



**CITY OF BAY VILLAGE  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**



**Auditor of State  
Betty Montgomery**



**CITY OF BAY VILLAGE  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

September 9, 2004

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

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The discussion and analysis of the City of Bay Village's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Key Financial highlights for 2003 are as follows:

- Total net assets decreased by \$1,020,416 or 5.0 percent from 2002.
- Capital assets, net of depreciation, increased by \$2,562,865 or 21.4 percent from 2002.
- Total assets of governmental activities increased by \$2,618,942 or 10.7 percent over 2002.
- Total liabilities of governmental activities increased by \$5,186,552 or 34.7 percent from 2002.
- In total, equity in pooled cash and cash equivalents increased by \$1,164,005 for governmental activities and \$647,489 for business-type activities over 2002.
- The City issued \$6,200,000 in general obligation bonds during 2003.
- The City completed the aquatic facility which opened in June 2003.
- The planning phase of the new Police Station started in 2003.

### **Using This Annual Financial Report**

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

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

### **Reporting the City of Bay Village as a Whole**

#### ***Statement of Net Assets and the Statement of Activities***

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2003. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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*Management's Discussion and Analysis*  
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The *Statement of Net Assets* and the *Statement of Activities* are divided into the following categories:

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

### **Reporting the City of Bay Village's Most Significant Funds**

#### ***Fund Financial Statements***

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

#### ***Governmental Funds***

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

#### ***Proprietary Funds***

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement combines the sewer and swimming pool activity. The internal service fund is for self-insurance for health benefits and workers' compensation.

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



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*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

**The City of Bay Village as a Whole**

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

**Table 1**  
**Net Assets**

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets</b>						
Current and Other Assets	\$18,974,970	\$17,436,571	\$7,145,470	\$6,573,434	\$26,120,440	\$24,010,005
Capital Assets, Net	8,231,892	7,151,349	6,290,827	4,808,505	14,522,719	11,959,854
<i>Total Assets</i>	<u>27,206,862</u>	<u>24,587,920</u>	<u>13,436,297</u>	<u>11,381,939</u>	<u>40,643,159</u>	<u>35,969,859</u>
<b>Liabilities</b>						
Current and Other Liabilities	7,385,077	6,743,964	65,664	71,840	7,450,741	6,815,804
Long-Term Liabilities:						
Due Within One Year	1,500,087	1,487,965	87,429	36,273	1,587,516	1,524,238
Due In More Than One Year	11,254,922	6,721,605	1,069,082	642,839	12,324,004	7,364,444
<i>Total Liabilities</i>	<u>20,140,086</u>	<u>14,953,534</u>	<u>1,222,175</u>	<u>750,952</u>	<u>21,362,261</u>	<u>15,704,486</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Related Debt	4,979,892	3,671,349	5,712,710	4,174,791	10,692,602	7,846,140
Restricted for:						
Capital Projects	537,418	3,338,880	0	0	537,418	3,338,880
Debt Service	763,297	795,101	0	0	763,297	795,101
Street Construction	351,073	468,852	0	0	351,073	468,852
Police Pension	81,122	99,527	0	0	81,122	99,527
Fire Pension	70,249	99,934	0	0	70,249	99,934
Accrued Benefits	545,623	553,352	0	0	545,623	553,352
Cahoon Park	103,283	88,526	0	0	103,283	88,526
Waldeck Estate	186,685	193,636	0	0	186,685	193,636
Other Purposes	215,138	127,085	0	0	215,138	127,085
Unrestricted (Deficit)	(767,004)	234,085	6,501,412	6,456,196	5,734,408	6,690,281
<i>Total Net Assets</i>	<u>\$7,066,776</u>	<u>\$9,670,327</u>	<u>\$12,214,122</u>	<u>\$10,630,987</u>	<u>\$19,280,898</u>	<u>\$20,301,314</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Bay Village, total assets exceed total liabilities by \$19,280,898 at December 31, 2003.

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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The largest portion of the City's governmental net assets (71 percent) reflects the investments in capital assets (land, construction in progress, buildings, machinery, equipment, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$4,673,300 from 2002 to 2003, and the City's total liabilities increased by \$5,657,775. The assets increase is due to major construction projects being finished for the aquatic center and land being purchased. The liability increase is due to an increase of debt to meet contractual payments for construction in progress projects.

The negative unrestricted balance of (\$767,004) occurred because the City issued general obligation debt to meet contractual commitments for the community gym and the aquatic facility. As further discussed in Note 16 to the financial statements, the City contributed to the construction to the community gym; however, the asset belongs to the Bay Village City School District. For the aquatic facility, the debt is being paid from the City's general obligation bond retirement fund; however, the asset was capitalized in a business-type activity fund. Therefore, in both circumstances, the governmental activity assets were reduced due to cash outflows for assets that are not held in governmental activities.

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

The total net assets of the City's governmental activities decreased by \$2,603,551 during the current year. The decrease was primarily due to an increase in total liabilities in 2003.

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

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities	
	2003	2002	2003	2002
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$554,313	\$527,031	\$1,774,472	\$1,610,148
Operating Grants and Contributions	542,729	554,031	0	0
Capital Grants and Contributions	23,506	5,000	0	0
Total Program Revenues	1,120,548	1,086,062	1,774,472	1,610,148
General Revenues				
Property Taxes	5,099,331	5,381,932	0	0
Municipal Income Taxes	4,442,591	5,081,978	0	0
Grants and Entitlements	3,225,642	3,449,891	0	0
Unrestricted Contributions and Donations	8,805	9,425	0	0
Interest	62,540	241,272	13,000	0
Miscellaneous	75,761	158,221	0	0
Total General Revenues	12,914,670	14,322,719	13,000	0
Total Revenues	14,035,218	15,408,781	1,787,472	1,610,148
<b>Program Expenses</b>				
General Government	2,838,252	3,196,809		
Security of Persons and Property	5,766,935	5,582,832	0	0
Public Health and Wealth	711,820	668,795	0	0
Transportation	1,964,736	1,690,463	0	0
Community Environment	726,697	874,218	0	0
Basic Utility Services	1,664,521	1,677,569	0	0
Leisure Time Activities	530,254	1,529,468	0	0
Intergovernmental	429,646	699,484	0	0
Interest and Fiscal Charges	376,280	320,687	0	0
Sewer	0	0	1,434,203	1,218,627
Swimming Pool	0	0	399,762	205,498
Total Program Expenses	15,009,141	16,240,325	1,833,965	1,424,125
Increase/Decrease in Net Assets Before Transfers	(973,923)	(831,544)	(46,493)	186,023
Transfers	(1,629,628)	(809,375)	1,629,628	809,375
<i>Increase/Decrease in Net Assets</i>	(2,603,551)	(1,640,919)	1,583,135	995,398
<i>Net Assets Beginning of Year</i>	9,670,327	11,311,246	10,630,987	9,635,589
<i>Net Assets End of Year</i>	\$7,066,776	\$9,670,327	\$12,214,122	\$10,630,987

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The reduction in net assets was due to expenses exceeding revenues under full accrual basis of accounting.

***Governmental Activities***

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2003, property tax accounted for 36.3 percent of total revenues, and municipal income tax accounted for 31.7 percent. The City's municipal income tax rate of 1.5 percent has remained unchanged since 1983. Grants and entitlements revenue totaling \$3,225,642, accounts for 23.0 percent of total governmental activity revenue. These funds are comprised of distributions from the State and county, the majority of which was estate taxes.

Transportation expenses increased \$274,273 from fiscal year 2002. The increase was due to a project between the City and the Ohio Department of Transportation (ODOT) whereby the City's costs were approximately \$207,620 for the project plus an additional \$15,080 for engineering and inspection costs. The City was reimbursed \$160,970 for a portion of the project costs and the inspection costs. The reimbursement was received in June 2004.

Leisure Time Activities decreased by \$999,214 from fiscal year 2002. The decrease was primarily due to contractual commitments for the aquatic center. The contracts concluded when the aquatic center opened in June 2003.

Intergovernmental expenses decreased by \$269,838 from fiscal year 2002. The expense amounts for both years represent the City's portion for the Community Gym. The maximum amount due, in accordance with the terms of the joint operating agreement, is \$1,143,280, and in 2002 and 2003 the City's payments totaled \$1,129,130. The joint operating agreement is further described in Note 16.

Security of persons and property, including the police and fire departments, accounted for \$5,766,935 which is 38.4 percent of total governmental activity expenses.

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

**Table 3**  
**Governmental Activities**

	Total Cost of Services	Net Cost of Services
General Government	2,838,252	2,657,908
Security of Persons and Property	5,766,935	5,695,923
Public Health and Welfare	711,820	539,022
Transportation	1,964,736	1,503,164
Community Environment	726,697	674,291
Basic Utility Services	1,664,521	1,664,521
Leisure Time Activities	530,254	347,838
Intergovernmental	429,646	429,646
Interest and Fiscal Charges	376,280	376,280
<i>Total</i>	\$15,009,141	\$13,888,593

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
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Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions all reduce the governmental activity expenses. For 2003, there was a difference of \$1,120,548 between the Total Cost of Services and the Net Cost of Services. The most significant contributing factors follow.

- General Government expenses were reduced by \$180,344 in program revenues which were derived primarily from cable franchise fees, facility rentals, and mulch sales.
- Security of Persons and Property expenses were reduced by \$48,475 through charges for services which consist of police fines and fees and court fines and fees from the Rocky River Municipal Court which serves the City of Bay Village. Operating Grants and Contributions further reduced these expenses by \$22,537, the majority of which represents grants received by both the City's Police and Fire Departments.
- Public Health and Welfare expenses were reduced by \$172,798. The expenses were mainly reduced by charges for services revenue which consisted of building department fees and permits. During 2003, the City increased the cost for such items.
- Transportation expenses were reduced by \$461,572 which consists of gasoline taxes and vehicle registration fees.
- Leisure Time Activity expenses were reduced by \$182,416 through charges for services for parks and recreation programs and facility rentals.

***Business-Type Activities***

Charges for services are the primary source of revenue for the City's sewer operations and swimming pool activity. In 2003, expenses exceeded revenue by \$46,493. The sewer rates charged to Bay Village residential and commercial accounts have remained the same since 1997, despite rising costs for the City's capital and operating contributions to the Rocky River Wastewater Treatment Plant, a joint venture among four municipalities.

In June 2003 the City opened a new aquatic center which consists of a main pool with slide features, water features and a toddler area as well as a separate diving pool. The new facility has an expanded capacity from the old facility, and it also provides concession access from both the pool and the adjacent park area which includes baseball diamonds, tennis courts, and a toddler playground. In 2003 the City recognized an increase in pool pass sales, concession sales, and pool program attendance (i.e. learn to swim programs).

**Financial Analysis of the Government's Funds**

Information about the City's governmental funds begins on page 18. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,268,805 and total expenditures of \$18,891,585. The most significant fund is the general fund which had an unreserved fund balance at year end of \$1,624,721 compared to expenditures of \$9,569,024. While revenues exceeded expenditures by \$954,284, the excess was transferred to other funds. These transferred funds enable the City to fund other special revenue departments and capital improvements.

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
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**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The City amended its general fund budget at various times throughout fiscal year 2003. All recommendations for budget amendments are initially presented to the Finance Committee of City Council for review before they are presented to the whole Council for Ordinance enactment on the change. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. The general fund supports many of the City's major activities such as the Police and Fire Departments as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the general fund, original budgeted revenues were \$10,402,144. The final budgeted revenue amount was \$10,774,821. The most significant change was an increase in estimated revenue of more than \$100,000 each in Property and Other Taxes, Municipal Income Taxes, and Intergovernmental Revenue. The original appropriations for the general fund were \$10,635,073. The final appropriations were \$9,917,481. The decrease of \$717,592 between the original and final appropriations was primarily due to salaries and benefits which fluctuated due to retirements and new employees. The City's ending unencumbered cash balance in the general fund was \$263,711 over the final budgeted amount.

**Capital Assets and Debt Administration**

**Capital Assets**

**Table 4**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$804,873	\$412,101	\$40,000	\$40,000	\$844,873	\$452,101
Land Improvements	123,587	147,121	875,984	0	999,571	147,121
Buildings	1,857,243	1,930,353	1,530,873	401,635	3,388,116	2,331,988
Machinery and Equipment	717,499	734,547	762,139	24,948	1,479,638	759,495
Vehicles	1,104,668	1,165,899	90,422	122,431	1,195,090	1,288,330
Construction in Progress	299,560	0	63,480	1,192,656	363,040	1,192,656
Infrastructure						
Roads	2,481,888	1,885,604	0	0	2,481,888	1,885,604
Culverts	96,939	99,572	0	0	96,939	99,572
Traffic Signals	745,635	776,152	0	0	745,635	776,152
Sewer Lines	0	0	2,927,929	3,026,835	2,927,929	3,026,835
<b>Total Capital Assets</b>	<b>\$8,231,892</b>	<b>\$7,151,349</b>	<b>\$6,290,827</b>	<b>\$4,808,505</b>	<b>\$14,522,719</b>	<b>\$11,959,854</b>

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
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The City's total capital assets for governmental activities increased in 2003 by \$1,080,543. The increase occurred because of the purchase of land, an increase in construction in progress, and an increase in valuations for the roads that were rehabilitated during 2003.

Capital assets for business-type activities shows a decrease in construction in progress which is primarily due to the completion of the aquatic center. The increase in land improvements and buildings reflect the related increase as the constructed assets were capitalized. Machinery and equipment also increased due to purchase of items for the aquatic center as well as capital purchases of equipment for other departments. For additional information on capital assets, see Note 8.

***Debt***

As of December 31, 2003, the City of Bay Village had \$12,825,117 in bonds and loans outstanding with \$1,367,007 due within one year.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$11,715,000	\$7,140,000	\$500,000	\$0	\$12,215,000	\$7,140,000
Special Assessment Bonds	32,000	40,000	0	0	32,000	40,000
OPWC Loan	0	0	578,117	612,124	578,117	612,124
<i>Total</i>	<u>\$11,747,000</u>	<u>\$7,180,000</u>	<u>\$1,078,117</u>	<u>\$612,124</u>	<u>\$12,825,117</u>	<u>\$7,792,124</u>

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

The Special Assessment Bonds consist of the 1) Cahoon Road Street Improvement and Sidewalk Improvement bonds. Principal and interest for these bonds are paid from the collection of special assessments by the County Auditor.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5 percent of total assessed valuation. The City's overall legal debt margin was \$30,102,227 on December 31, 2003.

Note 14 of the Basic Financial Statements include additional information about the City's debt.

**City of Bay Village, Ohio**  
*Management's Discussion and Analysis*  
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***Current Financial Related Activities***

The City of Bay Village remains committed to improving services and continually reviews and plans for improved services.

The City's income tax rate of 1.5 percent has remained unchanged since 1983. During 2003 the County Auditor reassessed property valuations, and the City will expect to realize an increase in property tax distributions from the County in 2004.

The City has adopted a street improvement plan. Since 1994, the City expended approximately \$700,000 annually on maintenance and resurfacing projects. Contracting with Browning-Ferris for trash removal assists with maintaining service costs.

The City has purchased and paid for vehicles and equipment over the past five years. Sixty-five percent of the Police Department vehicles are three years old or less and three older vehicles were replaced during the first quarter of 2004. The primary fire and emergency vehicles are less than nine years old and three utility vehicles are four years old or less.

The City has also purchased new trucks and vehicles for the street department, and recreation department in addition to equipment for the street, recreation, and sewer departments. The service and street departments continue to replace three to five vehicles annually. As previously noted, sewer rates have remained unchanged despite increasing capital and operating contributions to the Rocky River Wastewater Treatment Plant. The City has been able to offset the costs by reducing inflow to the Plant. This is primarily the result of the City's sewer correction project which helps eliminate inflow and infiltration to sanitary sewer lines.

In conjunction with the new aquatic center, the City improved both the roadways and parking areas in the surrounding area. This center, along with the community gymnasium which opened in March 2004, enhances the City's ability to provide recreational programs and facilities.

**Contacting the City's Finance Department**

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



**City Of Bay Village, Ohio**

*Statement of Net Assets*

December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$9,786,300	\$1,777,972	\$11,564,272
Accounts Receivable	24,738	102,558	127,296
Intergovernmental Receivable	1,007,208	0	1,007,208
Material and Supplies Inventory	91,954	381	92,335
Prepaid Items	49,555	0	49,555
Municipal Income Taxes Receivable	1,555,571	0	1,555,571
Property Taxes Receivable	6,334,463	0	6,334,463
Special Assessments Receivable	67,941	0	67,941
Deferred Charges	57,240	0	57,240
Investment in Joint Venture	0	5,264,559	5,264,559
Capital Assets, Non-Depreciable	1,104,433	103,480	1,207,913
Capital Assets, Depreciable, Net	7,127,459	6,187,347	13,314,806
<i>Total Assets</i>	<u>27,206,862</u>	<u>13,436,297</u>	<u>40,643,159</u>
<b>Liabilities</b>			
Accounts Payable	170,050	11,435	181,485
Contracts Payable	120,408	5,210	125,618
Accrued Wages and Benefits	88,219	6,466	94,685
Intergovernmental Payable	308,653	6,476	315,129
Deferred Revenue	6,060,497	0	6,060,497
Matured Compensated Absences Payable	79,986	0	79,986
Vacation Benefit Payable	430,316	34,629	464,945
Accrued Interest Payable	38,900	1,448	40,348
Claims Payable	88,048	0	88,048
Long-Term Liabilities:			
Due Within One Year	1,500,087	87,429	1,587,516
Due In More Than One Year	11,254,922	1,069,082	12,324,004
<i>Total Liabilities</i>	<u>20,140,086</u>	<u>1,222,175</u>	<u>21,362,261</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,979,892	5,712,710	10,692,602
Restricted for:			
Capital Projects	537,418	0	537,418
Debt Service	763,297	0	763,297
Street Construction	351,073	0	351,073
Police Pension	81,122	0	81,122
Fire Pension	70,249	0	70,249
Accrued Benefits	545,623	0	545,623
Cahoon Park	103,283	0	103,283
Waldeck Estate	186,685	0	186,685
Other Purposes	215,138	0	215,138
Unrestricted (Deficit)	(767,004)	6,501,412	5,734,408
<i>Total Net Assets</i>	<u>\$7,066,776</u>	<u>\$12,214,122</u>	<u>\$19,280,898</u>

See accompanying notes to the basic financial statements

**City of Bay Village, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government	\$2,838,252	\$180,344	\$0	\$0
Security of Persons and Property	5,766,935	48,475	22,537	0
Public Health and Welfare	711,820	149,528	23,270	0
Transportation	1,964,736	0	461,572	0
Community Environment	726,697	0	28,900	23,506
Basic Utility Services	1,664,521	0	0	0
Leisure Time Activities	530,254	175,966	6,450	0
Intergovernmental	429,646	0	0	0
Interest and Fiscal Charges	376,280	0	0	0
<i>Total Governmental Activities</i>	<u>15,009,141</u>	<u>554,313</u>	<u>542,729</u>	<u>23,506</u>
<b>Business-Type Activities</b>				
Sewer	1,434,203	1,454,952	0	0
Swimming Pool	399,762	319,520	0	0
<i>Total Business-Type Activities</i>	<u>1,833,965</u>	<u>1,774,472</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$16,843,106</u>	<u>\$2,328,785</u>	<u>\$542,729</u>	<u>\$23,506</u>

**General Revenues**

Property Taxes Levied for:

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

Municipal Income Taxes Levied for:

- General Purposes
- Accrued Benefits
- Capital Projects

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Contributions and Donations

Interest

Miscellaneous

*Total General Revenues*

Transfers

Change in Net Assets

*Net Assets Beginning of Year - Restated (See Note 3)*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activity	Total
(\$2,657,908)	\$0	(\$2,657,908)
(5,695,923)	0	(5,695,923)
(539,022)	0	(539,022)
(1,503,164)	0	(1,503,164)
(674,291)	0	(674,291)
(1,664,521)	0	(1,664,521)
(347,838)	0	(347,838)
(429,646)	0	(429,646)
(376,280)	0	(376,280)
(13,888,593)	0	(13,888,593)
0	20,749	20,749
0	(80,242)	(80,242)
0	(59,493)	(59,493)
(13,888,593)	(59,493)	(13,948,086)
2,893,652	0	2,893,652
518,144	0	518,144
171,570	0	171,570
102,942	0	102,942
102,942	0	102,942
1,310,081	0	1,310,081
4,176,036	0	4,176,036
88,851	0	88,851
177,704	0	177,704
3,225,642	0	3,225,642
8,805	0	8,805
62,540	13,000	75,540
75,761	0	75,761
12,914,670	13,000	12,927,670
(1,629,628)	1,629,628	0
(2,603,551)	1,583,135	(1,020,416)
9,670,327	10,630,987	20,301,314
<u>\$7,066,776</u>	<u>\$12,214,122</u>	<u>\$19,280,898</u>

**City of Bay Village, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2003*

	General	General Obligation Bond Retirement	Aquatic Center Improvement	Police Station Improvement
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,450,911	\$246,649	\$6,514	\$4,889,626
Accounts Receivable	22,184	0	0	0
Intergovernmental Receivable	624,129	95,939	0	0
Materials and Supplies Inventory	7,858	0	0	0
Municipal Income Taxes Receivable	1,462,237	0	0	0
Property Taxes Receivable	3,571,107	1,653,764	0	0
Special Assessments Receivable	0	0	0	0
<i>Total Assets</i>	<u>\$7,138,426</u>	<u>\$1,996,352</u>	<u>\$6,514</u>	<u>\$4,889,626</u>
<b>Liabilities</b>				
Accounts Payable	\$72,544	\$0	\$0	\$2,503
Contracts Payable	68,747	0	0	51,661
Accrued Wages and Benefits	58,863	0	0	0
Matured Compensated Absences Payable	0	0	0	0
Vacation Benefit Payable	359,665	0	0	0
Intergovernmental Payable	64,127	0	0	0
Deferred Revenue	4,889,759	1,749,703	0	0
<i>Total Liabilities</i>	<u>5,513,705</u>	<u>1,749,703</u>	<u>0</u>	<u>54,164</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	0	0	5,699	197,968
Unreserved:				
Undesignated, Reported in:				
General Fund	1,624,721	0	0	0
Special Revenue Funds	0	0	0	0
Debt Service Funds	0	246,649	0	0
Capital Projects Funds	0	0	815	4,637,494
<i>Total Fund Balances</i>	<u>1,624,721</u>	<u>246,649</u>	<u>6,514</u>	<u>4,835,462</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,138,426</u>	<u>\$1,996,352</u>	<u>\$6,514</u>	<u>\$4,889,626</u>

See accompanying notes to the basic financial statements

**City of Bay Village, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	\$9,074,386
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$2,434,927	\$9,028,627	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	8,231,892
2,554	24,738		
287,140	1,007,208		
84,096	91,954	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
93,334	1,555,571	Municipal Income Taxes	983,055
1,109,592	6,334,463	Delinquent Property Taxes	273,966
67,941	67,941	Intergovernmental	678,764
		Special Assessments	67,941
\$4,079,584	\$18,110,502	Total	2,003,726
\$95,003	\$170,050	Bond issuance costs will be amortized over the life of the bond on the statement of net assets	57,240
0	120,408		
29,356	88,219	Three internal service funds are used by management to charge the cost of insurance and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	667,633
79,986	79,986		
70,651	430,316	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(174,192)
18,787	82,914		
1,424,761	8,064,223	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due	(38,900)
1,718,544	9,036,116		
82,868	286,535	Long-term liabilities, including bonds and compensated absences, are not due and payable in the current period therefore are not reported in the funds:	
0	1,624,721	General Obligation Bonds	(11,715,000)
1,311,694	1,311,694	Special Assessment Bonds	(32,000)
320,142	566,791	Bond Premium	(48,169)
646,336	5,284,645	Compensated Absences	(959,840)
2,361,040	9,074,386	Total	(12,755,009)
\$4,079,584	\$18,110,502	<i>Net Assets of Governmental Activities</i>	\$7,066,776

**City of Bay Village, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2003*

	General	General Obligation Bond Retirement	Aquatic Center Improvement	Police Station Improvement	Other Governmental Funds
<b>Revenues</b>					
Property and Other Taxes	\$2,978,988	\$1,330,393	\$0	\$0	\$925,606
Municipal Income Taxes	4,079,007	0	0	0	260,362
Charges for Services	44,879	0	0	0	152,300
Fines, Licenses and Permits	258,818	0	0	0	31,041
Intergovernmental	3,046,103	191,877	0	0	686,603
Special Assessments	0	0	0	0	31,506
Interest	20,773	26,773	0	0	13,531
Contributions and Donations	8,805	0	0	0	41,451
Rentals	40,510	0	0	0	26,765
Miscellaneous	45,425	0	0	0	27,289
<i>Total Revenues</i>	<u>10,523,308</u>	<u>1,549,043</u>	<u>0</u>	<u>0</u>	<u>2,196,454</u>
<b>Expenditures</b>					
Current:					
General Government	2,686,064	25,050	0	0	88,144
Security of Persons and Property	4,095,539	0	0	0	1,497,215
Public Health and Welfare	259,786	0	0	0	41,629
Transportation	219,218	0	0	0	1,739,918
Community Environment	654,940	0	0	0	27,758
Basic Utility Services	1,653,477	0	0	0	0
Leisure Time Activities	0	0	0	0	915,886
Capital Outlay	0	0	1,627,531	353,725	1,024,385
Intergovernmental	0	0	0	0	429,646
Debt Service:					
Principal Retirement	0	1,125,000	0	0	8,000
Interest and Fiscal Charges	0	357,489	0	0	2,775
Bond Issuance Costs	0	58,410	0	0	0
<i>Total Expenditures</i>	<u>9,569,024</u>	<u>1,565,949</u>	<u>1,627,531</u>	<u>353,725</u>	<u>5,775,356</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>954,284</u>	<u>(16,906)</u>	<u>(1,627,531)</u>	<u>(353,725)</u>	<u>(3,578,902)</u>
<b>Other Financing Sources (Uses)</b>					
General Obligation Bonds Issued	0	0	0	5,000,000	700,000
Bond Premium	0	49,153	0	0	0
Transfers In	0	0	150,000	0	1,832,500
Transfers Out	(1,892,500)	0	(150,000)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,892,500)</u>	<u>49,153</u>	<u>0</u>	<u>5,000,000</u>	<u>2,532,500</u>
<i>Net Change in Fund Balances</i>	<u>(938,216)</u>	<u>32,247</u>	<u>(1,627,531)</u>	<u>4,646,275</u>	<u>(1,046,402)</u>
<i>Fund Balances Beginning of Year Restated (See Note 3)</i>	<u>2,562,937</u>	<u>214,402</u>	<u>1,634,045</u>	<u>189,187</u>	<u>3,407,442</u>
<i>Fund Balances End of Year</i>	<u>\$1,624,721</u>	<u>\$246,649</u>	<u>\$6,514</u>	<u>\$4,835,462</u>	<u>\$2,361,040</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, 2003*

Total Governmental Funds	<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$1,066,373
	<i>Amounts reported for governmental activities in the statement of activities activities are different because</i>	
\$5,234,987	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
4,339,369	Capital Asset Additions	1,828,050
197,179	Current Year Depreciation	(726,533)
289,859	Total	1,101,517
3,924,583	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(20,974)
31,506	Proceeds of bonds and the receipt of a bond premium in the governmental funds only affect long-term liabilities in the statement of net assets.	(5,749,153)
61,077	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
50,256	Delinquent Property Taxes	(135,656)
67,275	Municipal Income Taxes	103,222
72,714	Intergovernmental	(197,663)
14,268,805	Special Assessments	(8,000)
	Total	(238,097)
2,799,258	Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,133,000
5,592,754	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
301,415	Accrued Interest	(15,830)
1,959,136	Bond Issuance Costs	(1,170)
682,698	Bond Premium	984
1,653,477	Total	(16,016)
915,886	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds an expenditure is reported when the bonds are issued.	58,410
3,005,641	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
429,646	Compensated Absences	69,730
	Pension Obligation	(8,990)
1,133,000	Total	60,740
360,264	The internal service funds used by management to charge the costs of insurance to individual funds is not reported in entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change in governmental funds is reported for the year.	649
58,410	<i>Change in Net Assets of Governmental Activities</i>	(\$2,603,551)
18,891,585		
(4,622,780)		
5,700,000		
49,153		
1,982,500		
(2,042,500)		
5,689,153		
1,066,373		
8,008,013		
\$9,074,386		

**City of Bay Village, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
<b>Revenues</b>				
Property and Other Taxes	\$2,872,804	\$2,975,727	\$2,978,988	\$3,261
Municipal Income Taxes	3,892,599	4,032,059	4,134,366	102,307
Charges for Services	39,422	40,162	44,879	4,717
Fines, Licenses and Permits	318,495	329,906	273,441	(56,465)
Intergovernmental	3,028,359	3,136,642	3,159,013	22,371
Interest	134,488	139,306	64,881	(74,425)
Contributions and Donations	9,126	9,453	8,805	(648)
Rentals	38,425	39,802	40,510	708
Miscellaneous	68,426	71,764	45,753	(26,011)
<i>Total Revenues</i>	<u>10,402,144</u>	<u>10,774,821</u>	<u>10,750,636</u>	<u>(24,185)</u>
<b>Expenditures</b>				
Current:				
General Government	3,065,621	2,796,479	2,740,700	55,779
Security of Persons and Property	4,611,155	4,166,855	4,137,742	29,113
Public Health and Welfare	296,730	268,381	264,064	4,317
Transportation	252,348	252,348	232,150	20,198
Community Environment	828,775	775,924	675,320	100,604
Basic Utility Services	1,580,444	1,657,494	1,579,609	77,885
<i>Total Expenditures</i>	<u>10,635,073</u>	<u>9,917,481</u>	<u>9,629,585</u>	<u>287,896</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(232,929)	857,340	1,121,051	263,711
<b>Other Financing Uses</b>				
Transfers Out	(25,950)	(1,892,500)	(1,892,500)	0
<i>Net Change in Fund Balance</i>	(258,879)	(1,035,160)	(771,449)	263,711
<i>Fund Balance Beginning of Year</i>	2,043,924	2,043,924	2,043,924	0
Prior Year Encumbrances Appropriated	105,468	105,468	105,468	0
<i>Fund Balance End of Year</i>	<u>\$1,890,513</u>	<u>\$1,114,232</u>	<u>\$1,377,943</u>	<u>\$263,711</u>

See accompanying notes to the basic financial statements



**City of Bay Village, Ohio**

*Statement of Fund Net Assets*

*Proprietary Funds*

*December 31, 2003*

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Swimming Pool	Total	
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$1,688,261	\$89,711	\$1,777,972	\$757,673
Accounts Receivable	102,558	0	102,558	0
Materials and Supplies Inventory	381	0	381	0
Prepaid Items	0	0	0	49,555
<i>Total Current Assets</i>	<u>1,791,200</u>	<u>89,711</u>	<u>1,880,911</u>	<u>807,228</u>
<i>Noncurrent Assets</i>				
Investment in Joint Venture	5,264,559	0	5,264,559	0
Non-Depreciable Capital Assets	103,480	0	103,480	0
Depreciable Capital Assets, Net	3,598,298	2,589,049	6,187,347	0
<i>Total Noncurrent Assets</i>	<u>8,966,337</u>	<u>2,589,049</u>	<u>11,555,386</u>	<u>0</u>
<i>Total Assets</i>	<u>10,757,537</u>	<u>2,678,760</u>	<u>13,436,297</u>	<u>807,228</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	11,435	0	11,435	0
Contracts Payable	5,210	0	5,210	0
Accrued Wages and Benefits	6,466	0	6,466	0
Intergovernmental Payable	6,476	0	6,476	51,547
Accrued Interest Payable	1,448	0	1,448	0
Vacation Benefit Payable	34,629	0	34,629	0
Compensated Absences Payable	3,422	0	3,422	0
Claims Payable	0	0	0	88,048
General Obligation Bond Payable	50,000	0	50,000	0
OPWC Loans Payable	34,007	0	34,007	0
<i>Total Current Liabilities</i>	<u>153,093</u>	<u>0</u>	<u>153,093</u>	<u>139,595</u>
<i>Long-Term Liabilities (net of current portion)</i>				
Compensated Absences Payable	74,972	0	74,972	0
General Obligation Bond Payable	450,000	0	450,000	0
OPWC Loans Payable	544,110	0	544,110	0
<i>Total Long-Term Liabilities</i>	<u>1,069,082</u>	<u>0</u>	<u>1,069,082</u>	<u>0</u>
<i>Total Liabilities</i>	<u>1,222,175</u>	<u>0</u>	<u>1,222,175</u>	<u>139,595</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,123,661	2,589,049	5,712,710	0
Unrestricted	6,411,701	89,711	6,501,412	667,633
<i>Total Net Assets</i>	<u>\$9,535,362</u>	<u>\$2,678,760</u>	<u>\$12,214,122</u>	<u>\$667,633</u>

See accompanying notes to the basic financial statements

**City of Bay Village, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2003*

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Swimming Pool	Total	
<b>Operating Revenues</b>				
Charges for Services	\$1,454,952	\$319,520	\$1,774,472	\$1,229,230
Other	0	0	0	3,047
<i>Total Operating Revenues</i>	<u>1,454,952</u>	<u>319,520</u>	<u>1,774,472</u>	<u>1,232,277</u>
<b>Operating Expenses</b>				
Personal Services	513,713	158,310	672,023	0
Materials and Supplies	33,281	75,715	108,996	0
Contractual Services	673,087	97,689	770,776	351,710
Claims	0	0	0	872,265
Other	552	914	1,466	9,116
Interest and Fiscal Charges	1,448	0	1,448	0
Depreciation	144,411	67,134	211,545	0
<i>Total Operating Expenses</i>	<u>1,366,492</u>	<u>399,762</u>	<u>1,766,254</u>	<u>1,233,091</u>
<i>Operating Income (Loss)</i>	<u>88,460</u>	<u>(80,242)</u>	<u>8,218</u>	<u>(814)</u>
<b>Non Operating Revenues (Expenses)</b>				
Interest	0	13,000	13,000	1,463
Investment in Joint Venture	52,240	0	52,240	0
Equity in Loss of Joint Venture	(119,951)	0	(119,951)	0
<i>Total Non Operating Revenues (Expenses)</i>	<u>(67,711)</u>	<u>13,000</u>	<u>(54,711)</u>	<u>1,463</u>
<i>Income (Loss) Before Transfers</i>	20,749	(67,242)	(46,493)	649
Capital Contributions	0	1,569,628	1,569,628	0
Transfers In	0	60,000	60,000	0
<i>Change in Net Assets</i>	20,749	1,562,386	1,583,135	649
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>9,514,613</u>	<u>1,116,374</u>	<u>10,630,987</u>	<u>666,984</u>
<i>Net Assets End of Year</i>	<u>\$9,535,362</u>	<u>\$2,678,760</u>	<u>\$12,214,122</u>	<u>\$667,633</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, 2003

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Swimming Pool	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$1,457,454	\$319,520	\$1,776,974	\$0
Cash Received from Transactions with Other Funds	0	0	0	1,229,230
Cash Payments to Suppliers for Materials and Supplies	(32,317)	(75,715)	(108,032)	0
Cash Payments for Employee Services and Benefits	(509,477)	(158,511)	(667,988)	0
Cash Payments for Contractual Services	(669,064)	(97,689)	(766,753)	(333,350)
Cash Payments for Claims	0	0	0	(848,730)
Other Operating Revenues	0	0	0	3,047
Other Operating Expenses	(552)	(914)	(1,466)	(9,116)
<i>Net Cash Provided by (Used for) Operating Activities</i>	246,044	(13,309)	232,735	41,081
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers In	0	60,000	60,000	0
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition of Capital Assets	(124,239)	0	(124,239)	0
Proceeds of Bonds	500,000	0	500,000	0
Principal Paid on OPWC Loan	(34,007)	0	(34,007)	0
<i>Net Cash Provided By Capital and Related Financing Activities</i>	341,754	0	341,754	0
<b>Cash Flows from Investing Activities</b>				
Interest on Investments	0	13,000	13,000	3,807
<i>Net Increase in Cash and Cash Equivalents</i>	587,798	59,691	647,489	44,888
<i>Cash and Cash Equivalents Beginning of Year</i>	1,100,463	30,020	1,130,483	712,785
<i>Cash and Cash Equivalents End of Year</i>	\$1,688,261	\$89,711	\$1,777,972	\$757,673

(continued)

**City of Bay Village, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2003

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Swimming Pool	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used for) Operating Activities</b>				
Operating Income (Loss)	\$88,460	(\$80,242)	8,218	(\$814)
<i>Adjustments:</i>				
Depreciation	144,411	67,134	211,545	0
<i>(Increase) Decrease in Assets:</i>				
Accounts Receivable	2,502	0	2,502	0
Materials and Supplies Inventory	5,240	0	5,240	0
Prepaid Items	0	0	0	(3,745)
<i>Increase (Decrease) in Liabilities:</i>				
Accounts Payable	(1,785)	0	(1,785)	
Contracts Payable	1,532	0	1,532	0
Claims Payable	0	0	0	23,535
Accrued Wages and Benefits	1,015	0	1,015	0
Accrued Interest Payable	1,448	0	1,448	0
Vacation Benefit Payable	665	0	665	0
Compensated Absences Payable	11,406	0	11,406	0
Intergovernmental Payable	(8,850)	(201)	(9,051)	22,105
<i>Total Adjustments</i>	157,584	66,933	224,517	41,895
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$246,044	(\$13,309)	\$232,735	\$41,081

**Noncash Capital Financing Activities**

During 2003, the swimming pool enterprise fund received capital assets constructed from the aquatic facility capital projects fund valued at \$1,569,628.

See accompanying notes to the basic financial statements

**City of Bay Village, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2003*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$52,421</u></u>
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**Liabilities**

Undistributed Monies	<u><u>\$52,421</u></u>
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See accompanying notes to the basic financial statements

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**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**Note 1 - Description of City and Reporting Entity**

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

***Reporting Entity***

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

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

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

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

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

The City is associated with the West Shore Council of Governments, Safe Air for Environment (S.A.F.E.) Council of Governments and the West Shore Area Rescue Association. These are jointly governed organizations and are presented in Note 17.

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**Note 2 - Summary of Significant Accounting Policies**

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

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a services, 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, 2003*

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

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

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

**Aquatic Center Improvement Capital Projects Fund** This fund accounts for the costs associated with constructing the aquatic center.

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

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

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

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

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

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

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

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**C. Measurement Focus**

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

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

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

**D. Basis of Accounting**

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

**Revenues – Exchange and Nonexchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty days of year-end.

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Cash and Cash Equivalents***

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

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

During the year, the City's investments were limited to Repurchase Agreements, Federal Farm Credit Bonds, Federal Home Loan Bonds, Federal National Mortgage Association Bonds, Federal Agricultural Mortgage Discount Bonds, Federal National Mortgage Notes and Federal Home Loan Mortgage Notes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$20,773, which includes \$9,927 assigned from other City funds.

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

***F. Inventory***

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

***H. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City's capitalization threshold is five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

The City's infrastructure consists of roads, culverts, traffic signals, and sewers lines.

***I. Interfund Balances***

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

***J. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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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.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated payable" in the accrued benefits fund.

***K. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

***L. Fund Balance Reserves***

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

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the activities for the operations of the bay family service, alcohol intervention, and state highway.

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

***N. Contributions of Capital***

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

***O. Deferred Charges***

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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***P. Bond Premium***

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

***Q. Interfund Activity***

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

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

***R. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution 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 resolution of the City Council at the legal level of control.

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

The appropriation resolution 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 resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

***S. Operating Revenues and Expenses***

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

**T. Extraordinary and Special Items**

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

**U. Estimates**

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

**Note 3 – Restatement of Prior Year Net Assets**

During 2002, it was determined that the vacation benefit payable liability was understated. The restatement had the following change on fund balance.

	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Aquatic Center Improvement</u>
Fund Balances, December 31, 2002	\$2,917,605	\$214,402	\$1,634,045
Vacation Benefit Payable	<u>(354,668)</u>	<u>0</u>	<u>0</u>
Restated Fund Balances, December 31, 2002	<u>\$2,562,937</u>	<u>\$214,402</u>	<u>\$1,634,045</u>
	<u>Police Station Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2002	\$189,187	\$3,477,766	\$8,433,005
Vacation Benefit Payable	<u>0</u>	<u>(70,324)</u>	<u>(424,992)</u>
Restated Fund Balances, December 31, 2002	<u>\$189,187</u>	<u>\$3,407,442</u>	<u>\$8,008,013</u>

The net change in fund balance decreased \$424,992 from \$2,233,221 to \$1,808,229.

During 2002, it was determined that capital assets and compensated absences payable were understated and special assessment receivable was overstated. These restatements had the following effect on governmental net assets.

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

Governmental Activities Net	
Assets, December 31, 2002	\$9,815,722
Capital Assets	51,262
Long-Term (Deferred) Assets	(11,870)
Long-Term Liabilities	<u>(184,787)</u>
Adjusted Governmental Activities Net	
Assets, December 31, 2002	<u>\$9,670,327</u>

The change in net assets for governmental activities decreased \$145,395 from (\$1,495,524) to (\$1,640,919).

At December 31, 2002, it was determined that capital assets and compensated absences payable were understated for business-type activities. These restatements had the following effect on fund net assets as of December 31, 2002.

	Sewer	Swimming Pool	Total Business-Type Activities
Business-Type Activities Net Assets, December 31, 2002	\$9,526,517	\$779,194	\$10,305,711
Compensated Absences Payable Restatement	(33,494)	0	(33,494)
Capital Asset Restatement	<u>21,590</u>	<u>337,180</u>	<u>358,770</u>
Adjusted Business-Type Activities Net Assets, December 31, 2002	<u>\$9,514,613</u>	<u>\$1,116,374</u>	<u>\$10,630,987</u>

The effect on the change in fund net assets increased \$325,276 from \$670,122 to \$995,398.

**Note 4 – Compliance and Accountability**

**A. Legal Compliance**

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

	Appropriations	Expenditures	Excess
<b>Major Funds:</b>			
<i>General Fund:</i>			
General Government:			
Tax Administrator			
Contractual Services	\$138,020	\$153,417	(\$15,397)
<b>Nonmajor Funds:</b>			
<i>Special Revenue Fund:</i>			
Dwyer Fund:			
Public Health and Welfare			
Other	12,000	12,380	(380)

Contrary to Ohio Revised Code Section 5705.39, the following funds had final appropriations in excess of estimated revenue and carryover balances:



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	Estimated Revenue Plus Carryover Balances	Final Appropriations	Excess
<b>Major Funds:</b>			
<i>Capital Project Funds:</i>			
Aquatic Center Improvement	\$2,096,225	\$2,124,849	(\$28,624)
Police Station Building	189,187	234,557	(45,370)
<b>Nonmajor Funds:</b>			
<i>Special Revenue Fund:</i>			
Parks and Recreation	697,509	706,310	(8,801)
Community Diversion	4,479	9,000	(4,521)
<i>Capital Projects Fund:</i>			
Public Improvement	538,209	862,941	(324,732)

Although these budgetary violations were not corrected by year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

**B. Fund Deficits**

The following funds had deficit fund balances as of December 31, 2003:

<i>Special Revenue Funds:</i>	
Emergency Paramedic	\$43,500
Parks and Recreation	33,387

The deficits in the special revenue funds resulted from the recognition of accrued liabilities. The general fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the City is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$938,216)
Net Adjustment for Revenue Accruals	213,287
Beginning Fair Value Adjustment for Investments	14,670
Ending Fair Value Adjustment for Investments	(2,254)
Unrecorded Cash	1,625
Net Adjustment for Expenditure Accruals	13,036
Encumbrances	<u>(73,597)</u>
Budget Basis	<u><u>(\$771,449)</u></u>

**Note 6 - Deposits and Investments**

State statutes classify monies held by the City 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.

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. Interim monies may be 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;

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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 (STAROhio).

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

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

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

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

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

**Deposits** At year-end, the carrying amount of the City's deposits was \$3,889,793 and the bank balance was \$4,538,757. Of the bank balance:

1. \$400,000 was covered by federal depository insurance.

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2. \$4,138,757 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**Investments** GASB Statement No. 3 requires the City to categorize investments to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments that are held by the counterparty or by its trust department or agent but not in the City's name.

	Category 3	Fair Value
Repurchase Agreements	\$1,345,059	\$1,345,059
Federal Farm Credit Bonds	621,875	621,875
Federal Home Loan Bonds	3,008,250	3,008,250
Federal National Mortgage Association Bonds	501,720	501,720
Federal Agricultural Mortgage Discount Bonds	251,966	251,966
Federal National Mortgage Notes	499,220	499,220
Federal Home Loan Mortgage Notes	1,498,810	1,498,810
 Total Investments	 \$7,726,900	 \$7,726,900

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement 9. Cash equivalents are defined as investments with an original maturity of three months or less. Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$11,616,693	\$0
Investments:		
Repurchase Agreements	(1,345,059)	1,345,059
Federal Farm Credit Bonds	(621,875)	621,875
Federal Home Loan Bonds	(3,008,250)	3,008,250
Federal National Mortgage Bonds	(501,720)	501,720
Federal Agricultural Mortgage Discount Notes	(251,966)	251,966
Federal National Mortgage Notes	(499,220)	499,220
Federal Home Loan Mortgage Notes	(1,498,810)	1,498,810
GASB Statement No. 3	\$3,889,793	\$7,726,900

**City of Bay Village, Ohio**  
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**Note 7 - Receivables**

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, special assessments, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts (billings for user charged services and court fines).

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

Special assessments expected to be collected in more than one year amount to \$24,000 in the special assessment bond retirement fund. The amount of delinquent special assessments outstanding at year-end is \$35,941.

***A. Property Taxes***

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility real and tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes which become a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2003 was \$14.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$394,785,340
Public Utility Property	6,050,490
Tangible Personal Property	<u>4,534,416</u>
Total Valuation	<u><u>\$405,370,246</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Bay Village. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

***B. Income Tax***

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

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

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

***C. Intergovernmental Receivables***

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

	<u>Amount</u>
Local Government	\$531,147
Homestead and Rollback	367,478
Estate Tax	82,894
Grants	25,000
Liquor Permits	<u>689</u>
Total	<u>\$1,007,208</u>

**Note 8 - 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.

**City of Bay Village, Ohio**  
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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**

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

**Note 9 – Capital Assets**

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
<b>Governmental Activities</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$412,101	\$392,772	\$0	\$804,873
Construction in Progress	0	299,560	0	299,560
<i>Total Capital Assets, Not Being Depreciated</i>	<u>412,101</u>	<u>692,332</u>	<u>0</u>	<u>1,104,433</u>
<b>Capital Assets, Being Depreciated:</b>				
Land Improvements	552,199	0	0	552,199
Buildings	3,807,504	0	0	3,807,504
Machinery and Equipment	2,038,939	105,363	0	2,144,302
Vehicles	3,632,828	302,855	(203,847)	3,731,836
Infrastructure:				
Roads	8,942,250	727,500	0	9,669,750
Culverts	143,103	0	0	143,103
Traffic Signals	915,500	0	0	915,500
<i>Total Capital Assets, Being Depreciated</i>	<u>20,032,323</u>	<u>1,135,718</u>	<u>(203,847)</u>	<u>20,964,194</u>
Less Accumulated Depreciation:				
Land Improvements	(405,078)	(23,534)	0	(428,612)
Buildings	(1,877,151)	(73,110)	0	(1,950,261)
Machinery and Equipment	(1,304,392)	(122,411)	0	(1,426,803)
Vehicles	(2,466,929)	(343,112)	182,873	(2,627,168)
Infrastructure:				
Roads	(7,056,646)	(131,216)	0	(7,187,862)
Culverts	(43,531)	(2,633)	0	(46,164)
Traffic Signals	(139,348)	(30,517)	0	(169,865)
<i>Total Accumulated Depreciation</i>	<u>(13,293,075)</u>	<u>(726,533) *</u>	<u>182,873</u>	<u>(13,836,735)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,739,248</u>	<u>409,185</u>	<u>(20,974)</u>	<u>7,127,459</u>
Governmental Activities Capital Assets, Net	<u>\$7,151,349</u>	<u>\$1,101,517</u>	<u>(\$20,974)</u>	<u>\$8,231,892</u>

**City of Bay Village, Ohio**  
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	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
<b>Business-Type Activities</b>				
<b><i>Capital Assets, Not Being Depreciated:</i></b>				
Land	\$40,000	\$0	\$0	\$40,000
Construction in Progress	1,192,656	117,055	(1,246,231)	63,480
<i>Total Capital Assets, Not Being Depreciated</i>	<u>1,232,656</u>	<u>117,055</u>	<u>(1,246,231)</u>	<u>103,480</u>
<b><i>Capital Assets, Being Depreciated:</i></b>				
Land Improvements	0	895,722	0	895,722
Buildings	546,500	1,160,178	0	1,706,678
Machinery and Equipment	27,720	767,143	0	794,863
Vehicles	730,809	0	0	730,809
Infrastructure:				
Sewer Lines	5,849,211	0	0	5,849,211
<i>Total Capital Assets, Being Depreciated</i>	<u>7,154,240</u>	<u>2,823,043</u>	<u>0</u>	<u>9,977,283</u>
Less Accumulated Depreciation:				
Land Improvements	0	(19,738)	0	(19,738)
Buildings	(144,865)	(30,940)	0	(175,805)
Machinery and Equipment	(2,772)	(29,952)	0	(32,724)
Vehicles	(608,378)	(32,009)	0	(640,387)
Infrastructure:				
Sewer Lines	(2,822,376)	(98,906)	0	(2,921,282)
<i>Total Accumulated Depreciation</i>	<u>(3,578,391)</u>	<u>(211,545)</u>	<u>0</u>	<u>(3,789,936)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,575,849</u>	<u>2,611,498</u>	<u>0</u>	<u>6,187,347</u>
Business-Type Activities Capital Assets, Net	<u>\$4,808,505</u>	<u>\$2,728,553</u>	<u>(\$1,246,231)</u>	<u>\$6,290,827</u>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$52,129
Security of Persons and Property	197,893
Public Health and Welfare	404,596
Community Environment	34,006
Leisure Time Activities	37,909
Total Depreciation Expense	<u>\$726,533</u>



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**Note 10 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with Clarendon National for all their insurance. The coverage and deductibles are as follows:

Type of Coverage	Coverage
Property/Inland Marine	\$10,641,388
Public Official and Liability	1,000,000
Boiler	5,000,000
General Liability	1,000,000/2,000,000
Automobile Liability, Comprehensive and Collision	1,000,000
Law Enforcement	1,000,000

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

The City participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for injured employees. The maintenance of these benefits is accounted for in the Workers' Compensation internal service fund. The claims liability of \$3,914 reported in the fund at December 31, 2003 is based on an estimate of costs relating to incurred but not reported claims.

The City manages the hospital/medical, dental, and life insurance benefits for its employees on a self-insured basis using an internal service fund. A third party administrator processes and pays the claims. The City purchases stop-loss coverage to insure against catastrophic claims. Incurred but not reported claims of \$84,134 have been accrued as a liability at December 31, 2003, based on an estimate by the third party administrator. An excess coverage insurance (stop-loss) policy covers claims in excess of \$30,000 per employee.

The claims liability of \$88,048 reported in the fund at December 31, 2003, was estimated by reviewing current claims and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in the fund's claims liability amount in 2002 and 2003 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$64,970	\$874,488	\$874,945	\$64,513
2003	64,513	872,265	848,730	88,048

**City of Bay Village, Ohio**  
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**Note 11 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$363,874, \$355,039 and \$361,830, respectively; 88.71 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$1,804 made by the City and \$1,132 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

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

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Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police for the years ended December 31, 2003, 2002 and 2001 were \$164,531, \$158,364 and \$157,684, respectively. The City's contributions to the Fund for firefighters for the years ended December 31, 2003, 2002 and 2001 were \$268,496, \$261,974 and \$250,186, respectively. The full amount has been contributed for 2002 and 2001. 71.93 percent for police and 74.05 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

## **Note 12 - Postemployment Benefits**

### ***A. Ohio Public Employees Retirement System (OPERS)***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$212,792. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

***B. Ohio Police and Fire Pension Fund***

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$108,521 for police and \$128,052 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**Note 13 – Other Employee Benefits**

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

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

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

**Note 14 – Long-Term Obligations**

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

Debt Issue	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
<b>Governmental Activities</b>				
<i>General Obligation Bonds:</i>				
Various Improvements	1993	2003	3.69 %	\$1,050,000
Various Improvements	1997	2007	4.94	700,000
Street Improvements	1999	2004	4.08	100,000
Street Improvements	2001	2006	3.30	1,300,000
Motorized Equipment	2001	2006	3.30	200,000
Real Estate Acquisition	2001	2006	3.30	300,000
Various Improvements	2002	2007	3.21	1,200,000
Recreation Facilities - Community Gym	2002	2017	4.13	1,100,000
Recreation Facilities - Aquatics Facility	2002	2022	4.23	2,600,000
Street Improvements	2003	2010	2.70	700,000
Police Station Improvements	2003	2028	4.40	5,000,000
<i>Special Assessment Bonds:</i>				
Street Improvements - Cahoon Road	1987	2007	7.75	120,000
Sidewalk Improvements	1997	2007	4.49	130,000
<b>Business Type Activities</b>				
<i>General Obligation Bonds:</i>				
Sewer Improvements	2003	2013	3.22	500,000
<i>OPWC Loan</i>				
Ohio Public Works Commission Loan	2000	2020	0.00	714,147

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

Changes in bonds and other long-term obligations of the City during 2003 were as follows:

	Principal Outstanding 12/31/02	Additions	Deletions	Principal Outstanding 12/31/03	Due Within One Year
<b>Governmental Activities</b>					
<i>General Obligation Bonds:</i>					
Various Improvements	\$50,000	\$0	\$50,000	\$0	\$0
Various Improvements	350,000	0	70,000	280,000	70,000
Street Improvements	400,000	0	200,000	200,000	200,000
Street Improvements	1,040,000	0	260,000	780,000	260,000
Motorized Equipment	160,000	0	40,000	120,000	40,000
Real Estate Acquisition	240,000	0	60,000	180,000	60,000
Various Improvements	1,200,000	0	240,000	960,000	240,000
Recreation Facilities - Community Gym	1,100,000	0	75,000	1,025,000	75,000
Recreation Facilities - Aquatics Facility	2,600,000	0	130,000	2,470,000	130,000
Street Improvements	0	700,000	0	700,000	100,000
Police Station Improvements	0	5,000,000	0	5,000,000	100,000
Unamortized Premium	0	49,153	984	48,169	0
<i>Total General Obligation Bonds</i>	<u>7,140,000</u>	<u>5,749,153</u>	<u>1,125,984</u>	<u>11,763,169</u>	<u>1,275,000</u>
<i>Special Assessment Bonds:</i>					
Street Improvements - Cahoon Road	30,000	0	6,000	24,000	6,000
Sidewalk Improvements	10,000	0	2,000	8,000	2,000
<i>Total Special Assessment Bonds</i>	<u>40,000</u>	<u>0</u>	<u>8,000</u>	<u>32,000</u>	<u>8,000</u>
Compensated Absences	1,029,570	10,256	79,986	959,840	217,087
<i>Total Governmental Activities</i>	<u>\$8,209,570</u>	<u>\$5,759,409</u>	<u>\$1,213,970</u>	<u>\$12,755,009</u>	<u>\$1,500,087</u>
<b>Business-Type Activities</b>					
<i>General Obligation Bonds:</i>					
Sewer Improvements	\$0	\$500,000	\$0	\$500,000	\$50,000
<i>OPWC Loan:</i>					
Ohio Public Works Commission Loan	612,124	0	34,007	578,117	34,007
Compensated Absences	66,988	11,406	0	78,394	3,422
<i>Total Business-Type Activities</i>	<u>\$679,112</u>	<u>\$511,406</u>	<u>\$34,007</u>	<u>\$1,156,511</u>	<u>\$87,429</u>

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

Compensated absences will be paid from the general fund, the emergency paramedic, parks and recreation, youth activities and the street construction special revenue funds and the sewer enterprise fund.

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

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

The City's overall legal debt margin was \$30,102,227 and an unvoted debt margin of \$9,833,715 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Governmental Activities						
Years	General Obligation Bonds		Special Assessment Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$1,275,000	\$466,801	\$8,000	\$2,220	\$1,283,000	\$469,021
2005	1,075,000	422,201	8,000	1,665	1,083,000	423,866
2006	1,075,000	385,311	8,000	1,110	1,083,000	386,421
2007	715,000	348,241	8,000	555	723,000	348,796
2008	405,000	324,628	0	0	405,000	324,628
2009-2013	2,350,000	1,362,980	0	0	2,350,000	1,362,980
2014-2018	2,050,000	909,640	0	0	2,050,000	909,640
2019-2023	1,645,000	485,343	0	0	1,645,000	485,343
2024-2028	1,125,000	385,819	0	0	1,125,000	385,819
Total	\$11,715,000	\$5,090,964	\$32,000	\$5,550	\$11,747,000	\$5,096,514

Business Type Activities					
Years	General Obligation Bonds		OPWC	Total	
	Principal	Interest	Principal	Principal	Interest
2004	\$50,000	\$17,375	\$34,007	\$84,007	\$17,375
2005	50,000	15,875	34,007	84,007	15,875
2006	50,000	14,375	34,007	84,007	14,375
2007	50,000	12,875	34,007	84,007	12,875
2008	50,000	11,375	34,007	84,007	11,375
2009-2013	250,000	29,875	170,035	420,035	29,875
2014-2018	0	0	170,035	170,035	0
2019-2023	0	0	68,012	68,012	0
Total	\$500,000	\$101,750	\$578,117	\$1,078,117	\$101,750

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**Note 15 - Joint Venture**

***Rocky River Wastewater Treatment Plant***

The Rocky River Wastewater Treatment Plant (the "Plant") is a joint venture among the cities of Fairview Park, Bay Village, Rocky River and Westlake. The Plant is governed by a management board consisting of the elected mayors of the four member cities and a fifth person nominated and elected by the mayors. The board has complete authority over all aspects of the Plant's operation. The Plant supplies all participating residents of the member cities with sewer services. Each city owns the sewer lines located in its city and bills its residents for usage. Continued existence of the Plant is dependent on the City's continued participation, and the City does have an equity interest in the Plant. The City's equity interest is \$5,264,559 which represents 13.06 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, Rocky River, Ohio 44116.

**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 commences on the first date the Gym is opened for public use and ends thirty years thereafter. The Gym opened in March, 2004.

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.

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

The City's contributions are payable based on the percent of project completion as determined by the School District. In 2003, the City contributed \$429,646 which represents 40 percent of the total equity in the community gym. This is paid and reported as an intergovernmental expenditure/expense in the community gym capital projects fund and on the statement of activities.

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



**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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

**Note 17 - Jointly Governed Organizations**

***A. West Shore Council of Governments***

The West Shore Council of Governments helps foster cooperation between municipalities in areas effecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each city's degree of control is limited to its representation on the board. In 2003, the City contributed \$29,901, which represents 10.14 percent of total contributions. Complete financial information statements can be obtained from the City of Bay Village 350 Dover Center Road, Bay Village, Ohio 44140.

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

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

The S.A.F.E. Council of Governments was formed between municipalities to oppose changes to Cleveland Hopkins International Airport's traffic pattern. The Cities of Rocky River, Bay Village, Fairview Park, and Westlake govern by a board consisting of the elected mayors. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. The City did not make any contributions to S.A.F.E. in 2003. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard, Rocky River, Ohio 44116.

***C. West Shore Area Rescue Association***

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

Budgets are adopted by the Board. Each city's degree of control is limited to its representation on the Board. In 2003, the City contributed \$300 which represented 8.3 percent of total contributions.

**City of Bay Village, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

**Note 18 - Interfund Transfers**

Transfers are primarily from the general fund to various funds within the City. The general fund will transfer funds to help finance the various programs accounted for in other funds. The transfer to the aquatic center improvement fund was used to finance the construction of the aquatic center. The transfer to the nonmajor fund from the aquatic center improvement fund was used to pay a temporary transfer from the prior year.

Transfers made during the year ended December 31, 2003 were as follows:

	<b>Transfer From</b>		
	<i>Governmental Activities</i>		
		Aquatic Center Improvement	
<b>Transfer To</b>	General	Improvement	Totals
<i>Governmental Activities</i>			
Aquatic Center Improvement	\$150,000	\$0	\$150,000
Nonmajor Funds	1,682,500	150,000	1,832,500
Total Governmental Activities	1,832,500	150,000	1,982,500
<i>Business-Type Activities</i>			
Swimming Pool	60,000	0	60,000
Total	\$1,892,500	\$150,000	\$2,042,500

**Note 19 - Construction and Other Significant Commitments**

At December 31, 2003, the City's significant contractual commitments consisted of:

	Contract Amount	Amount Paid	Contract Remaining
Police Station Improvements	\$824,190	\$299,560	\$524,630
Sewer Rehabilitation	934,610	63,480	871,130
Total	\$1,758,800	\$363,040	\$1,395,760



## Auditor of State Betty Montgomery

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 9, 2004.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 9, 2004.

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

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

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

**Betty Montgomery**  
Auditor of State

September 9, 2004

CITY OF BAY VILLAGE  
CUYAHOGA COUNTY

DECEMBER 31, 2003

SCHEDULE OF FINDINGS

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

Items appearing with an asterisk (\*) denote comments which have been previously reported in our audit of fiscal year ended December 31, 2002 financial statements in which no corrective action has been taken.

FINDING NUMBER	2003-001
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**Purchase Order Certification \***

Ohio Revised Code 5705.41 (D) provides that no subdivision or taxing authority shall make any contract or give any order involving the expenditure of money unless there is attached a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

This section also provides two exceptions to the standard requirement stated above:

- Then and Now Certificate: If no certificate is furnished as required, upon receipt of the fiscal officer's certificate both at the time that the contract or order was made and at the time that he is completing his certification that a sufficient sum was appropriated and free of any previous encumbrances, the taxing authority (City Council) may authorize the issuance of a warrant in payment of the amount due upon such contract or order its approval by the taxing authority by resolution within thirty days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid. If approval is not made within thirty days, there is no legal liability on the part of the subdivision or taxing district.
- If the amount involved is less than one thousand dollars (\$3,000 after April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of City Council upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Twenty-one out of eighty-two (25.6 %) purchase orders tested, representing \$10,996 of \$65,040 (16.9%), included an invoice that was dated before the purchase order date. Although purchase orders were certified by the Finance Director after the fact, invoices received before a purchase order is prepared precludes the Finance Director from certifying funds are available before the expenditure is made. Furthermore, "then and now" certificates were not issued.

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

We recommend the City prepare purchase orders certifying the availability of funds and encumbering the expenditure account prior to the ordering of any goods and/or services. We further recommend the City review its policies and procedures to ensure the requirement to obtain a properly authorized purchase order prior to placing orders or obtaining services is strictly enforced.

**CITY OF BAY VILLAGE  
CUYAHOGA COUNTY**

**DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS**

<b>FINDING NUMBER</b>	<b>2003-002</b>
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**Appropriations Limited by Estimated Resources \***

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total estimated fund resources from each fund. This section also requires that the City obtain a County Auditor's certificate when amending estimated resources that total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The following funds had original appropriations in excess of certified available revenues:

<u>Fund</u>	<u>Original Estimated Revenues Plus Carryover Balance</u>	<u>Original Appropriation</u>	<u>Excess</u>
Police Station Building	\$189,187	\$234,557	\$(45,370)
Community Diversion	4,479	9,000	(4,521)
Public Improvement	538,209	862,941	(324,732)

We recommend the City review the original appropriation ordinance to ensure that appropriations are within the amended certificate of estimated resources.



**Auditor of State  
Betty Montgomery**

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**CITY OF BAY VILLAGE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 14, 2004**