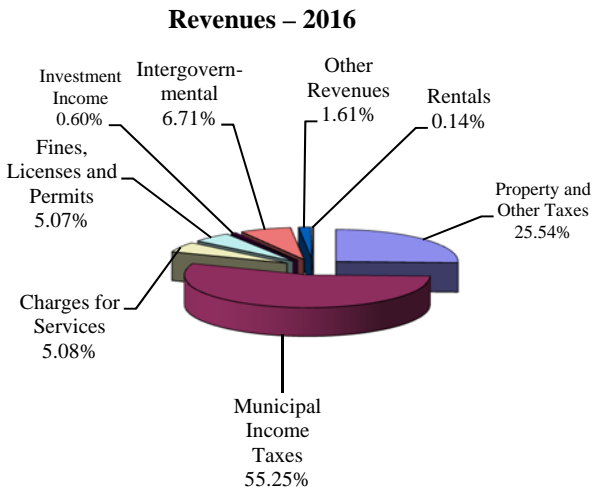
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

General Fund

The City's general fund balance increased \$1,167,686. The table that follows assists in illustrating the revenues of the general fund.

	2016 <u>Amount</u>	2015 <u>Amount</u>	<u>Change</u>	<u>Percentage Change</u>
Revenues				
Municipal income taxes	\$ 6,782,354	\$ 6,379,449	\$ 402,905	6.32 %
Property and other taxes	3,134,528	2,980,843	153,685	5.16 %
Charges for services	624,106	619,535	4,571	0.74 %
Fines, licenses and permits	622,675	629,449	(6,774)	(1.08) %
Intergovernmental	824,104	871,298	(47,194)	(5.42) %
Investment income	73,908	45,060	28,848	64.02 %
Rental income	16,976	11,990	4,986	41.58 %
Contributions and donations	-	620	(620)	(100.00) %
Miscellaneous	196,494	86,972	109,522	125.93 %
Total	<u>\$ 12,275,145</u>	<u>\$ 11,625,216</u>	<u>\$ 649,929</u>	5.59 %

Revenue of the general fund increased \$649,929 or 5.59%. Tax revenue (income tax, property and other taxes) represents 80.79% of all general fund revenue. Tax revenue increased \$556,590 over prior year. This increase is primarily due to an increase in income taxes received during the year. Intergovernmental revenue decreased \$47,194 due to a decrease in estate tax revenues.



CITY OF BAY VILLAGE, OHIO

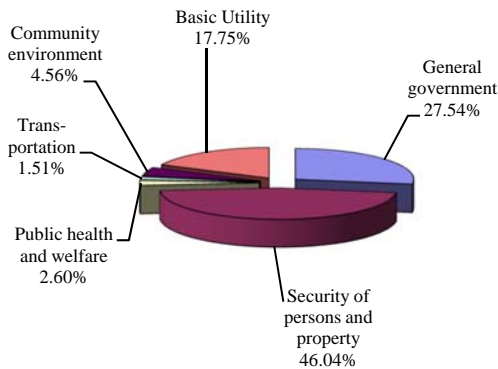
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The table that follows assists in illustrating the expenditures of the general fund.

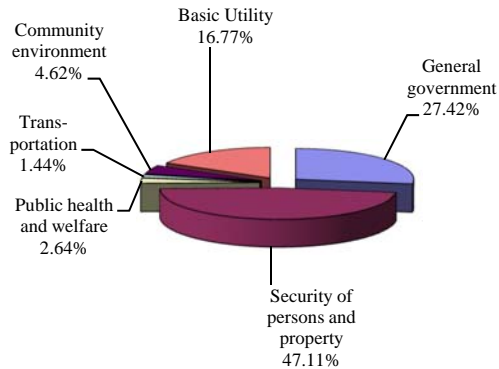
	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>				
General government	\$ 2,775,972	\$ 2,823,646	\$ (47,674)	(1.69) %
Security of persons and property	4,642,107	4,852,369	(210,262)	(4.33) %
Public health and welfare	262,285	272,105	(9,820)	(3.61) %
Transportation	151,958	147,859	4,099	2.77 %
Community environment	460,060	475,845	(15,785)	(3.32) %
Basic utility services	<u>1,789,079</u>	<u>1,726,671</u>	<u>62,408</u>	3.61 %
Total	<u>\$ 10,081,461</u>	<u>\$ 10,298,495</u>	<u>\$ (217,034)</u>	(2.11) %

General fund expenditures decreased \$217,037 or 2.11%. The decreases in general government, security of persons and property, public health and welfare are due to decreased spending throughout the City.

Expenditures - 2016



Expenditures - 2015



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

In the general fund, the actual revenues came in \$300,520 higher than they were in the final budget and actual expenditures and other financing uses were \$336,810 less than the amount in the final budget. Budgeted expenditures and other financing uses were increased \$1,007,500 from the original to the final budget and budgeted revenues were increased \$475,195 from the original to the final budget.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

General Obligation Bond Retirement Fund

The general obligation bond retirement fund had revenues and other financing sources of \$4,661,178 in 2016. The expenditures and other financing uses of the general obligation bond retirement fund totaled \$4,593,113 in 2016. The net increase in fund balance for the general obligation bond retirement fund was \$68,065 or 1.36%. The increase in fund balance is mainly the result of revenues being sufficient to cover principal and interest payments.

Proprietary Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the City had \$32,041,056 (net of accumulated depreciation) invested in land, construction in progress land improvements, buildings, machinery and equipment, software, vehicles, and infrastructure. Of this total, \$23,911,593 was reported in governmental activities and \$8,129,463 was reported in business-type activities. The following table shows December 31, 2016 balances compared to December 31, 2015:

**Capital Assets at December 31
(Net of Depreciation)**

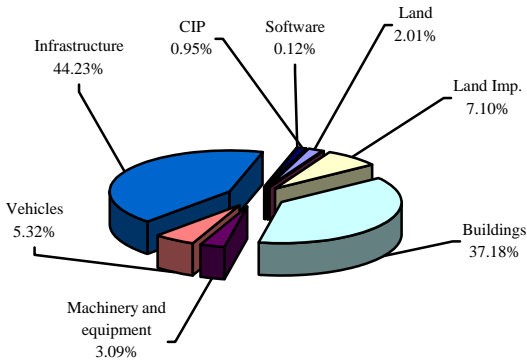
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
Land	\$ 481,467	\$ 481,467	\$ 40,000	\$ 40,000	\$ 521,467	\$ 521,467
Construction in Progress	227,699	132,236	-	-	227,699	132,236
Land improvements	1,697,575	1,604,163	449,069	480,310	2,146,644	2,084,473
Buildings	8,887,366	9,152,496	1,246,759	1,283,357	10,134,125	10,435,853
Machinery and equipment	739,692	672,608	150,463	197,365	890,155	869,973
Software	28,702	28,702	-	-	28,702	28,702
Vehicles	1,272,354	1,323,071	559,361	646,385	1,831,715	1,969,456
Infrastructure						
Roads	9,914,616	9,364,496	-	-	9,914,616	9,364,496
Sewer lines	-	-	5,683,811	5,861,027	5,683,811	5,861,027
Culverts	188,979	191,612	-	-	188,979	191,612
Traffic signals	473,143	508,347	-	-	473,143	508,347
Totals	<u>\$ 23,911,593</u>	<u>\$ 23,459,198</u>	<u>\$ 8,129,463</u>	<u>\$ 8,508,444</u>	<u>\$ 32,041,056</u>	<u>\$ 31,967,642</u>

CITY OF BAY VILLAGE, OHIO

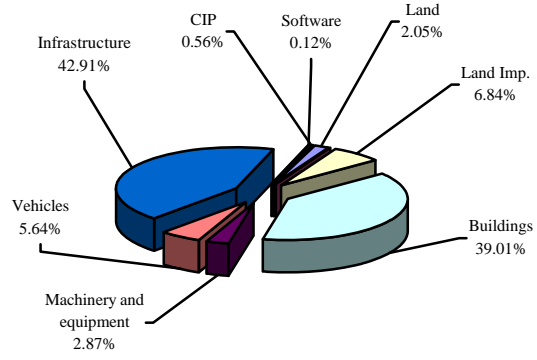
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The following graphs show the breakdown of governmental capital assets by category for 2016 and 2015.

**Capital Assets - Governmental Activities
December 31, 2016**



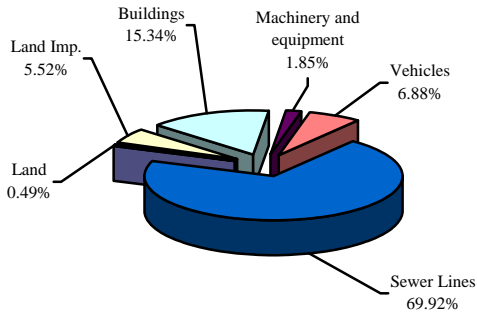
**Capital Assets - Governmental Activities
December 31, 2015**



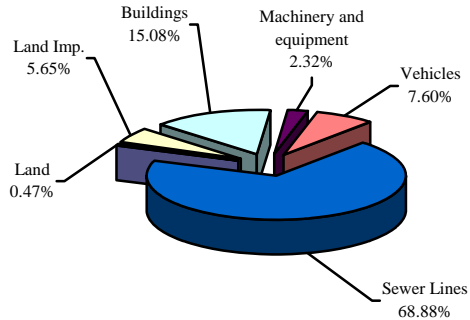
Infrastructure includes roads, culverts and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 44.23% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2016 and 2015.

**Capital Assets - Business-Type Activities
December 31, 2016**



**Capital Assets - Business-Type Activities
December 31, 2015**



The City's largest business-type capital asset category is sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's sewer lines (cost less accumulated depreciation) represents approximately 69.92% of the City's total business-type capital assets.

CITY OF BAY VILLAGE, OHIO

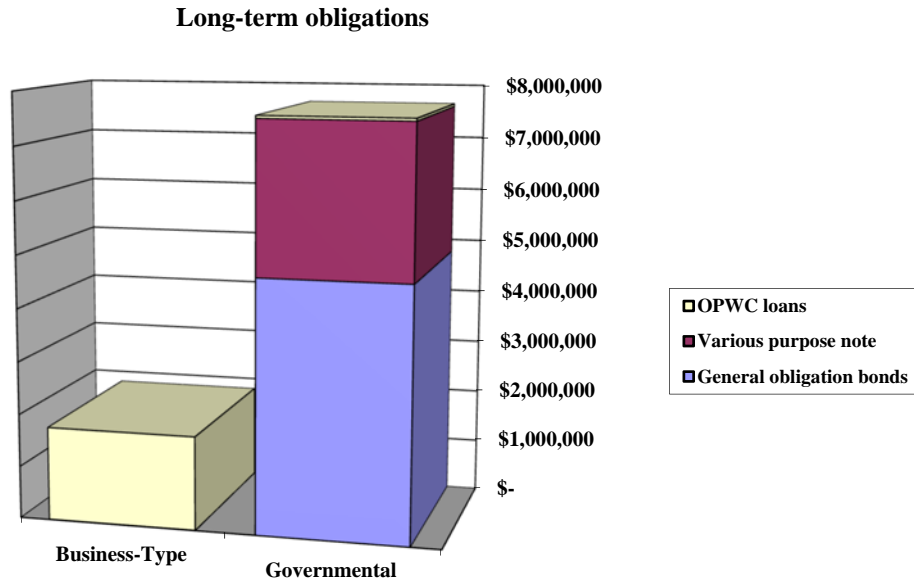
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2016 and 2015:

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 4,765,000	\$ 5,340,000
Various purpose note	2,824,000	2,405,600
OPWC loan	<u>51,148</u>	<u>58,455</u>
Total long-term obligations	<u>\$ 7,640,148</u>	<u>\$ 7,804,055</u>
	Business-type Activities	
	<u>2016</u>	<u>2015</u>
Various purpose note	80,000	132,800
OPWC loans	<u>1,781,244</u>	<u>1,874,194</u>
Total long-term obligations	<u>\$ 1,861,244</u>	<u>\$ 2,006,994</u>

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 12 to the financial statements.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Current Financial Related Activities

The mission of the City of Bay Village is to continue our heritage as a desirable lakefront community by preserving and enhancing our quality of life, natural surroundings and residential character, strengthening our business environment, and striving to provide superior services in a fiscally responsible manner.

The City of Bay Village is located on the shoreline of Lake Erie. Apart from lakefront activities, the citizens of Bay Village continue to enjoy a variety of City recreational facilities which includes four parks, a swimming pool and community gym.

The City remains committed to improving facilities and services; the budget process opened discussion on future infrastructure projects to improve storm and sewer lines.

Other highlights:

- In January 2017, the Mayor sponsored a one-day workshop with City Council members, the Police and Fire Chiefs, and Department Directors along with the Chairperson from each of the City's Boards and Commissions (Zoning, Planning, Architectural Review, Tree and Civil Service) along with representatives from community civic groups who take an active role in government activities. The purpose of the workshop was to jointly review the status of open City projects and department goals and obtain input for the projects being planned for 2017 and project with longer range plans.
- The Fire Department received Council authorization to apply for a Government Safety Capital Grant.
- The Green Team received for a \$5,000 grant from the Cuyahoga County Solid Waste District. The Grant will be used to continue educating the community about recycling efforts and to increase participation.
- The City's Senior Center is proceeding through the application process for Community Development Block Grant (CDBG) Funds to renovate the Center's kitchen area in order to participate with a weekly lunch program for senior residents. They are also received a CDBG Grant to purchase a generator for their facility so it is better equipped as an emergency response location.
- A new City-wide phone system was installed in February 2017.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Renee Mahoney, City of Bay Village, 350 Dover Center Road, Bay Village, OH 44140, telephone 440-871-2200 or e-mail at rmahoney@cityofbayvillage.com. Other information about the City is available on our website, www.cityofbayvillage.com.

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF BAY VILLAGE, OHIO

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 13,740,842	\$ 322,518	\$ 14,063,360
Receivables:			
Municipal income taxes	2,564,506	-	2,564,506
Property and other taxes	8,118,470	-	8,118,470
Accounts	242,332	258,571	500,903
Accrued interest	35,592	-	35,592
Special assessments	16,952	-	16,952
Intergovernmental	1,045,698	-	1,045,698
Materials and supplies inventory	128,315	3,638	131,953
Prepayments	71,581	521	72,102
Internal balance	(107,336)	107,336	-
Investment in joint venture	-	4,122,857	4,122,857
Net pension asset	16,865	3,687	20,552
Capital assets:			
Non-depreciable capital assets	709,166	40,000	749,166
Depreciable capital assets, net	23,202,427	8,089,463	31,291,890
Total capital assets, net	<u>23,911,593</u>	<u>8,129,463</u>	<u>32,041,056</u>
Total assets	<u>49,785,410</u>	<u>12,948,591</u>	<u>62,734,001</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	208,308	-	208,308
Pension - OPERS	1,747,939	382,140	2,130,079
Pension - OP&F	3,291,147	-	3,291,147
Total deferred outflows of resources	<u>5,247,394</u>	<u>382,140</u>	<u>5,629,534</u>
Liabilities:			
Accounts payable	224,162	17,033	241,195
Contracts payable	35,914	-	35,914
Accrued wages and benefits payable	235,059	15,556	250,615
Intergovernmental payable	239,051	13,360	252,411
Accrued interest payable	18,121	447	18,568
Claims payable	54,969	-	54,969
Vacation benefits payable	487,833	33,142	520,975
Note payable	1,009,000	-	1,009,000
Long-term liabilities:			
Due within one year	824,276	149,802	974,078
Due in more than one year:			
Net pension liability	16,523,817	958,467	17,482,284
Other amounts due in more than one year	7,765,603	1,815,924	9,581,527
Total liabilities	<u>27,417,805</u>	<u>3,003,731</u>	<u>30,421,536</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	7,189,943	-	7,189,943
Pension - OPERS	91,820	20,073	111,893
Pension OP&F	34,088	-	34,088
Total deferred inflows of resources	<u>7,315,851</u>	<u>20,073</u>	<u>7,335,924</u>
Net position:			
Net investment in capital assets	16,337,561	6,268,219	22,605,780
Restricted for:			
Debt service	19,104	-	19,104
Capital projects	13,403	-	13,403
Waldeck estates:			
Expendable	7,405	-	7,405
Nonexpendable	163,623	-	163,623
Security of persons and property programs	173,138	-	173,138
Public health and welfare programs	61,693	-	61,693
Transportation programs	152,157	-	152,157
Community environment programs	6,761	-	6,761
Leisure time activity programs	23,850	-	23,850
Cahoon Library	77,681	-	77,681
Cahoon Park	25,893	-	25,893
Other purposes	76,181	-	76,181
Unrestricted	<u>3,160,698</u>	<u>4,038,708</u>	<u>7,199,406</u>
Total net position	<u>\$ 20,299,148</u>	<u>\$ 10,306,927</u>	<u>\$ 30,606,075</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government.	\$ 3,628,596	\$ 918,937	\$ -	\$ 5,357
Security of persons and property . . .	8,128,372	54,301	30,280	-
Public health and welfare	382,935	-	5,775	-
Transportation.	868,885	28	813,308	37,428
Community environment	569,451	348,825	16,000	-
Leisure time activity.	1,133,427	100,338	3,800	-
Basic utility services	1,792,251	-	-	-
Other	1,000	-	-	-
Interest and fiscal charges.	224,455	-	-	-
Bond issuance costs.	13,178	-	-	-
Total governmental activities	<u>16,742,550</u>	<u>1,422,429</u>	<u>869,163</u>	<u>42,785</u>
Business-type activities:				
Sewer	2,235,141	2,378,210	-	-
Pool	532,713	353,189	-	-
Total business-type activities	<u>2,767,854</u>	<u>2,731,399</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 19,510,404</u>	<u>\$ 4,153,828</u>	<u>\$ 869,163</u>	<u>\$ 42,785</u>

General revenues:

Property taxes levied for:

General purposes.

Emergency Paramedic.

Parks and recreation.

Police Pension.

Fire Pension

Debt service

Income taxes levied for:

General purposes

Accrued benefits

Grants and entitlements not restricted to specific programs.

Investment earnings.

Miscellaneous.

Total general revenues.

Transfers.

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (2,704,302)	\$ -	\$ (2,704,302)
(8,043,791)	-	(8,043,791)
(377,160)	-	(377,160)
(18,121)	-	(18,121)
(204,626)	-	(204,626)
(1,029,289)	-	(1,029,289)
(1,792,251)	-	(1,792,251)
(1,000)	-	(1,000)
(224,455)	-	(224,455)
(13,178)	-	(13,178)
<u>(14,408,173)</u>	<u>-</u>	<u>(14,408,173)</u>
-	143,069	143,069
-	<u>(179,524)</u>	<u>(179,524)</u>
-	<u>(36,455)</u>	<u>(36,455)</u>
<u>(14,408,173)</u>	<u>(36,455)</u>	<u>(14,444,628)</u>
3,157,349	-	3,157,349
1,032,881	-	1,032,881
229,730	-	229,730
316,586	-	316,586
316,586	-	316,586
1,805,070	-	1,805,070
6,581,264	-	6,581,264
135,790	-	135,790
1,656,539	-	1,656,539
127,552	-	127,552
198,321	5,260	203,581
<u>15,557,668</u>	<u>5,260</u>	<u>15,562,928</u>
<u>(212,660)</u>	<u>212,660</u>	<u>-</u>
<u>15,345,008</u>	<u>217,920</u>	<u>15,562,928</u>
936,835	181,465	1,118,300
<u>19,362,313</u>	<u>10,125,462</u>	<u>29,487,775</u>
<u>\$ 20,299,148</u>	<u>\$ 10,306,927</u>	<u>\$ 30,606,075</u>

CITY OF BAY VILLAGE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 3,278,513	\$ 4,030,306	\$ 4,889,137	\$ 12,197,956
Receivables:				
Municipal income taxes	2,513,217	-	51,289	2,564,506
Property and other taxes	3,748,664	2,119,520	2,250,286	8,118,470
Accounts	241,825	-	507	242,332
Accrued interest	35,592	-	-	35,592
Special assessments	16,952	-	-	16,952
Intergovernmental	416,234	143,361	486,103	1,045,698
Interfund loans	2,500	-	-	2,500
Loans	-	840,000	-	840,000
Materials and supplies inventory	10,496	-	117,819	128,315
Prepayments	71,060	-	521	71,581
Total assets	<u>\$ 10,335,053</u>	<u>\$ 7,133,187</u>	<u>\$ 7,795,662</u>	<u>\$ 25,263,902</u>
Liabilities:				
Accounts payable	\$ 146,857	\$ -	\$ 75,318	\$ 222,175
Contracts payable	35,914	-	-	35,914
Accrued wages and benefits payable	166,952	-	68,107	235,059
Intergovernmental payable	90,566	-	148,485	239,051
Interfund loans payable	-	-	2,500	2,500
Loans payable	-	-	840,000	840,000
Accrued interest payable	-	-	5,640	5,640
Note payable	-	-	1,009,000	1,009,000
Total liabilities	<u>440,289</u>	<u>-</u>	<u>2,149,050</u>	<u>2,589,339</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	3,331,074	1,870,562	1,988,307	7,189,943
Delinquent property tax revenue not available	86,590	48,958	51,979	187,527
Accrued interest not available	29,336	-	-	29,336
Special assessments revenue not available	16,952	-	-	16,952
Miscellaneous revenue not available	91,041	-	-	91,041
Income tax revenue not available	1,479,341	-	30,190	1,509,531
Intergovernmental revenue not available	352,352	141,534	358,751	852,637
Total deferred inflows of resources	<u>5,386,686</u>	<u>2,061,054</u>	<u>2,429,227</u>	<u>9,876,967</u>
Fund balances:				
Nonspendable	83,140	-	281,963	365,103
Restricted	-	-	578,732	578,732
Committed	-	5,072,133	3,527,416	8,599,549
Assigned	116,655	-	-	116,655
Unassigned (deficit)	4,308,283	-	(1,170,726)	3,137,557
Total fund balances (deficit)	<u>4,508,078</u>	<u>5,072,133</u>	<u>3,217,385</u>	<u>12,797,596</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,335,053</u>	<u>\$ 7,133,187</u>	<u>\$ 7,795,662</u>	<u>\$ 25,263,902</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental fund balances		\$ 12,797,596
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,911,593
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Municipal income taxes receivable	\$ 1,509,531	
Property and other taxes receivable	187,527	
Accounts receivable	91,041	
Accrued interest receivable	29,336	
Special assessments receivable	16,952	
Intergovernmental receivable	852,637	
Total		2,687,024
Two internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. The net position of the internal services fund, including internal balance of (\$107,336) are:		1,378,594
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(12,481)
Unamortized deferred amounts on refundings are not recognized in the governmental funds.		208,308
Vacation benefits payable are not expected to be paid with expendable available resources and therefore are not reported in the funds.		(487,833)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(807,539)	
Various purpose notes	(2,824,000)	
OPWC loan	(51,148)	
General obligation bonds payable	(4,765,000)	
Bond premiums	(142,192)	
Total		(8,589,879)
The net pension asset/liability is not due and receivable/payable in the current period; therefore, the asset, liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred outflows of resources - pension	5,039,086	
Deferred inflows of resources - pension	(125,908)	
Net pension asset	16,865	
Net pension liability	(16,523,817)	
Total		(11,593,774)
Net position of governmental activities		<u>\$ 20,299,148</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	General Obligation Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Municipal income taxes	\$ 6,782,354	\$ -	\$ 139,895	\$ 6,922,249
Property and other taxes	3,134,528	1,792,167	1,892,450	6,819,145
Charges for services.	624,106	-	13,568	637,674
Fines licenses and permits	622,675	-	4,421	627,096
Intergovernmental.	824,104	283,066	1,362,154	2,469,324
Special assessments	-	-	42,862	42,862
Investment income.	73,908	40,162	2,295	116,365
Rental income	16,976	-	48,853	65,829
Contributions and donations.	-	-	46,459	46,459
Other	196,494	1,827	123,429	321,750
Total revenues	<u>12,275,145</u>	<u>2,117,222</u>	<u>3,676,386</u>	<u>18,068,753</u>
Expenditures:				
Current:				
General government	2,775,972	-	28,440	2,804,412
Security of persons and property	4,642,107	-	2,289,918	6,932,025
Public health and welfare.	262,285	-	2,636	264,921
Transportation	151,958	-	831,057	983,015
Community environment	460,060	-	59,921	519,981
Leisure time activity	-	-	988,093	988,093
Basic utility services	1,789,079	-	-	1,789,079
Other	-	-	1,000	1,000
Capital outlay	-	-	1,595,109	1,595,109
Debt service:				
Principal retirement.	-	2,987,907	-	2,987,907
Interest and fiscal charges	-	217,574	8,901	226,475
Note issuance costs	-	13,178	-	13,178
Total expenditures	<u>10,081,461</u>	<u>3,218,659</u>	<u>5,805,075</u>	<u>19,105,195</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>2,193,684</u>	<u>(1,101,437)</u>	<u>(2,128,689)</u>	<u>(1,036,442)</u>
Other financing sources (uses):				
Note issuance	-	2,284,700	539,300	2,824,000
Sale of capital assets.	-	-	775	775
Transfers in	-	253,700	2,275,792	2,529,492
Transfers (out).	(1,025,998)	(1,374,454)	(341,700)	(2,742,152)
Premium on note issuance.	-	5,556	-	5,556
Total other financing sources (uses)	<u>(1,025,998)</u>	<u>1,169,502</u>	<u>2,474,167</u>	<u>2,617,671</u>
Net change in fund balances	1,167,686	68,065	345,478	1,581,229
Fund balances				
at beginning of year	3,340,392	5,004,068	2,871,907	11,216,367
Fund balances at end of year	<u>\$ 4,508,078</u>	<u>\$ 5,072,133</u>	<u>\$ 3,217,385</u>	<u>\$ 12,797,596</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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, 2016

Net change in fund balances - total governmental funds	\$	1,581,229
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital asset additions	\$ 1,346,594	
Current year depreciation	<u>(891,262)</u>	
Total		455,332
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(2,937)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Municipal income taxes	(205,195)	
Property and other taxes	49,425	
Charges for services	34,799	
Intergovernmental	(44,214)	
Special assessments	(25,005)	
Investment income	<u>13,482</u>	
Total		(176,708)
 Proceeds of notes are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.		
		(2,824,000)
 Repayment of bond, note and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		2,987,907
 Premiums on notes are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(5,556)

--Continued

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
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

In the statement of activities, interest is accrued on outstanding bonds and City owned debt, whereas in governmental funds, an interest expenditure is reported when due.

Accrued interest payable	\$	1,852	
Amortization of deferred amounts on refunding		(17,481)	
Amortization of bond premiums		17,649	
Total		17,649	\$ 2,020

Contractually required contributions are reported as expenditures in the funds; however, the statement of net position reports these amounts as deferred outflows.

1,264,375

Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities.

(2,352,309)

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

Compensated absences		42,227	
Vacation benefits payable		(29,133)	
Total		13,094	13,094

Two internal service funds used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(5,612)

Change in net position of governmental activities

\$ 936,835

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 6,089,142	\$ 6,346,000	\$ 6,612,006	\$ 266,006
Real and other taxes.	3,080,865	3,210,825	3,193,528	(17,297)
Charges for services.	554,701	578,100	595,126	17,026
Fines, licenses and permits	602,245	627,650	635,837	8,187
Intergovernmental.	790,844	824,204	818,376	(5,828)
Investment income.	57,571	60,000	76,540	16,540
Rental income	15,352	16,000	17,125	1,125
Other	74,363	77,500	92,261	14,761
Total revenues	<u>11,265,083</u>	<u>11,740,279</u>	<u>12,040,799</u>	<u>300,520</u>
Expenditures:				
Current:				
General government	1,881,399	2,875,284	2,681,445	193,839
Security of persons and property	4,943,155	4,908,790	4,759,231	149,559
Public health and welfare.	240,956	240,956	221,883	19,073
Transportation	162,630	162,630	153,066	9,564
Community environment	493,529	494,494	482,287	12,207
Utility services	1,836,277	1,836,277	1,807,821	28,456
Total expenditures	<u>9,557,946</u>	<u>10,518,431</u>	<u>10,105,733</u>	<u>412,698</u>
Excess of revenues over expenditures.	<u>1,707,137</u>	<u>1,221,848</u>	<u>1,935,066</u>	<u>713,218</u>
Other financing uses:				
Transfers (out).	<u>(2,029,006)</u>	<u>(2,076,021)</u>	<u>(2,151,909)</u>	<u>(75,888)</u>
Total other financing uses	<u>(2,029,006)</u>	<u>(2,076,021)</u>	<u>(2,151,909)</u>	<u>(75,888)</u>
Net change in fund balances	(321,869)	(854,173)	(216,843)	637,330
Fund balances at beginning of year	1,136,105	1,136,105	1,136,105	-
Prior year encumbrances appropriated	167,317	167,317	167,317	-
Fund balance at end of year	<u>\$ 981,553</u>	<u>\$ 449,249</u>	<u>\$ 1,086,579</u>	<u>\$ 637,330</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Pool</u>	<u>Total</u>	<u>Activities - Internal Service Funds</u>
Assets:				
Current assets:				
Equity in pooled cash and investments	\$ 240,711	\$ 81,807	\$ 322,518	\$ 1,542,886
Receivables:				
Accounts	258,571	-	258,571	-
Materials and supplies inventory	3,638	-	3,638	-
Prepayments	-	521	521	-
Total current assets	<u>502,920</u>	<u>82,328</u>	<u>585,248</u>	<u>1,542,886</u>
Noncurrent assets:				
Investment in joint venture	4,122,857	-	4,122,857	-
Net pension asset	2,652	1,035	3,687	-
Capital assets:				
Non-depreciable capital assets	40,000	-	40,000	-
Depreciable capital assets, net	6,834,908	1,254,555	8,089,463	-
Total capital assets, net	<u>6,874,908</u>	<u>1,254,555</u>	<u>8,129,463</u>	<u>-</u>
Total noncurrent assets	<u>11,000,417</u>	<u>1,255,590</u>	<u>12,256,007</u>	<u>-</u>
Total assets	<u>11,503,337</u>	<u>1,337,918</u>	<u>12,841,255</u>	<u>1,542,886</u>
Deferred outflows of resources:				
Pension - OPERS	274,900	107,240	382,140	-
Total deferred outflows of resources	<u>274,900</u>	<u>107,240</u>	<u>382,140</u>	<u>-</u>
Liabilities:				
Current liabilities:				
Accounts payable	16,823	210	17,033	1,987
Accrued wages and benefits payable	15,556	-	15,556	-
Claims payable	-	-	-	54,969
Intergovernmental payable	13,296	64	13,360	-
Accrued interest payable	447	-	447	-
Vacation benefits payable	33,142	-	33,142	-
Compensated absences payable	56,852	-	56,852	-
OPWC loans payable	92,950	-	92,950	-
Total current liabilities	<u>229,066</u>	<u>274</u>	<u>229,340</u>	<u>56,956</u>
Long-term liabilities:				
Compensated absences payable	47,630	-	47,630	-
Notes payable	80,000	-	80,000	-
OPWC loans payable	1,688,294	-	1,688,294	-
Net pension liability	689,491	268,976	958,467	-
Total long-term liabilities	<u>2,505,415</u>	<u>268,976</u>	<u>2,774,391</u>	<u>-</u>
Total liabilities	<u>2,734,481</u>	<u>269,250</u>	<u>3,003,731</u>	<u>56,956</u>
Deferred inflows of resources:				
Pension - OPERS	14,440	5,633	20,073	-
Total deferred inflows of resources	<u>14,440</u>	<u>5,633</u>	<u>20,073</u>	<u>-</u>
Net position:				
Net investment in capital assets	5,013,664	1,254,555	6,268,219	-
Unrestricted (deficit)	4,015,652	(84,280)	3,931,372	1,485,930
Total net position	<u>\$ 9,029,316</u>	<u>\$ 1,170,275</u>	<u>10,199,591</u>	<u>\$ 1,485,930</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.			<u>107,336</u>	
Net position of business-type activities			<u>\$ 10,306,927</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Sewer</u>	<u>Pool</u>	<u>Total</u>	Activities - Internal Service Funds
Operating revenues:				
Charges for services	\$ 2,378,210	\$ 353,189	\$ 2,731,399	\$ 1,162,124
Other	5,260	-	5,260	259,101
Total operating revenues.	<u>2,383,470</u>	<u>353,189</u>	<u>2,736,659</u>	<u>1,421,225</u>
Operating expenses:				
Personal services	662,136	233,033	895,169	-
Benefits.	196,545	34,013	230,558	-
Contract services.	964,316	55,677	1,019,993	76,548
Materials and supplies.	53,308	84,866	138,174	2,156
Depreciation.	288,592	103,972	392,564	-
Claims expense	-	-	-	1,348,838
Total operating expenses.	<u>2,164,897</u>	<u>511,561</u>	<u>2,676,458</u>	<u>1,427,542</u>
Operating income (loss)	<u>218,573</u>	<u>(158,372)</u>	<u>60,201</u>	<u>(6,317)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges	(72,890)	-	(72,890)	-
Loss on disposal of capital assets	-	(21,720)	(21,720)	-
Equity income in joint venture	3,919	-	3,919	-
Total nonoperating revenues (expenses)	<u>(68,971)</u>	<u>(21,720)</u>	<u>(90,691)</u>	<u>-</u>
Income (loss) before transfers	149,602	(180,092)	(30,490)	(6,317)
Transfer in	<u>212,660</u>	<u>-</u>	<u>212,660</u>	<u>-</u>
Change in net position	362,262	(180,092)	182,170	(6,317)
Net position at beginning of year	<u>8,667,054</u>	<u>1,350,367</u>		<u>1,492,247</u>
Net position at end of year	<u>\$ 9,029,316</u>	<u>\$ 1,170,275</u>		<u>\$ 1,485,930</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.			<u>(705)</u>	
Change in net position of business-type activities.			<u>\$ 181,465</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, 2016

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Sewer</u>	<u>Pool</u>	<u>Total</u>	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from charges for services.	\$ 2,398,581	\$ 353,189	\$ 2,751,770	\$ -
Cash received from transactions with other funds . . .	-	-	-	1,269,778
Cash received from other operations	5,260	-	5,260	151,447
Cash payments for personal services.	(617,843)	(203,327)	(821,170)	-
Cash payments for employee services and benefits . . .	(196,545)	(34,013)	(230,558)	-
Cash payments for contractual services	(1,047,852)	(60,434)	(1,108,286)	(94,682)
Cash payments for materials and supplies	(54,118)	(84,866)	(138,984)	(2,156)
Cash payments for claims	-	-	-	(1,550,726)
Net cash provided by (used in) operating activities	<u>487,483</u>	<u>(29,451)</u>	<u>458,032</u>	<u>(226,339)</u>
Cash flows from capital and related financing activities:				
Cash received from note issuance	80,000	-	80,000	-
Acquisition of capital assets	(35,303)	-	(35,303)	-
Principal retirement on OPWC loans	(92,950)	-	(92,950)	-
Interest and fiscal charges	<u>(71,711)</u>	<u>-</u>	<u>(71,711)</u>	<u>-</u>
Net cash used in capital and related financing activities.	<u>(119,964)</u>	<u>-</u>	<u>(119,964)</u>	<u>-</u>
Cash flows from investing activities:				
Capital contributed to joint venture.	<u>(226,586)</u>	<u>-</u>	<u>(226,586)</u>	<u>-</u>
Net cash used in investing activities	<u>(226,586)</u>	<u>-</u>	<u>(226,586)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	140,933	(29,451)	111,482	(226,339)
Cash and investments at beginning of year	<u>99,778</u>	<u>111,258</u>	<u>211,036</u>	<u>1,769,225</u>
Cash and investments at end of year	<u>\$ 240,711</u>	<u>\$ 81,807</u>	<u>\$ 322,518</u>	<u>\$ 1,542,886</u>

- - Continued

CITY OF BAY VILLAGE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Pool</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 218,573	\$ (158,372)	\$ 60,201	\$ (6,317)
Adjustments:				
Depreciation.	288,592	103,972	392,564	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
Materials and supplies inventory	(810)	-	(810)	-
Accounts receivable.	20,371	-	20,371	-
Net pension asset.	(739)	(373)	(1,112)	-
Deferred outflows - pension - OPERS	(186,556)	(76,653)	(263,209)	-
Accounts payable	(84,536)	(4,757)	(89,293)	(18,134)
Accrued wages and benefits	2,955	-	2,955	-
Intergovernmental payable.	4,077	64	4,141	-
Compensated absences payable	7,336	-	7,336	-
Vacation benefits payable	337	-	337	-
Prepayments	-	344	344	(201,888)
Net pension liability	212,408	103,795	316,203	-
Deferred inflows - pension- OPERS.	5,475	2,529	8,004	-
Net cash provided by (used in) operating activities	<u>\$ 487,483</u>	<u>\$ (29,451)</u>	<u>\$ 458,032</u>	<u>\$ (226,339)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2016**

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ 126,271
Accounts receivable	<u>57</u>
Total assets	<u>\$ 126,328</u>
Liabilities:	
Accounts payable	\$ 2,848
Undistributed monies	<u>123,480</u>
Total liabilities	<u>\$ 126,328</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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. Four Ward Council members are elected to 2-year terms; two At-Large Council members and the Council President are elected to 4-year terms. The Director of Law and the Director of Finance are appointed by the Mayor.

Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus”. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure 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; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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, or their designee, 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 13).

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 14.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City are presented as of December 31, 2016 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

The 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 position 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 position 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 position 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, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 plus deferred outflows of resources less liabilities plus deferred inflows of resources is reported as fund balance.

The following are the City's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

General obligation bond retirement fund - This fund is used to account for the accumulation of resources committed to pay debt principal, interest and related costs for general debt.

The other governmental funds of the City account for (a) financial resources that are restricted, committed or assigned to expenditures for capital outlay including the acquisition or construction of capital facilities and other capital assets; (b) specific revenue sources that are restricted or committed to an expenditure for specific purposes other than debt service or capital projects and (c) to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. 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. The City has no trust funds. 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, senior program deposits and security deposits for facility rentals.

C. Measurement Focus

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

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, current deferred outflows of resources, current liabilities and current deferred inflows of resources 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 reconciliations 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, all deferred outflows of resources, all liabilities and all deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary fund is charges for sales and services. Operating expenses for the proprietary fund includes personnel and other expenses related to the sewer operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in 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 inflows and in the presentation of expenses versus expenditures.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 sixty 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 (See Note 5.B.). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5.A.). Revenue from grants, entitlements and donations are 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.

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 Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. See Note 8 for deferred outflows of resources related the City's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Note 8 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 Investments

To improve cash management, cash received by the City is pooled. Monies for all 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 investments".

During the year, the City's investments were limited to Federal Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, negotiable certificates of deposit and a U.S. government money market. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2016 amounted to \$73,908, which includes \$63,089 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. Inventories of Materials and Supplies

On the government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed. Inventories of the proprietary funds are expensed when used.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance which indicates that it does not constitute available spendable resources even though it is a component of fund balance.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016 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. On the fund financial statements, reported prepayments are equally offset by a nonspendable fund balance.

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 position, 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 position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions 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 by 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 \$5,000. 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
Machinery and equipment	5 - 20 years
Software	10 years
Vehicles	3 - 12 years
Infrastructure	20 - 50 years

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

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". On fund financial statements, receivables and payables resulting from long-term interfund loans are "loans receivable/loans payable". In the general fund, long-term interfund loans which do not represent available expendable resources are offset by a nonspendable fund balance. At year-end, the City had \$840,000 in loans receivable/loans payable related to internal borrowings (manuscript bonds). Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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, net pension liability and compensated absences 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 and loans are recognized as a liability on the governmental fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$800,889 of restricted net position, none of which is restricted by enabling legislation. Net position restricted for other purposes primarily include the resources restricted for the operations of the Bay Family Service and for alcohol intervention.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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. Bond Issuance Costs

Bond issuance costs are expensed when they occur.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. On the governmental fund financial statements, bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 12.

Q. Unamortized Amount on Refunding

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources (loss) or deferred inflow of resources (gain).

R. 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.

S. 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 statement 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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

T. Estimates

The preparation of the financial statements in conformity with GAAP 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.

U. 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 Council and that are either unusual in nature or infrequent in occurrence. The City did not have either for 2016.

V. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

W. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the City.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the city.

B. Deficit Fund Balances

Fund balances at December 31, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Street construction, maintenance and repair	\$ 342,940
Equipment replacement	554,446
Fire Pension	26,231
Public improvements	213,485

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the fire pension fund resulted from adjustments for accrued liabilities. The deficit fund balances in the remaining funds resulted from reporting long-term interfund activity as a fund liability rather than as an other financing source (See Note 18 for details) and the recognition of accrued liabilities. These funds complied with Ohio state law, which does not permit a cash deficit at year-end.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 4 - 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;
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: the State Treasury Asset Reserve of Ohio (STAR Ohio).

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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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.

A. Deposits with Financial Institutions

At December 31, 2016, the carrying amount of all City deposits was \$4,118,387 and the bank balance of all City deposits was \$4,224,522. Of the bank balance, \$1,211,955 was exposed to custodial risk as described below while \$3,012,567 was covered by the FDIC. 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 State statute. Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

B. Investments

Investments are reported at fair value. As of December 31, 2016, the City had the following investments:

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	6 months or <u>less</u>	7 to 12 <u>months</u>	13 to 18 <u>months</u>	19 to 24 <u>months</u>	Greater than <u>24 months</u>
Fair Value:						
Negotiable CDs	\$ 7,258,275	\$ 750,583	\$ 2,751,318	\$ 1,753,688	\$ 1,748,311	\$ 254,375
U.S. Government money market	31,050	31,050	-	-	-	-
FHLB	1,631,277	-	-	-	-	1,631,277
FNMA	362,770	-	-	-	362,770	-
FHLMC	787,872	-	-	-	-	787,872
Total	<u>\$ 10,071,244</u>	<u>\$ 781,633</u>	<u>\$ 2,751,318</u>	<u>\$ 1,753,688</u>	<u>\$ 2,111,081</u>	<u>\$ 2,673,524</u>

The weighted average maturity of investments is 1.93 years.

The City's investments in U.S. government money markets are valued using quoted market prices in active markets (Level 1 inputs). The City's investments in federal agency securities (FHLB, FNMA, FHLMC) and negotiable certificates of deposits are valued using quoted prices in markets that are not considered to be active dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 agency securities 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 risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

Credit Risk: Standard & Poor's has assigned the U.S. government money market an AAAM money market rating. The City's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The City's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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, 2016:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% to Total</u>
Fair value:		
Negotiable CDs	\$ 7,258,275	72.07
U.S. Government money market	31,050	0.31
FHLB	1,631,277	16.20
FNMA	362,770	3.60
FHLMC	<u>787,872</u>	<u>7.82</u>
Total	<u>\$ 10,071,244</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2016:

Cash and investments per note

Carrying amount of deposits	\$ 4,118,387
Investments	<u>10,071,244</u>
Total	<u>\$ 14,189,631</u>

Cash and investments per statement of net position

Governmental activities	\$ 13,740,842
Business-type activities	322,518
Fiduciary funds	<u>126,271</u>
Total	<u>\$ 14,189,631</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - RECEIVABLES

Receivables at December 31, 2016, 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).

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. 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.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Auditor 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 property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources since the collection of the 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 a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2016 was \$14.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 520,088,890
Commercial/industrial/mineral	12,703,610
Public utility	<u>10,171,100</u>
Total assessed value	<u><u>\$ 542,963,600</u></u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - RECEIVABLES - (Continued)

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 100 percent 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, 98% of the annual income tax proceeds were credited to the general fund and 2% to the accrued benefits special revenue fund, a nonmajor governmental fund, for 2016.

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

C. Intergovernmental Receivables

A summary of the governmental activities intergovernmental receivables follows:

	<u>Amount</u>
Estate tax	\$ 541
Local government	150,694
Gasoline tax	165,267
Gasoline excise tax	85,154
Motor vehicle tax	45,718
Permissive tax	26,401
Homestead and rollback	542,122
Grants - FEMA	12,595
Other	17,206
Total	<u>\$ 1,045,698</u>

THIS SPACE INTENTIONALLY LEFT BLANK

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - CAPITAL ASSETS

A. Governmental activities

Governmental activities capital asset activity for the year ended December 31, 2016 follows:

Governmental activities:	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 481,467	\$ -	\$ -	\$ 481,467
Construction in progress	132,236	95,463	-	227,699
<i>Total capital assets, not being depreciated</i>	<u>613,703</u>	<u>95,463</u>	<u>-</u>	<u>709,166</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,824,790	215,697	(126,706)	2,913,781
Buildings	13,783,094	16,240	-	13,799,334
Machinery and equipment	3,298,404	200,925	(159,876)	3,339,453
Software	47,838	-	-	47,838
Vehicles	4,968,731	249,179	-	5,217,910
Infrastructure:				
Roads	20,288,850	569,090	-	20,857,940
Culverts	273,724	-	-	273,724
Traffic signals	1,056,130	-	-	1,056,130
<i>Total capital assets, being depreciated</i>	<u>46,541,561</u>	<u>1,251,131</u>	<u>(286,582)</u>	<u>47,506,110</u>
Less accumulated depreciation:				
Land improvements	(1,220,627)	(119,348)	123,769	(1,216,206)
Buildings	(4,630,598)	(281,370)	-	(4,911,968)
Machinery and equipment	(2,625,796)	(133,841)	159,876	(2,599,761)
Software	(19,136)	-	-	(19,136)
Vehicles	(3,645,660)	(299,896)	-	(3,945,556)
Infrastructure:				
Roads	(10,924,354)	(18,970)	-	(10,943,324)
Culverts	(82,112)	(2,633)	-	(84,745)
Traffic signals	(547,783)	(35,204)	-	(582,987)
<i>Total accumulated depreciation</i>	<u>(23,696,066)</u>	<u>(891,262)</u>	<u>283,645</u>	<u>(24,303,683)</u>
Total capital assets being depreciated, net	<u>22,845,495</u>	<u>359,869</u>	<u>(2,937)</u>	<u>23,202,427</u>
Governmental activities capital assets, net	<u>\$ 23,459,198</u>	<u>\$ 455,332</u>	<u>\$ (2,937)</u>	<u>\$ 23,911,593</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 74,314
Security of persons and property	315,782
Public health and welfare	331,642
Transportation	18,970
Leisure time activities	106,644
Community environment	<u>43,910</u>
Total depreciation expense	<u>\$ 891,262</u>

B. Business-type activities

Business-type activities capital asset activity for the year ended December 31, 2016 follows:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
<i>Total capital assets, not being depreciated</i>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,003,880	35,303	(62,057)	977,126
Buildings	1,829,853	-	-	1,829,853
Machinery and equipment	856,490	-	-	856,490
Vehicles	1,312,476	-	-	1,312,476
Infrastructure:				
Sewer lines	<u>10,220,968</u>	<u>-</u>	<u>-</u>	<u>10,220,968</u>
<i>Total capital assets, being depreciated</i>	<u>15,223,667</u>	<u>35,303</u>	<u>(62,057)</u>	<u>15,196,913</u>
Less accumulated depreciation:				
Land improvements	(523,570)	(44,824)	40,337	(528,057)
Buildings	(546,496)	(36,598)	-	(583,094)
Machinery and equipment	(659,125)	(46,902)	-	(706,027)
Vehicles	(666,091)	(87,024)	-	(753,115)
Infrastructure:				
Sewer lines	<u>(4,359,941)</u>	<u>(177,216)</u>	<u>-</u>	<u>(4,537,157)</u>
<i>Total accumulated depreciation</i>	<u>(6,755,223)</u>	<u>(392,564)</u>	<u>40,337</u>	<u>(7,107,450)</u>
Total capital assets, being depreciated, net	<u>8,468,444</u>	<u>(357,261)</u>	<u>(21,720)</u>	<u>8,089,463</u>
Business-type activities capital assets, net	<u>\$ 8,508,444</u>	<u>\$ (357,261)</u>	<u>\$ (21,720)</u>	<u>\$ 8,129,463</u>

Depreciation expense was charged to the enterprise funds as follows:

Sewer	\$ 288,592
Swimming pool	<u>103,972</u>
Total depreciation expense	<u>\$ 392,564</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - RISK MANAGEMENT

A. Comprehensive

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 2016, the City contracted with St. Paul/Travelers and AAIC insurance companies for their insurance. The types and amounts of coverage are as follows:

<u>Type of Coverage</u>	<u>Coverage</u>
Blanket Property (Building Contents), including Boiler	\$ 37,327,488
Inland Marine (Contractors & Miscellaneous Equipment)	2,208,853
EDP (Computers)	199,645
Automobile Liability, Comprehensive & Collision	1,000,000
General Liability	1,000,000/2,000,000
Public Officials Liability	1,000,000
Employment Practices Liability	1,000,000
Umbrella Liability	10,000,000
Law Enforcement Liability	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.

B. Workers' Compensation

In 2016, the City participated in the Ohio Bureau of Workers' Compensation (BWC) retrospective rating and payment system. The rating is based on the claims experience of the prior year and for 2016 the City's discount rate was 58%. The retrospective plan also involves a third party administrator for claims administration and a payment of a minimum premium for administrative services and stop-loss coverage. In 2016, the third party administrator was Benefits One. The actual claims cost for injured employees are paid to the BWC and in 2016 the City paid \$107,896 for incurred claims and \$7,377 was calculated for claims payable as of December 31, 2016.

Changes in the fund's claims liability amount in 2015 and 2016 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2016	\$ 19,708	\$ 95,565	\$ (107,896)	\$ 7,377
2015	60,216	118,018	(158,526)	19,708

C. Employee Health Care Benefits

The City manages health care benefits (medical and prescription drug) 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. An excess coverage insurance (stop-loss) policy covers claims in excess of \$75,000 per employee.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - RISK MANAGEMENT - (Continued)

The claims liability of \$47,592 reported in the fund at December 31, 2016, was estimated by reviewing current claims and is based on the requirements of GASB Statement No. 10, “*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*”, as amended by GASB Statement No. 30, “*Risk Financing Omnibus*”, 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 2015 and 2016 were:

		Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2016	\$	237,149	\$ 1,253,273	\$ (1,442,830)	\$ 47,592
2015		65,215	1,231,528	(1,059,594)	237,149

NOTE 8 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes any net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$502,628 for 2016. Of this amount, \$99,939 is reported as intergovernmental payable.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$851,919 for 2016. Of this amount \$147,238 is reported as intergovernmental payable.

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2015, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03036700%	0.17879040%	
Proportion of the net pension liability current measurement date	<u>0.03084400%</u>	<u>0.18870800%</u>	
Change in proportionate share	<u>0.00047700%</u>	<u>0.00991760%</u>	
Proportion of the net pension asset prior measurement date	0.03814300%		
Proportion of the net pension asset current measurement date	<u>0.62145000%</u>		
Change in proportionate share	<u>0.58330700%</u>		
Proportionate share of the net pension liability	\$ 5,342,570	\$ 12,139,714	\$ 17,482,284
Proportionate share of the net pension asset	20,552	-	20,552
Pension expense	767,941	1,734,426	2,502,367

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 15,442	\$ -	\$ 15,442
Net difference between projected and actual earnings on pension plan investments	1,581,861	1,975,880	3,557,741
Changes in employer's proportionate percentage/ difference between employer contributions	30,148	463,348	493,496
City contributions subsequent to the measurement date	<u>502,628</u>	<u>851,919</u>	<u>1,354,547</u>
Total deferred outflows of resources	<u>\$ 2,130,079</u>	<u>\$ 3,291,147</u>	<u>\$ 5,421,226</u>
Deferred inflows of resources			
Differences between expected and actual experience	111,590	34,088	145,678
Changes in employer's proportionate percentage/ difference between employer contributions	<u>303</u>	<u>-</u>	<u>303</u>
Total deferred inflows of resources	<u>\$ 111,893</u>	<u>\$ 34,088</u>	<u>\$ 145,981</u>

\$1,354,547 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2017.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2017	\$ 360,921	\$ 607,928	\$ 968,849
2018	386,248	607,928	994,176
2019	405,887	607,924	1,013,811
2020	358,828	490,946	849,774
2021	855	75,977	76,832
Thereafter	2,819	14,437	17,256
Total	\$ 1,515,558	\$ 2,405,140	\$ 3,920,698

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation COLA or ad hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 401 (h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 8,512,019	\$ 5,342,570	\$ 2,669,240
Combined Plan	(377)	(18,321)	(32,756)
Member-Directed Plan	5,838	(2,231)	(5,838)

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In October 2016, the OPERS Board of Trustees adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant changes are a reduction in the expected investment return to 7.50% from 8.00%, the expected long-term average wage inflation was reduced to 3.25% from 3.75%, the expected long-term average price inflation was reduced to 2.50% from 3.00% and a change to various demographic assumptions. Although the exact amount of these changes is not known, the impact to the County's net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 and 3.00 percent simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2012 actuarial valuation.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	6.50 %	7.80 %
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation			
Protected Securities *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

* levered 2x

** numbers include inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 16,010,662	\$ 12,139,714	\$ 8,860,647

NOTE 9 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension Plan and the Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2016 was 2.00%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$83,772, \$80,222, and \$77,171, respectively; 82.96% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as intergovernmental payable on the basic financial statements.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts, one account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$9,428 and \$10,503 for the year ended December 31, 2016, \$9,476 and \$9,906 for the year ended December 31, 2015, and \$9,068 and \$9,753, for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 82.08% has been contributed for police and 83.86% has been contributed for firefighters for 2016. The remaining 2016 post-employment health care benefits liability has been reported as intergovernmental payable on the basic financial statements.

NOTE 10 - OTHER EMPLOYEE BENEFITS

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, State laws, and Codified Ordinance. Employees earn vacation at different rates, depending on years of service. Vacation is accrued each pay; employees paid under negotiated agreements must use their vacation time by year-end. Employees who are not under a negotiated agreement and are paid by council ordinance are permitted to cash out up to three weeks of their vacation balance by year end and they are permitted to carry over up to three years to the subsequent year.

At the time of separation, an employee is entitled to payment for any earned but unused vacation within statutory limits. By collective bargaining agreement, Fire Department employees are limited to the payment of six weeks of accumulated, but unused vacation. 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 an 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, provided the employee has at least 20 years and 15 years, respectively. 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.

Permanent part-time employees, weather they are under a negotiated agreement or codified ordinance receive Paid Time Off. Up to 120 hours of Paid Time Off may be used in a one-year period. Paid Time Off is cumulative and the balance is carried into the subsequent year. Upon termination, the balance accumulated as Paid Time Off will be subject to provisions of Sick Leave and not considered as Vacation Leave.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - NOTES PAYABLE

Changes in the City's note activity for the year ended December 31, 2016, were as follows:

	Balance			Balance
	<u>12/31/2015</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/2016</u>
<u>Governmental fund notes</u>				
Various purpose notes - series 2015	\$ 252,600		\$ (252,600)	\$ -
Various purpose notes - series 2015	443,857		(443,857)	-
Various purpose notes - series 2015	42,943		(42,943)	-
Various purpose notes - series 2016	-	274,020	-	274,020
Various purpose notes - series 2016	-	403,580	-	403,580
Various purpose notes - series 2016	-	331,400	-	331,400
Total Governmental Fund Notes	<u>\$ 739,400</u>	<u>\$ 1,009,000</u>	<u>\$ (739,400)</u>	<u>\$ 1,009,000</u>
 <u>Business-type fund notes</u>				
Various purpose notes - series 2015	<u>33,200</u>	<u>-</u>	<u>(33,200)</u>	<u>-</u>
Total Business-type Fund Notes	<u>\$ 33,200</u>	<u>\$ -</u>	<u>\$ (33,200)</u>	<u>\$ -</u>

All notes were backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds. The notes were issued in anticipation of long-term bond financing and will be refinanced when such bonds are issued.

On June 10, 2015, the City issued Series 2015 bond anticipation notes in the amount of \$3,311,000 to help (i) improve streets, (ii) improve the City's parks and recreational facilities, (iii) renovate and otherwise improve City Hall, (iv) renovate and otherwise improve the City's service garage and (v) improve the City's community house. Of this amount, \$2,538,400 has been replaced by debt that extends at least one year beyond the balance sheet date. The notes bore an interest rate of 1.00% and matured on June 10, 2016.

On June 9, 2016, the City issued Series 2016 bond anticipation notes in the amount of \$3,913,000 to help (i) improve streets, (ii) improve the City's parks and recreational facilities, (iii) renovate and otherwise improve City Hall, (iv) renovate and otherwise improve the City's service garage and (v) improve the City's community house. Of this amount, \$2,904,000 has been replaced by debt that extends at least one year beyond the balance sheet date (See Note 23). The notes bear an interest rate of 1.00% and mature on June 9, 2017.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - LONG TERM OBLIGATIONS

A. Governmental activities

The original issue date, interest rate, original issue amount and date of maturity of each of the City's governmental activities bonds and notes 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>				
Recreation facilities-community gym	2002	2017	4.13%	\$ 1,100,000
Recreation facilities-aquatics facility	2002	2022	4.23%	2,600,000
Police station improvements refunding	2012	2028	2.00-4.00%	3,580,000
Police station construction	2011	2026	3.16%	1,625,000
<i>Various purpose notes:</i>				
Various purpose notes, series 2015	2015	2016	1.00%	2,405,600
Various purpose notes, series 2016	2016	2017	1.00%	2,824,000
OPWC:				
Bradley road/naigle road improvement	2013	2023	0.00%	73,069

Changes in governmental activities long-term obligations of the City during 2016 were as follows:

Governmental activities:	<u>12/31/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2016</u>	<u>Due Within One Year</u>
<i>General obligation bonds:</i>					
Recreation facilities - community gym	\$ 125,000	\$ -	\$ (75,000)	\$ 50,000	\$ 50,000
Recreation facilities - aquatics facility	910,000	-	(130,000)	780,000	130,000
Police station improvements - refunding	3,005,000	-	(270,000)	2,735,000	265,000
Police station construction	1,300,000	-	(100,000)	1,200,000	100,000
Unamortized premiums	154,285	5,556	(17,649)	142,192	-
Total general obligation bonds	<u>5,494,285</u>	<u>5,556</u>	<u>(592,649)</u>	<u>4,907,192</u>	<u>545,000</u>
<i>Various purpose notes:</i>					
Various purpose notes, series 2015	2,405,600	-	(2,405,600)	-	-
Various purpose notes, series 2016	-	2,824,000	-	2,824,000	-
Total various purpose notes	<u>2,405,600</u>	<u>2,824,000</u>	<u>(2,405,600)</u>	<u>2,824,000</u>	<u>-</u>
<i>OPWC loans:</i>					
Bradley road/naigle road improvement	58,455	-	(7,307)	51,148	7,307
Total OPWC loans	<u>58,455</u>	<u>-</u>	<u>(7,307)</u>	<u>51,148</u>	<u>7,307</u>
<i>Long-term obligations:</i>					
Net pension liability	12,282,424	4,241,393	-	16,523,817	
Compensated absences	849,766	37,180	(79,407)	807,539	271,969
Total governmental activities	<u>\$ 21,090,530</u>	<u>\$ 7,108,129</u>	<u>\$ (3,084,963)</u>	<u>\$ 25,113,696</u>	<u>\$ 824,276</u>

General obligation bonds and the OPWC loan will be paid from tax money received into the general obligation bond retirement fund.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - LONG TERM OBLIGATIONS - (Continued)

During 2012, the City issued \$3,580,000 in Series 2012 police station improvement refunding bonds to advance refund \$3,375,000 of the Series 2003 police station improvement bonds. The reacquisition price of the Series 2012 police station improvement refunding bonds exceeded the net carrying amount of the old debt by \$289,886. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the refunded debt, which is equal to the life of the Series 2012 issuance. This advance refunding was undertaken to reduce the combined total debt service payments over the next 16 years by \$2,700,000 at December 31, 2016. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

Net pension liability - see Note 8 for details.

Compensated absences will be paid from the general fund, the emergency paramedic, parks and recreation, and the street construction nonmajor special revenue funds. 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 (a nonmajor governmental fund).

On June 9, 2016, the City issued a \$3,913,000 bond anticipation note for various purpose improvements. The liability for this note has been reported as a long-term liability in accordance with GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", since \$2,824,000 of the note has been financed on a long-term basis prior to the issuance of the financial statements. See Note 23 for details on the note issuance.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2016 are as follows:

Year Ending December 31,	General Obligation Bonds			OPWC - Bradley Road/Naigle Road Improvement		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 545,000	\$ 149,773	\$ 694,773	\$ 7,307	\$ -	\$ 7,307
2018	485,000	128,393	613,393	7,307	-	7,307
2019	505,000	109,083	614,083	7,307	-	7,307
2020	500,000	94,093	594,093	7,307	-	7,307
2021	455,000	79,073	534,073	7,307	-	7,307
2022 - 2026	1,870,000	206,171	2,076,171	14,613	-	14,613
2027 - 2028	405,000	16,335	421,335	-	-	-
Total	<u>\$ 4,765,000</u>	<u>\$ 782,921</u>	<u>\$ 5,547,921</u>	<u>\$ 51,148</u>	<u>\$ -</u>	<u>\$ 51,148</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - LONG TERM OBLIGATIONS - (Continued)

B. Business-type activities

The original issue date, interest rate, original issue amount and date of maturity of each of the City’s business-type activities 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>
<u>Business-type activities</u>				
<i>OPWC loan:</i>				
Ohio Public Works Commission loan	2000	2020	0.00%	\$ 714,147
Cahoon Creek Aerial Sewer Replacement	2013	2044	0.00%	1,039,232
Cahoon Road Sewer Replacement	2014	2044	0.00%	729,040
<i>Various purpose notes:</i>				
Various purpose notes series 2015	2015	2016	1.00%	132,800
Various purpose notes series 2016	2016	2017	1.00%	80,000

Changes in business-type activities long-term obligations of the City during 2016 were as follows.

	<u>Balance 12/31/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2016</u>	<u>Due Within One Year</u>
Business-type activities:					
<i>OPWC loan:</i>					
Ohio Public Works Commission loan	\$ 170,035	\$ -	\$ (34,007)	\$ 136,028	\$ 34,007
Cahoon Creek Aerial Sewer Replacement	987,270	-	(34,642)	952,628	34,642
Cahoon Road Sewer Replacement	716,889	-	(24,301)	692,588	24,301
Various purpose notes - series 2015	132,800	-	(132,800)	-	-
Various purpose notes - series 2016	-	80,000	-	80,000	-
Net pension liability	642,264	316,203	-	958,467	-
Compensated absences	97,146	7,336	-	104,482	56,852
<i>Total Business-type activities</i>	<u>\$ 2,746,404</u>	<u>\$ 403,539</u>	<u>\$ (225,750)</u>	<u>\$ 2,924,193</u>	<u>\$ 149,802</u>

The OPWC loans will be paid with monies from the sewer enterprise fund and are used for sewer improvements.

On June 10, 2015, the City issued a \$3,311,000 bond anticipation note for various purpose improvements. The liability for this note has been reported as a long-term liability in accordance with GASB No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, since \$132,800 of the note was financed on a long-term basis prior to the issuance of the financial statements. This note matured on June 10, 2016.

On June 9, 2016, the City issued a \$3,913,000 bond anticipation note for various purpose improvements. The liability for this note has been reported as a long-term liability in accordance with GASB No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, since \$80,000 of the note has been financed on a long-term basis prior to the issuance of the financial statements. See Note 23 for details on the note issuance. This note matures on June 9, 2017.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - LONG TERM OBLIGATIONS - (Continued)

Net pension liability - See Note 8 for details.

Compensated absences will be paid from 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 (a nonmajor governmental fund).

Principal and interest requirements to retire business-type activities long-term obligations outstanding at December 31, 2016 are as follows:

Year Ending December 31,	Business Type Activities		
	OPWC	OPWC	Total
	Cahoon Creek/Road Principal	Cahoon Creek/Road Interest	Principal
2017	\$ 92,950	\$ -	\$ 92,950
2018	92,950	-	92,950
2019	92,950	-	92,950
2020	92,950	-	92,950
2021	58,942	-	58,942
2022 - 2026	294,712	-	294,712
2027 - 2031	294,712	-	294,712
2032 - 2036	294,712	-	294,712
2037 - 2041	294,712	-	294,712
2042 - 2044	171,654	-	171,654
Total	<u>\$ 1,781,244</u>	<u>\$ -</u>	<u>\$ 1,781,244</u>

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City’s legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2016, the City’s total debt margin was \$57,323,867 and the unvoted debt margin was \$29,862,998.

NOTE 13 - 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 OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 13 - JOINT VENTURE - (Continued)

City's continued participation, and the City does have an equity interest in the Plant. The City's equity interest is \$4,122,857 which represents 20.05 percent of the total equity in the Plant. The Plant is not 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 14 - JOINTLY GOVERNED ORGANIZATIONS

A. WestShore 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 2016, the City contributed \$34,081 which represents 10 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 S.W.A.T 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. 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 ten 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 2016, the City contributed \$500 which represented 10 percent of total contributions.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 15 - 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.

B. Litigation

At December 31, 2016, the City was not involved in any lawsuits that would have a material adverse effect on the City's financial position.

NOTE 16 - 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 contributed \$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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17 - INTERFUND TRANSFERS

Transfers made during the year ended December 31, 2016 were as follows:

	Transfer From			
	<i>Governmental Activities</i>			
	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
<u>Transfer To</u>				
<i>Governmental activities</i>				
Parks and recreation	\$ 430,000	\$ -	\$ -	\$ 430,000
Street construction, maintenance and repair	425,000	628,296	-	1,053,296
Fire pension	95,692	-	-	95,692
Accrued benefits	30,000	-	-	30,000
Cahoon park income	25,000	-	-	25,000
Cahoon memorial park	2,000	-	-	2,000
Cahoon library	10,000	-	-	10,000
Community gym	8,306	-	-	8,306
Public improvements	-	68,372	-	68,372
Equipment replacement	-	465,126	88,000	553,126
General obligation bond retirement	-	-	253,700	253,700
<i>Total governmental activities</i>	<u>\$ 1,025,998</u>	<u>\$ 1,161,794</u>	<u>\$ 341,700</u>	<u>\$ 2,529,492</u>
<i>Business-Type Activities</i>				
Sewer	<u>\$ -</u>	<u>\$ 212,660</u>	<u>\$ -</u>	<u>\$ 212,660</u>
Total	<u>\$ 1,025,998</u>	<u>\$ 1,374,454</u>	<u>\$ 341,700</u>	<u>\$ 2,742,152</u>

Transfers between governmental funds are eliminated for reporting on the statement of activities. Net transfers between governmental activities and business-type activities are reported on the statement of activities. Transfers out of the general obligation bond retirement to nonmajor governmental funds were to pay down loans payable related to manuscript debt (See Note 18), to retire the various purpose notes that were previously recorded as fund liabilities and the transfer to the sewer fund was to pay down loans payable related to manuscript debt. The \$88,000 transfer from the municipal buildings improvement fund, a nonmajor governmental fund, to the equipment replacement fund was to fund the City's share of equipment for the street infrastructure project. The \$253,700 transfer from the public improvements fund, a nonmajor governmental fund, to the general obligation bond retirement fund was to move note proceeds from the fund that received the proceeds to the fund required to spend the proceeds. All transfers above were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 18 - LOANS RECEIVABLE/LOANS PAYABLE

Long-term loans receivable/loans payable at December 31, 2016 as reported on the fund statements, consisted of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General obligation bond retirement fund	Nonmajor governmental funds	<u>\$ 840,000</u>

All long-term advances are not expected to be repaid within one year. Loans receivable/loans payable from the general obligation bond retirement fund to nonmajor governmental funds in the amount of \$840,000 are for manuscript debt issued by the City in accordance with Ohio Revised Code Section 133.29 during 2009, 2010 and 2012. These loans will be repaid on December 1 each year with the final maturity date of December 1, 2022. Interest rates range from 0.75-2.90%.

Principal and interest requirements to retire the long-term loans outstanding at December 31, 2016 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 280,000	\$ 12,780	\$ 292,780
2018	165,000	8,630	173,630
2019	155,000	6,567	161,567
2020	80,000	4,320	84,320
2021	80,000	3,000	83,000
2022	<u>80,000</u>	<u>1,560</u>	<u>81,560</u>
Total	<u>\$ 840,000</u>	<u>\$ 36,857</u>	<u>\$ 876,857</u>

Loans between governmental funds are eliminated on the government-wide financial statements. Loan between governmental funds and business-type activities are reported as an internal balance on the government-wide statement of net position.

NOTE 19 - INTERFUND LOANS RECEIVABLE/PAYABLE

Interfund balances at December 31, 2016 as reported on the fund statements, consist of the following amounts of interfund loans receivable/payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental fund	\$ 2,500

The primary purpose of the interfund balances is to cover negative costs in specific funds where revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balance between governmental funds and enterprise funds are reported as internal balances on the statement of net position.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 20 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and street construction, maintenance and repair fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (216,843)
Net adjustment for revenue accruals	(935,115)
Net adjustment for expenditure accruals	(66,128)
Net adjustment for other financing sources/(uses)	1,082,211
Funds budgeted elsewhere	1,008,644
Adjustment for encumbrances	<u>294,917</u>
GAAP basis	<u>\$ 1,167,686</u>

Certain funds that are legally budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the general reserve fund, general insurance fund and the Bay Family services fund.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 21 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	General Obligation Bond Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Materials and supplies inventory	\$ 10,496	\$ -	\$ 117,819	\$ 128,315
Prepays	71,060	-	521	71,581
Permanent fund principal	<u>1,584</u>	<u>-</u>	<u>163,623</u>	<u>165,207</u>
Total nonspendable	<u>83,140</u>	<u>-</u>	<u>281,963</u>	<u>365,103</u>
Restricted:				
Debt service	-	-	19,104	19,104
General government	-	-	61,693	61,693
Security of persons and property	-	-	137,293	137,293
Leisure time activities	-	-	174,768	174,768
Community environment	-	-	6,761	6,761
Transportation	-	-	54,731	54,731
Cahoon Park	-	-	77,681	77,681
Cahoon Library	-	-	25,893	25,893
Capital improvements	-	-	13,403	13,403
Permanent fund	<u>-</u>	<u>-</u>	<u>7,405</u>	<u>7,405</u>
Total restricted	<u>-</u>	<u>-</u>	<u>578,732</u>	<u>578,732</u>
Committed:				
Capital improvements	-	-	3,349,806	3,349,806
Debt service	-	5,072,133	-	5,072,133
Leisure time activities	-	-	881	881
Severance	-	-	146,896	146,896
Cahoon Park	-	-	9,584	9,584
General government	<u>-</u>	<u>-</u>	<u>20,249</u>	<u>20,249</u>
Total committed	<u>-</u>	<u>5,072,133</u>	<u>3,527,416</u>	<u>8,599,549</u>
Assigned:				
Bay family services	4,020	-	-	4,020
General government	37,373	-	-	37,373
Security of persons and property	62,887	-	-	62,887
Community environment	744	-	-	744
Utility services	10,828	-	-	10,828
Transportation	641	-	-	641
Public health and welfare	<u>162</u>	<u>-</u>	<u>-</u>	<u>162</u>
Total assigned	<u>116,655</u>	<u>-</u>	<u>-</u>	<u>116,655</u>
Unassigned (deficit)	<u>4,308,283</u>	<u>-</u>	<u>(1,170,726)</u>	<u>3,137,557</u>
Total fund balances	<u>\$ 4,508,078</u>	<u>\$ 5,072,133</u>	<u>\$ 3,217,385</u>	<u>\$ 12,797,596</u>

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 22 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 115,738
Other governmental	<u>321,675</u>
Total	<u>\$ 437,413</u>

NOTE 23 - SUBSEQUENT EVENT

On June 9, 2017, the City issued \$2,904,000 in Various Purpose Bond Anticipation Notes. The notes carry an interest rate of 1.00% and will mature on June 9, 2018. Furthermore, \$2,904,000 of the issuance is for the purpose of refinancing a portion of the Series 2016 Various Purpose Bond Anticipation Notes, originally issued for \$3,913,000.

THIS PAGE IS INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY VILLAGE, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.030844%	0.030367%	0.030367%
City's proportionate share of the net pension liability	\$ 5,342,570	\$ 3,662,600	\$ 3,579,874
City's covered-employee payroll	\$ 3,876,767	\$ 3,729,939	\$ 3,780,308
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.81%	98.19%	94.70%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.037650%	0.038143%	0.038143%
City's proportionate share of the net pension asset	\$ 18,321	\$ 14,686	\$ 4,001
City's covered-employee payroll	\$ 134,528	\$ 139,427	\$ 130,754
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13.62%	10.53%	3.06%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	104.56%
<i>Member Directed:</i>			
City's proportion of the net pension asset	0.583800%	n/a	n/a
City's proportionate share of the net pension asset	\$ 2,231	n/a	n/a
City's covered-employee payroll	\$ 32,508	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	6.86%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY VILLAGE, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.18870800%	0.17879040%	0.17879040%
City's proportionate share of the net pension liability	\$ 12,139,714	\$ 9,262,088	\$ 8,707,654
City's covered-employee payroll	\$ 3,826,406	\$ 3,781,102	\$ 3,098,062
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	317.26%	244.96%	281.07%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY VILLAGE, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 482,204	\$ 465,212	\$ 447,593	\$ 491,440
Contributions in relation to the contractually required contribution	<u>(482,204)</u>	<u>(465,212)</u>	<u>(447,593)</u>	<u>(491,440)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,018,367	\$ 3,876,767	\$ 3,729,939	\$ 3,780,308
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 16,251	\$ 16,123	\$ 16,731	\$ 16,998
Contributions in relation to the contractually required contribution	<u>(16,251)</u>	<u>(16,123)</u>	<u>(16,731)</u>	<u>(16,998)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 135,425	\$ 134,358	\$ 139,427	\$ 130,754
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed:</i>				
Contractually required contribution	\$ 4,173	\$ 3,901		
Contributions in relation to the contractually required contribution	<u>(4,173)</u>	<u>(3,901)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 34,775	\$ 32,508		
Contributions as a percentage of covered-employee payroll	12.00%	12.00%		

Note: Information prior to 2010 for the Combined Plan and prior to 2015 for the member directed plan was unavailable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 389,995	\$ 395,459	\$ 374,332	\$ 365,276	\$ 298,971	\$ 383,273
<u>(389,995)</u>	<u>(395,459)</u>	<u>(374,332)</u>	<u>(365,276)</u>	<u>(298,971)</u>	<u>(383,273)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,899,950	\$ 3,954,590	\$ 4,196,547	\$ 4,492,940	\$ 4,271,014	\$ 4,590,096
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ 10,241	\$ 10,018	\$ 12,567	\$ -	\$ -	\$ -
<u>(10,241)</u>	<u>(10,018)</u>	<u>(12,567)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 128,818	\$ 126,013	\$ 129,690	\$ -	\$ -	\$ -
7.95%	7.95%	9.69%	8.13%	7.00%	8.35%

CITY OF BAY VILLAGE, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 358,257	\$ 350,607	\$ 346,649	\$ 239,700
Contributions in relation to the contractually required contribution	<u>(358,257)</u>	<u>(350,607)</u>	<u>(346,649)</u>	<u>(239,700)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 1,885,563	\$ 1,845,300	\$ 1,824,468	\$ 1,509,446
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%
 <i>Fire:</i>				
Contractually required contribution	\$ 493,662	\$ 465,560	\$ 459,809	\$ 323,760
Contributions in relation to the contractually required contribution	<u>(493,662)</u>	<u>(465,560)</u>	<u>(459,809)</u>	<u>(323,760)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 2,100,689	\$ 1,981,106	\$ 1,956,634	\$ 1,588,616
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	20.38%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 212,675	\$ 204,768	\$ 220,602	\$ 210,112	\$ 213,528	\$ 199,211
<u>(212,675)</u>	<u>(204,768)</u>	<u>(220,602)</u>	<u>(210,112)</u>	<u>(213,528)</u>	<u>(199,211)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,668,039	\$ 1,606,024	\$ 1,730,212	\$ 1,647,937	\$ 1,674,729	\$ 1,562,439
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
\$ 321,847	\$ 305,229	\$ 342,239	\$ 334,682	\$ 317,749	\$ 286,086
<u>(321,847)</u>	<u>(305,229)</u>	<u>(342,239)</u>	<u>(334,682)</u>	<u>(317,749)</u>	<u>(286,086)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,865,780	\$ 1,769,443	\$ 1,983,994	\$ 1,940,186	\$ 1,842,023	\$ 1,658,470
17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

CITY OF BAY VILLAGE, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's 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

To the Members of Council and Mayor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Bay Village's basic financial statements and have issued our report thereon dated June 22, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of Bay Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City of Bay Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City of Bay Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of Council and Mayor
City of Bay Village

Compliance and Other Matters

As part of reasonably assuring whether the City of Bay Village'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, opining 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City of Bay Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City of Bay Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
June 22, 2017



Dave Yost • Auditor of State

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
AUGUST 24, 2017**