



Mary Taylor, CPA
Auditor of State

CITY OF BAY VILLAGE
CUYAHOGA COUNTY

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 3A and 3B to the basic financial statements, the City restated January 1, 2006 Fund Balances due to a reclassification of pension obligations. The City also restated January 1, 2006 Net Assets for Governmental Type Activities and Business Type Activities due to capital asset adjustments.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

October 15, 2007

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 UNAUDITED

The management's discussion and analysis of the City of Bay Village's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$1,868,747. Net assets of governmental activities increased \$2,062,082 or 26.45% over 2005 and net assets of business-type activities decreased \$193,335 or 1.66% below 2005.
- General revenues accounted for \$14,226,447 of total governmental activities revenue. Program specific revenues accounted for \$1,485,562 or 9.45% of total governmental activities revenue.
- The City had \$15,583,531 in expenses related to governmental activities; \$1,485,562 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$14,097,969 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$14,226,447.
- The general fund had revenues, other financing sources and an extraordinary item of \$11,798,190 in 2006. This represents an increase of \$115,532 from 2005. The expenditures and other financing uses of the general fund, which totaled \$12,180,926 in 2006, increased \$542,575 from 2005. The net decrease in fund balance for the general fund was \$382,736 or 18.30%.
- The general obligation bond retirement fund had revenues and other financing sources of \$4,050,145 in 2006. The expenditures and other financing uses of the general obligation bond retirement fund, totaled \$4,013,746 in 2006. The net increase in fund balance for the general obligation bond retirement fund was \$36,399 or 17.76%.
- Net assets for the business-type activities, which are made up of the Sewer and Swimming Pool enterprise funds, decreased in 2006 by \$193,335. This decrease in net assets was due primarily to an increase in expenses related to contractual services.
- In the general fund, the actual revenues and other financing sources came in \$342,444 lower than they were in the final budget and actual expenditures and other financing uses were \$160,931 less than the amount in the final budget. Budgeted expenditures were increased \$777,045 from the original to the final budget. Budgeted revenues were increased \$775,232 from the original to the final budget.

Using this Annual Financial Report

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

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

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF BAY VILLAGE, OHIO

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and general obligation bond retirement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-25 of this report.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer and swimming pool operations. Both of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-65 of this report.

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. The net assets reported at December 31, 2005 have been restated as described in Note 3.B. to the financial statements. The table below provides a summary of the City's net assets for 2006 compared to 2005.

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>Restated 2005</u>	<u>2006</u>	<u>Restated 2005</u>	<u>2006</u>	<u>Restated 2005</u>
<u>Assets</u>						
Current and other assets	\$ 14,773,435	\$ 15,248,089	\$ 6,432,244	\$ 6,431,877	\$ 21,205,679	\$ 21,679,966
Capital assets, net	<u>18,684,072</u>	<u>14,799,606</u>	<u>6,029,339</u>	<u>6,281,519</u>	<u>24,713,411</u>	<u>21,081,125</u>
Total assets	<u>33,457,507</u>	<u>30,047,695</u>	<u>12,461,583</u>	<u>12,713,396</u>	<u>45,919,090</u>	<u>42,761,091</u>
<u>Liabilities</u>						
Current and other liabilities	8,866,926	7,850,005	74,633	59,581	8,941,559	7,909,586
Long-term liabilities:						
Due within one year	4,210,227	1,774,153	84,007	86,721	4,294,234	1,860,874
Due in more than one year	<u>10,522,697</u>	<u>12,627,962</u>	<u>844,012</u>	<u>914,828</u>	<u>11,366,709</u>	<u>13,542,790</u>
Total liabilities	<u>23,599,850</u>	<u>22,252,120</u>	<u>1,002,652</u>	<u>1,061,130</u>	<u>24,602,502</u>	<u>23,313,250</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,248,227	4,780,854	5,203,243	5,371,416	10,451,470	10,152,270
Restricted for:						
Capital projects	878,971	1,415,875	-	-	878,971	1,415,875
Debt service	355,594	678,377	-	-	355,594	678,377
Other purposes	2,081,963	1,941,577	-	-	2,081,963	1,941,577
Unrestricted	<u>1,292,902</u>	<u>(1,021,108)</u>	<u>6,255,688</u>	<u>6,280,850</u>	<u>7,548,590</u>	<u>5,259,742</u>
Total net assets	<u>\$ 9,857,657</u>	<u>\$ 7,795,575</u>	<u>\$ 11,458,931</u>	<u>\$ 11,652,266</u>	<u>\$ 21,316,588</u>	<u>\$ 19,447,841</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$21,316,588. At year-end, net assets were \$9,857,657 and \$11,458,931 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 53.82% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, utility structures in service, machinery and equipment and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$5,248,227 and \$5,203,243 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$3,316,528, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,292,902 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The table below shows the comparative analysis of changes in net assets for fiscal year 2006 compared to 2005. Net assets at the beginning of each year have been restated as described in Note 3.B to the financial statements.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$ 644,241	\$ 665,014	\$ 1,778,221	\$ 1,771,368	\$ 2,422,462	\$ 2,436,382
Operating grants and contributions	816,010	736,332	-	-	816,010	736,332
Capital grants and contributions	<u>25,311</u>	<u>13,269</u>	<u>-</u>	<u>-</u>	<u>25,311</u>	<u>13,269</u>
Total program revenues	<u>1,485,562</u>	<u>1,414,615</u>	<u>1,778,221</u>	<u>1,771,368</u>	<u>3,263,783</u>	<u>3,185,983</u>
General revenues:						
Property taxes	6,553,163	6,006,578	-	-	6,553,163	6,006,578
Income taxes	4,828,911	4,776,746	-	-	4,828,911	4,776,746
Grants and entitlements	2,471,036	2,893,867	-	-	2,471,036	2,893,867
Investment earnings	286,709	-	-	-	286,709	-
Other	<u>86,628</u>	<u>783,018</u>	<u>1,907</u>	<u>-</u>	<u>88,535</u>	<u>783,018</u>
Total general revenues	<u>14,226,447</u>	<u>14,460,209</u>	<u>1,907</u>	<u>-</u>	<u>14,228,354</u>	<u>14,460,209</u>
Total revenues	<u>15,712,009</u>	<u>15,874,824</u>	<u>1,780,128</u>	<u>1,771,368</u>	<u>17,492,137</u>	<u>17,646,192</u>

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Change in Net Assets - (Continued)

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Expenses:						
General government	3,378,980	3,487,549	-	-	3,378,980	3,487,549
Security of persons and property	6,523,218	6,095,608	-	-	6,523,218	6,095,608
Public health and welfare	400,449	519,409	-	-	400,449	519,409
Transportation	1,364,881	2,047,722	-	-	1,364,881	2,047,722
Community environment	974,945	790,581	-	-	974,945	790,581
Leisure time activity	1,039,864	990,283	-	-	1,039,864	990,283
Basic utility	1,314,687	1,533,980	-	-	1,314,687	1,533,980
Interest and fiscal charges	586,507	488,656	-	-	586,507	488,656
Sewer	-	-	1,607,192	1,462,780	1,607,192	1,462,780
Swimming pool	-	-	430,546	494,268	430,546	494,268
Total expenses	<u>15,583,531</u>	<u>15,953,788</u>	<u>2,037,738</u>	<u>1,957,048</u>	<u>17,621,269</u>	<u>17,910,836</u>
Extraordinary Item:						
Gain resulting from service garage restoration	1,997,979	-	-	-	1,997,979	-
Transfers	<u>(64,375)</u>	<u>(65,875)</u>	<u>64,375</u>	<u>65,875</u>	<u>-</u>	<u>-</u>
Change in net assets	2,062,082	(144,839)	(193,335)	(119,805)	1,868,747	(264,644)
Net assets at beginning of year (restated)	<u>7,795,575</u>	<u>7,940,414</u>	<u>11,652,266</u>	<u>11,772,071</u>	<u>19,447,841</u>	<u>19,712,485</u>
Net assets at end of year	<u>\$ 9,857,657</u>	<u>\$ 7,795,575</u>	<u>\$ 11,458,931</u>	<u>\$ 11,652,266</u>	<u>\$ 21,316,588</u>	<u>\$ 19,447,841</u>

Governmental Activities

Governmental activities net assets increased \$2,062,082 in 2006. This increase is a result of the extraordinary item and the gain resulting from the service garage restoration in the amount of \$1,997,979.

Security of persons and property, which includes police and fire department operations, accounted for \$6,523,218 or 41.86% of the total expenses of the City. Security of persons and property expenses were partially funded by \$85,505 in direct charges to users of the services. General government expenses totaled \$3,378,980. General government expenses were partially funded by \$252,375 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$816,010 in operating grants and contributions and \$25,311 in capital grants and contributions. These revenues are restricted to a particular program or purpose. \$661,247 of the operating grants and contributions subsidized transportation programs. All of the capital grants and contributions subsidized security of persons and property programs.

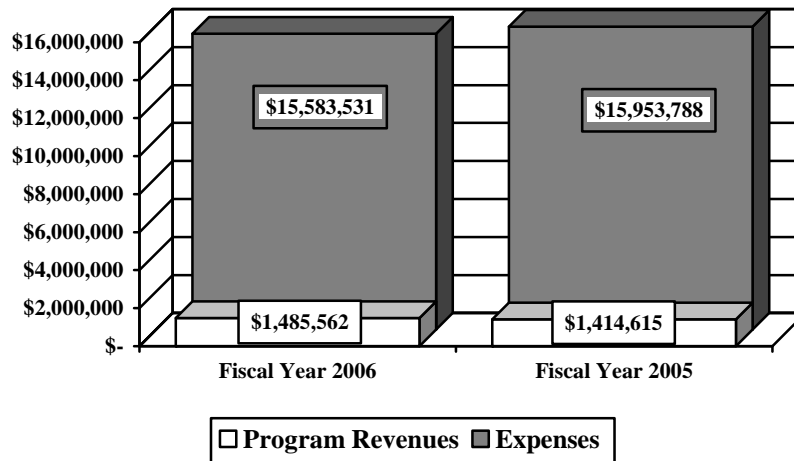
CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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General revenues totaled \$14,226,447, and amounted to 90.55% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$11,382,074. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$2,471,036.

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

Governmental Activities – Program Revenues vs. Total Expenses



The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements for 2006 compared to 2005.

Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 3,378,980	\$ 3,126,605	\$ 3,487,549	\$ 3,307,241
Security of persons and property	6,523,218	6,311,413	6,095,608	5,940,470
Public health and welfare	400,449	389,842	519,409	391,692
Transportation	1,364,881	703,447	2,047,722	1,362,804
Community environment	974,945	851,134	790,581	729,876
Leisure time activities	1,039,864	814,334	990,283	784,454
Basic utility	1,314,687	1,314,687	1,533,980	1,533,980
Interest and fiscal charges	586,507	586,507	488,656	488,656
Total Expenses	\$ 15,583,531	\$ 14,097,969	\$ 15,953,788	\$ 14,539,173

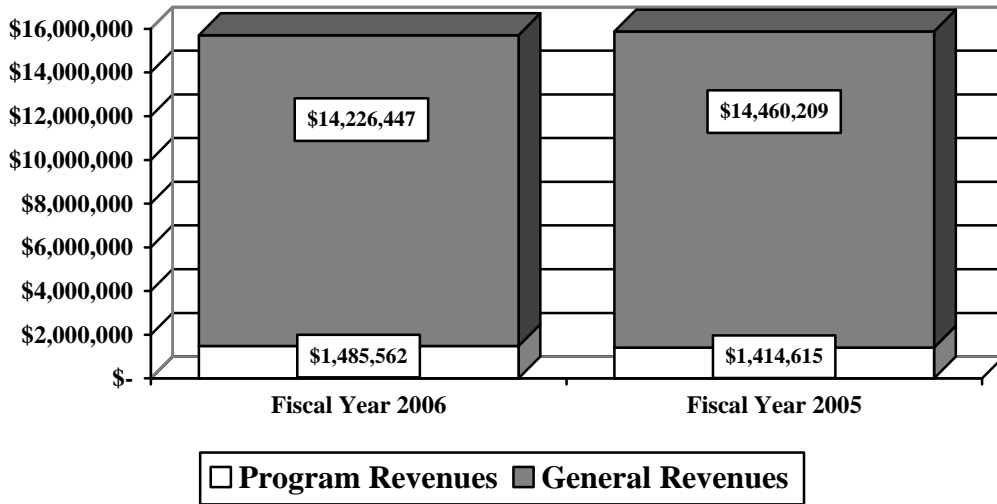
CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

The dependence upon general revenues for governmental activities is apparent, with 90.47% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2006 and 2005.

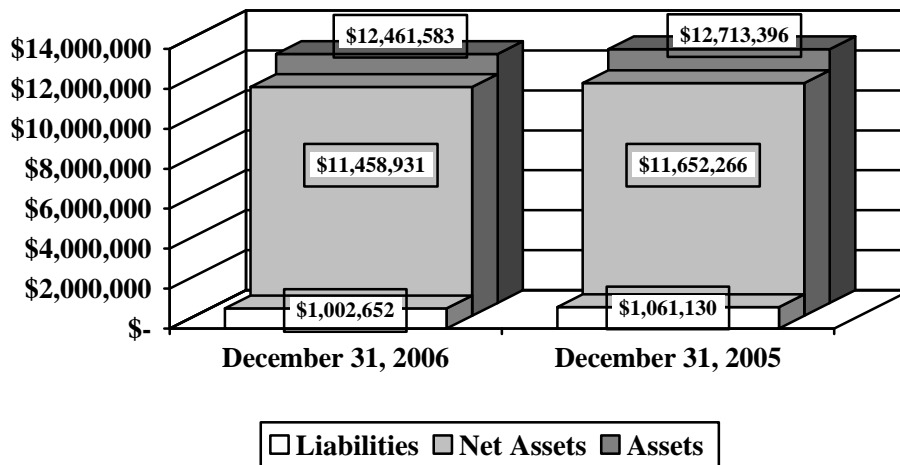
Governmental Activities – General and Program Revenues



Business-type Activities

Business-type activities include the Sewer and Swimming Pool enterprise funds. These programs had program revenues of \$1,778,121, general revenues of \$1,907 and expenses of \$2,037,738 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$4,647,332 which is \$859,963 below last year's total of \$5,507,295. The fund balances at December 31, 2005 have been restated as described in Note 3.B to the financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and non-major governmental funds.

	Fund Balances 12/31/06	Restated Fund Balances 12/31/05	Increase (Decrease)
Major funds:			
General	\$ 1,708,857	\$ 2,091,593	\$ (382,736)
General obligation bond retirement	241,330	204,931	36,399
Other nonmajor governmental funds	<u>2,697,145</u>	<u>3,210,771</u>	<u>(513,626)</u>
Total	<u>\$ 4,647,332</u>	<u>\$ 5,507,295</u>	<u>\$ (859,963)</u>

General Fund

The City's general fund balance decreased \$382,736. The table that follows assists in illustrating the revenues of the general fund.

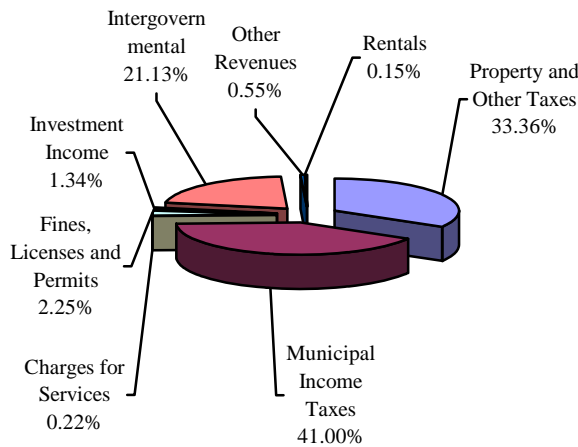
	2006 <u>Amount</u>	2005 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Property and other taxes	\$ 3,789,318	\$ 3,385,010	11.94 %
Municipal income taxes	4,658,498	4,379,865	6.36 %
Charges for services	24,905	30,258	(17.69) %
Fines, licenses and permits	255,895	377,505	(32.21) %
Intergovernmental	2,400,024	2,525,893	(4.98) %
Interest	151,903	227,574	(33.25) %
Rentals	16,810	18,990	(11.48) %
Miscellaneous	<u>62,743</u>	<u>490,762</u>	(87.22) %
Total	<u>\$11,360,096</u>	<u>\$11,435,857</u>	(0.66) %

CITY OF BAY VILLAGE, OHIO

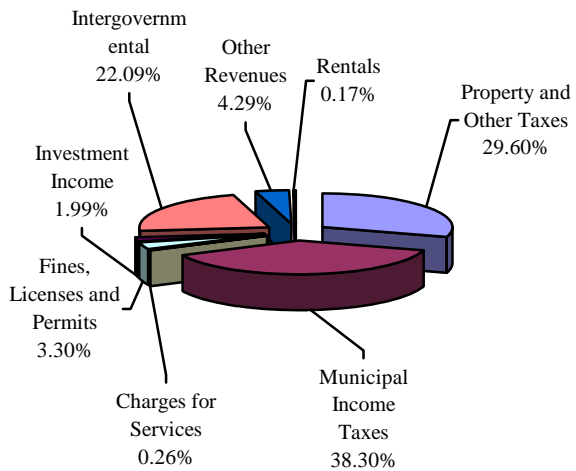
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Tax revenue (both income tax and property and other taxes) represents 74.36% of all general fund revenue. Tax revenue increased 8.80% over prior year. The decrease in fines, licenses and permits is primarily due to the reporting of cable franchise fees as deferred revenue rather than revenue since it was received outside of the City's available period for 2006. The decrease in miscellaneous revenue is due to the reporting of insurance proceeds related to the service garage restoration being reported as "other revenue" in 2005 while they are being reported as an "extraordinary item" in 2006. The decrease in investment income is due to the City's allocation of interest in 2006 that reports interest in funds other than the general fund and due to the fact that the City had fewer dollars invested in 2006 than it did in 2005. All other revenues remained comparable to 2005.

Revenues – Fiscal Year 2006



Revenues – Fiscal Year 2005



The table that follows assists in illustrating the expenditures of the general fund. The expenditures for 2005 have been restated to include the effect of the prior period adjustment described in Note 3.B to the financial statements.

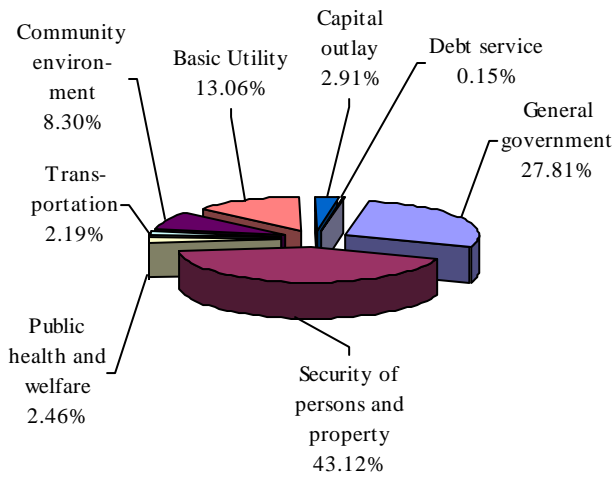
	<u>2006</u> <u>Amount</u>	<u>Restated</u> <u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 3,045,117	\$ 3,248,368	(6.26)
Security of persons and property	4,721,762	4,138,250	14.10
Public health and welfare	269,070	261,494	2.90
Transportation	239,727	262,926	(8.82)
Community environment	909,193	717,971	26.63
Basic utility	1,430,263	1,499,896	(4.64)
Capital outlay	318,114	-	100.00
Debt service	16,680	1,390	1,100.00
Total	<u>\$ 10,949,926</u>	<u>\$ 10,130,295</u>	8.09

CITY OF BAY VILLAGE, OHIO

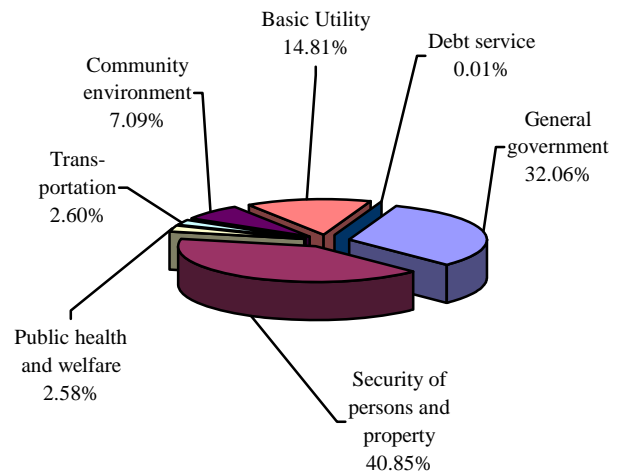
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

The City increased total expenditures by 8.09%. The largest expenditure line item, security of persons and property increased, which is primarily attributed to wage and benefit increases. The increase in debt service is due to the payment of capital leases, which were new to the City in 2005. The increase in capital outlay is due to the restoration of the service garage. The increase in community environment expenditures, while a large percentage, is immaterial when compared to the total expenditures of the City. All other expenditures remained comparable to 2005.

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources came in \$342,444 lower than they were in the final budget and actual expenditures and other financing uses were \$160,931 less than the amount in the final budget. Budgeted expenditures were increased \$777,045 from the original to the final budget. Budgeted revenues were increased \$775,232 from the original to the final budget.

General Obligation Bond Retirement Fund

The general obligation bond retirement fund had revenues and other financing sources of \$4,050,145 in 2006. The expenditures and other financing uses of the general obligation bond retirement fund, totaled \$4,013,746 in 2006. The net increase in fund balance for the general obligation bond retirement fund was \$36,399 or 17.76%.

CITY OF BAY VILLAGE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$24,713,411 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. Of this total, \$18,684,072 was reported in governmental activities and \$6,029,339 was reported in business-type activities. The balances for 2005 have been restated as described in Note 3.B and Note 6 to the financial statements. See Note 6 for further description of capital assets. The following table shows fiscal 2006 balances compared to 2005:

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

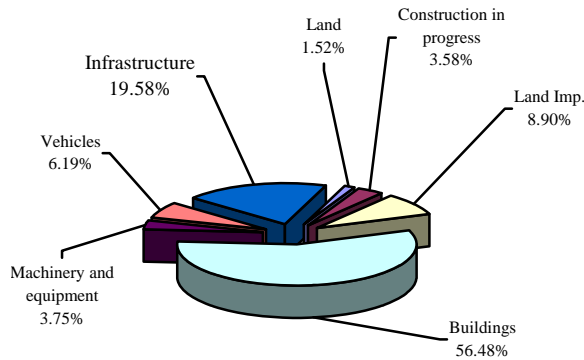
	Governmental Activities		Business-Type Activities		Total	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Land	\$ 284,067	\$ 284,067	\$ 40,000	\$ 40,000	\$ 324,067	\$ 324,067
Construction in Progress	669,606	5,827,117	-	-	669,606	5,827,117
Land improvements	1,662,370	1,334,590	757,554	797,030	2,419,924	2,131,620
Buildings	10,553,658	1,712,693	1,440,072	1,474,207	11,993,730	3,186,900
Machinery and equipment	700,615	647,196	600,972	650,297	1,301,587	1,297,493
Vehicles	1,155,794	1,144,645	164,739	189,055	1,320,533	1,333,700
Infrastructure						
Roads	2,914,837	3,073,024	-	-	2,914,837	3,073,024
Sewer lines	-	-	3,026,002	3,130,930	3,026,002	3,130,930
Culverts	89,040	91,673	-	-	89,040	91,673
Traffic signals	654,085	684,601	-	-	654,085	684,601
Totals	<u>\$ 18,684,072</u>	<u>\$ 14,799,606</u>	<u>\$ 6,029,339</u>	<u>\$ 6,281,519</u>	<u>\$ 24,713,411</u>	<u>\$ 21,081,125</u>

CITY OF BAY VILLAGE, OHIO

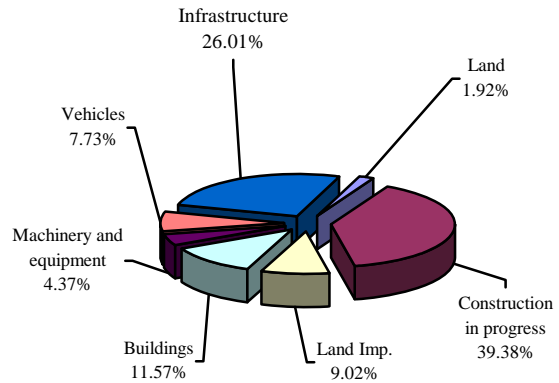
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

**Capital Assets - Governmental Activities
2006**



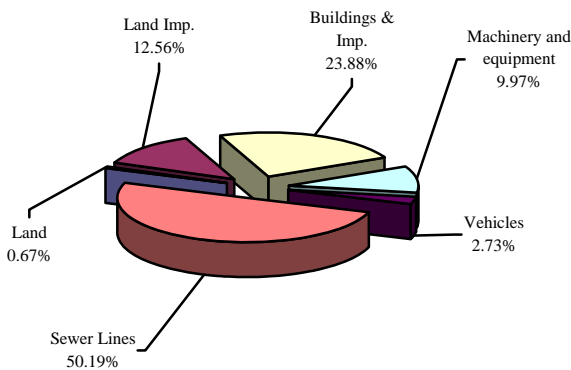
**Capital Assets - Governmental Activities
2005**



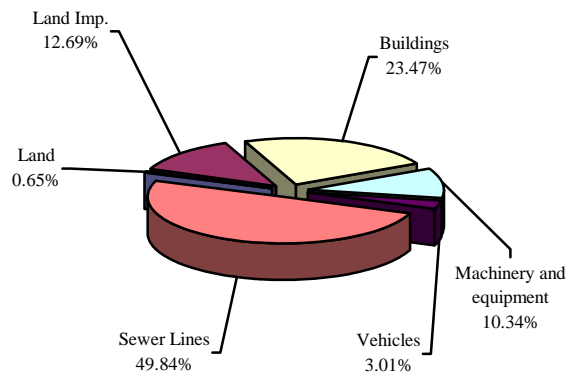
Infrastructure includes streets, culverts and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 19.58% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

**Capital Assets - Business-Type Activities
2006**



Capital Assets - Business-Type Activities 2005



The City's largest business-type capital asset category is sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's sewer lines (cost less accumulated depreciation) represents approximately 50.19% of the City's total business-type capital assets.

CITY OF BAY VILLAGE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

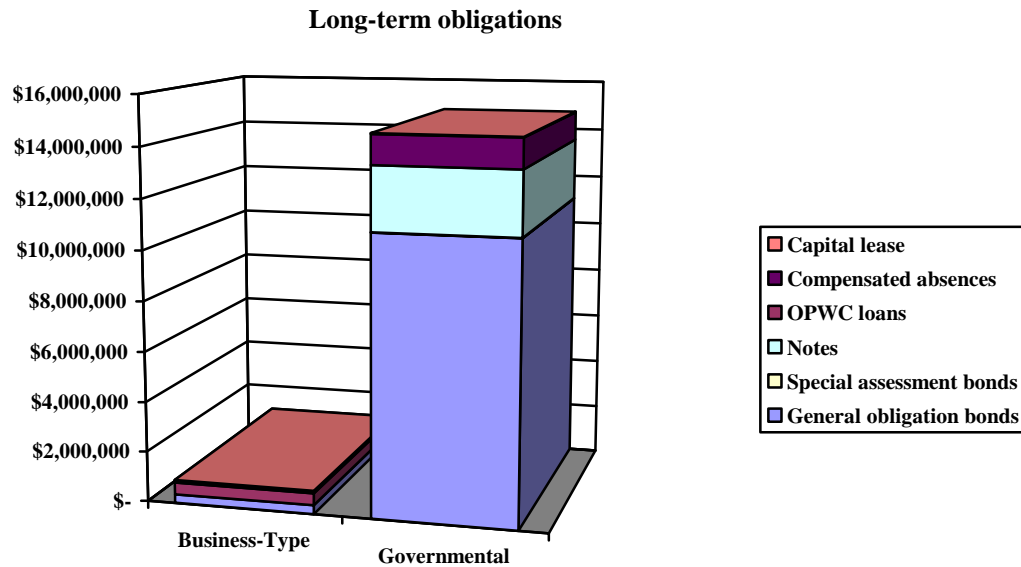
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 11,042,780	\$ 11,221,644
Special assessment bonds	8,000	16,000
Notes	2,500,000	2,000,000
Capital Lease	30,530	45,411
Compensated Absences	<u>1,151,614</u>	<u>1,119,060</u>
Total long-term obligations	<u>\$ 14,732,924</u>	<u>\$ 14,402,115</u>

	Business-type Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 350,000	\$ 400,000
OPWC loans	476,096	510,103
Compensated Absences	<u>101,923</u>	<u>91,446</u>
Total long-term obligations	<u>\$ 928,019</u>	<u>\$ 1,001,549</u>

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



Further detail on the City's long-term obligations can be found in Note 11 to the financial statements.

CITY OF BAY VILLAGE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 UNAUDITED

Current Financial Related Activities

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

The City's income tax rate of 1.5 percent has remained unchanged since 1983. During 2006 the County Auditor reassessed property valuations which resulted in increased property taxes. The City will realize increased distributions from the County in 2007. The City is primarily residential; however, seven new businesses opened in 2006 and some existing businesses are in the process of expanding.

The City's sewer rates have remained unchanged despite increasing capital and operating contributions at the Rocky River Wastewater Treatment Plant. In 2006 the City corrected a storm water infiltration problem which will moderately reduce the operating contribution calculation beginning in 2007. The operating contribution is a percent based on flow readings.

The Police Department moved into the new Police Station in May 2006. The Service Department moved back into the renovated service garage in December 2006. The garage was partially destroyed by a fire in September 2005.

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

Contacting the City's Financial Management

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

CITY OF BAY VILLAGE, OHIO

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,801,631	\$ 1,379,486	\$ 5,181,117
Receivables (net of allowances for uncollectibles):			
Municipal income taxes.	1,613,180	-	1,613,180
Property and other local taxes	7,758,849	-	7,758,849
Accounts	123,571	133,859	257,430
Accrued interest.	22,699	-	22,699
Special assessments	33,202	-	33,202
Intergovernmental	1,116,243	-	1,116,243
Materials and supplies inventory	80,317	348	80,665
Prepayments	66,390	-	66,390
Deferred Charges	145,465	-	145,465
Internal balance	11,888	(11,888)	-
Investment in joint venture.	-	4,930,439	4,930,439
Capital assets:			
Land and construction-in-progress	953,673	40,000	993,673
Depreciable capital assets, net	17,730,399	5,989,339	23,719,738
Total capital assets.	<u>18,684,072</u>	<u>6,029,339</u>	<u>24,713,411</u>
Total assets.	<u>33,457,507</u>	<u>12,461,583</u>	<u>45,919,090</u>
Liabilities:			
Accounts payable	174,647	22,686	197,333
Contracts payable	340,773	-	340,773
Accrued wages and benefits	90,522	8,267	98,789
Intergovernmental payable.	420,179	7,743	427,922
Accrued interest payable.	87,695	1,073	88,768
Deferred revenue.	7,039,236	-	7,039,236
Claims payable.	165,403	-	165,403
Vacation benefit payable.	548,471	34,864	583,335
Long-term liabilities:			
Due within one year.	4,210,227	84,007	4,294,234
Due in more than one year	10,522,697	844,012	11,366,709
Total liabilities.	<u>23,599,850</u>	<u>1,002,652</u>	<u>24,602,502</u>
Net assets:			
Invested in capital assets, net of related debt	5,248,227	5,203,243	10,451,470
Restricted for:			
Capital projects	878,971	-	878,971
Debt service.	355,594	-	355,594
Street construction	814,885	-	814,885
State highway maintenance	99,494	-	99,494
Accrued benefits	682,487	-	682,487
Cahoon park	111,680	-	111,680
Waldeck estate	159,970	-	159,970
Other purposes	213,447	-	213,447
Unrestricted	<u>1,292,902</u>	<u>6,255,688</u>	<u>7,548,590</u>
Total net assets	<u>\$ 9,857,657</u>	<u>\$ 11,458,931</u>	<u>\$ 21,316,588</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF BAY VILLAGE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,378,980	\$ 252,375	\$ -	\$ -
Security of persons and property	6,523,218	85,505	100,989	25,311
Public health and welfare	400,449	-	10,607	-
Transportation.	1,364,881	187	661,247	-
Community environment	974,945	103,018	20,793	-
Leisure time activity	1,039,864	203,156	22,374	-
Basic utility services	1,314,687	-	-	-
Interest and fiscal charges	586,507	-	-	-
Total governmental activities	<u>15,583,531</u>	<u>644,241</u>	<u>816,010</u>	<u>25,311</u>
Business-type Activities:				
Sewer	1,607,192	1,444,138	-	-
Swimming pool	430,546	333,983	-	-
Total business-type activities	<u>2,037,738</u>	<u>1,778,121</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 17,621,269</u>	<u>\$ 2,422,362</u>	<u>\$ 816,010</u>	<u>\$ 25,311</u>

General Revenues:

Property taxes levied for:

- General purposes
- Emergency Paramedic
- Parks and recreation
- Police Pension
- Fire Pension
- Debt Service

Income taxes levied for:

- General purposes
- Accrued benefits
- Capital Projects

Grants and entitlements not restricted

to specific programs

Interest

Miscellaneous

Total general revenues.

Extraordinary Item:

Gain resulting from service garage restoration.

Total general revenues, special item and extraordinary items.

Transfers.

Change in net assets.

Net assets at beginning of year (restated)

Net assets at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (3,126,605)	\$ -	\$ (3,126,605)
(6,311,413)	-	(6,311,413)
(389,842)	-	(389,842)
(703,447)	-	(703,447)
(851,134)	-	(851,134)
(814,334)	-	(814,334)
(1,314,687)	-	(1,314,687)
(586,507)	-	(586,507)
(14,097,969)	-	(14,097,969)
-	(163,054)	(163,054)
-	(96,563)	(96,563)
-	(259,617)	(259,617)
(14,097,969)	(259,617)	(14,357,586)
3,710,624	-	3,710,624
660,295	-	660,295
219,433	-	219,433
131,134	-	131,134
131,134	-	131,134
1,700,543	-	1,700,543
4,539,466	-	4,539,466
96,481	-	96,481
192,964	-	192,964
2,471,036	-	2,471,036
286,709	-	286,709
86,628	1,907	88,535
14,226,447	1,907	14,228,354
1,997,979	-	1,997,979
16,224,426	1,907	16,226,333
(64,375)	64,375	-
2,062,082	(193,335)	1,868,747
7,795,575	11,652,266	19,447,841
<u>\$ 9,857,657</u>	<u>\$ 11,458,931</u>	<u>\$ 21,316,588</u>

CITY OF BAY VILLAGE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 666,198	\$ 84,755	\$ 3,003,117	\$ 3,754,070
Receivables (net of allowance for uncollectibles):				
Municipal income taxes.	1,516,390	-	96,790	1,613,180
Property and other local taxes.	4,374,119	2,025,635	1,359,095	7,758,849
Accounts.	107,903	-	-	107,903
Special assessments	-	-	33,202	33,202
Accrued interest	22,699	-	-	22,699
Intergovernmental	616,684	97,600	401,959	1,116,243
Prepayments	66,390	-	-	66,390
Materials and supplies inventory.	4,902	-	75,415	80,317
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 7,375,285</u>	<u>\$ 2,207,990</u>	<u>\$ 4,969,578</u>	<u>\$ 14,552,853</u>
Liabilities:				
Accounts payable.	\$ 120,857	\$ -	\$ 53,790	\$ 174,647
Contracts payable	2,880	-	337,893	340,773
Accrued wages and benefits	63,320	-	27,202	90,522
Intergovernmental payable.	92,726	-	228,017	320,743
Deferred revenue.	5,386,645	1,966,660	1,625,531	8,978,836
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>5,666,428</u>	<u>1,966,660</u>	<u>2,272,433</u>	<u>9,905,521</u>
Fund balances:				
Reserved for encumbrances	35,413	-	530,101	565,514
Unreserved undesignated, reported in:				
General fund	1,673,444	-	-	1,673,444
Special revenue funds.	-	-	1,785,847	1,785,847
Debt service funds	-	241,330	21,990	263,320
Capital projects funds.	-	-	359,207	359,207
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances.	<u>1,708,857</u>	<u>241,330</u>	<u>2,697,145</u>	<u>4,647,332</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 7,375,285</u>	<u>\$ 2,207,990</u>	<u>\$ 4,969,578</u>	<u>\$ 14,552,853</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, 2006

Total governmental fund balances		\$ 4,647,332
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,684,072
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Municipal income tax	\$ 879,938	
Property and other local taxes	104,771	
Special assessments	48,367	
Interest	5,125	
Fines, licenses and permits	106,869	
Intergovernmental	794,530	
Total		1,939,600
Two internal service funds are used by management to charge the costs of insurance and workers compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets. The net assets of the internal service funds, including an internal balance of \$11,888, are:		(189,722)
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		145,465
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(87,695)
Vacation benefits payable are not expected to be paid with expendable available resources and therefore are not reported in the funds.		(548,471)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the funds:		
General obligation bonds	(10,990,000)	
Bond premium	(52,780)	
Special assessment bonds	(8,000)	
Notes payable	(2,500,000)	
Compensated absences	(1,151,614)	
Capital lease payable	(30,530)	
Total		(14,732,924)
Net assets of governmental activities		\$ 9,857,657

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 4,658,498	\$ -	\$ 297,044	\$ 4,955,542
Property and other local taxes	3,789,318	1,736,027	1,164,739	6,690,084
Charges for services	24,905	-	181,726	206,631
Fines, licenses and permits	255,895	-	35,968	291,863
Intergovernmental	2,400,024	214,678	839,733	3,454,435
Special assessments	-	-	19,057	19,057
Investment income	151,903	84,583	45,098	281,584
Contributions and donations	-	-	62,366	62,366
Rental income	16,810	-	24,067	40,877
Other	62,743	-	23,885	86,628
Total revenues	<u>11,360,096</u>	<u>2,035,288</u>	<u>2,693,683</u>	<u>16,089,067</u>
Expenditures:				
Current:				
General government	3,045,117	-	69,776	3,114,893
Security of persons and property	4,721,762	-	1,449,977	6,171,739
Public health and welfare	269,070	-	44,833	313,903
Transportation	239,727	-	1,546,902	1,786,629
Community environment	909,193	-	21,183	930,376
Basic utility services	1,430,263	-	-	1,430,263
Leisure time activity	-	-	953,058	953,058
Capital outlay	318,114	-	4,005,781	4,323,895
Debt service:				
Principal retirement	14,881	3,375,000	8,000	3,397,881
Interest and fiscal charges	1,799	535,208	1,109	538,116
Bond issuance costs	-	39,163	-	39,163
Total expenditures	<u>10,949,926</u>	<u>3,949,371</u>	<u>8,100,619</u>	<u>22,999,916</u>
Excess (deficiency) of revenues over (under) expenditures	<u>410,170</u>	<u>(1,914,083)</u>	<u>(5,406,936)</u>	<u>(6,910,849)</u>
Other financing sources (uses):				
Bonds issued	-	-	1,200,000	1,200,000
Premium on bonds and notes	-	14,857	-	14,857
Notes issued	-	2,000,000	500,000	2,500,000
Sale of capital assets	-	-	6,150	6,150
Transfers in	300,000	-	1,231,000	1,531,000
Transfers out	<u>(1,231,000)</u>	<u>(64,375)</u>	<u>(300,000)</u>	<u>(1,595,375)</u>
Total other financing sources (uses)	<u>(931,000)</u>	<u>1,950,482</u>	<u>2,637,150</u>	<u>3,656,632</u>
Extraordinary item:				
Insurance proceeds for service garage restoration	<u>138,094</u>	-	<u>2,256,160</u>	<u>2,394,254</u>
Net change in fund balances	(382,736)	36,399	(513,626)	(859,963)
Fund balances at beginning of year (restated)	<u>2,091,593</u>	<u>204,931</u>	<u>3,210,771</u>	<u>5,507,295</u>
Fund balances at end of year	<u><u>\$ 1,708,857</u></u>	<u><u>\$ 241,330</u></u>	<u><u>\$ 2,697,145</u></u>	<u><u>\$ 4,647,332</u></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, 2006

Net change in fund balances - total governmental funds	\$	(859,963)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital outlay additions	5,124,747	
Capital contributions received	25,311	
Current year depreciation	<u>(852,716)</u>	
Total		4,297,342
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.		
		(412,876)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property and other local taxes	(136,921)	
Municipal income taxes	(126,631)	
Special assessments	(21,056)	
Fines, licenses and permits	106,869	
Interest	5,125	
Intergovernmental	<u>(229,755)</u>	
Total		(402,369)
Proceeds of bonds and notes are reported as an other financing source in the governmental funds, but as an increase in liabilities on the statement of net assets.		
Bonds issued	(1,200,000)	
Notes issued	<u>(2,500,000)</u>	
Total		(3,700,000)
Repayment of debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities on the statement of net assets.		
Bond retirement	1,383,000	
Note retirement	2,000,000	
Capital lease obligation retirement	<u>14,881</u>	
Total		3,397,881
In the statement of activities, interest is accrued on outstanding bonds, bond premium and bond issuance costs are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when due and premiums and issuance costs are reported when the bonds are issued.		
Increase in accrued interest payable	(50,755)	
Bond issuance costs incurred in the fiscal year	39,163	
Amortization of bond issuance costs	(16,357)	
Amortization of premium on bonds	<u>3,864</u>	
Total		(24,085)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(32,554)	
Vacation benefits payable	<u>(32,269)</u>	
Total		(64,823)
The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The revenue (expense) of the internal service funds, including internal balances of \$11,888, is allocated among the governmental activities.		
		<u>(169,025)</u>
Change in net assets of governmental activities	\$	<u>2,062,082</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 4,443,042	\$ 4,740,988	\$ 4,609,376	\$ (131,612)
Property and other local taxes	3,326,680	3,549,765	3,451,221	(98,544)
Charges for services	24,006	25,616	24,905	(711)
Licenses, permits and fees	346,247	369,466	359,209	(10,257)
Intergovernmental	2,368,688	2,527,531	2,457,365	(70,166)
Investment income	106,652	113,804	110,645	(3,159)
Rental income	16,203	17,290	16,810	(480)
Other	61,349	65,463	63,646	(1,817)
Total revenues.	<u>10,692,867</u>	<u>11,409,923</u>	<u>11,093,177</u>	<u>(316,746)</u>
Expenditures:				
Current:				
General government	3,321,554	3,481,989	3,366,833	115,156
Security of persons and property.	4,523,779	4,724,639	4,703,229	21,410
Public health and welfare	268,330	270,350	269,079	1,271
Community environment.	870,831	911,356	902,739	8,617
Transportation	243,758	251,563	246,343	5,220
Basic utility services	1,603,994	1,469,394	1,460,137	9,257
Total expenditures	<u>10,832,246</u>	<u>11,109,291</u>	<u>10,948,360</u>	<u>160,931</u>
Deficiency of revenues under expenditures.	<u>(139,379)</u>	<u>300,632</u>	<u>144,817</u>	<u>(155,815)</u>
Other financing sources (uses):				
Transfers in.	867,522	925,698	900,000	(25,698)
Transfers out	<u>(1,331,000)</u>	<u>(1,831,000)</u>	<u>(1,831,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(463,478)</u>	<u>(905,302)</u>	<u>(931,000)</u>	<u>(25,698)</u>
Extraordinary item:				
Insurance proceeds for service garage restoration	<u>138,094</u>	<u>138,094</u>	<u>138,094</u>	<u>-</u>
Net change in fund balance.	<u>(464,763)</u>	<u>(466,576)</u>	<u>(648,089)</u>	<u>(181,513)</u>
Fund balance at beginning of year	992,132	992,132	992,132	-
Prior year encumbrances appropriated	<u>238,335</u>	<u>238,335</u>	<u>238,335</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 765,704</u>	<u>\$ 763,891</u>	<u>\$ 582,378</u>	<u>\$ (181,513)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,293,031	\$ 86,455	\$ 1,379,486	\$ 47,561
Receivables (net of allowance for uncollectibles):				
Accounts	133,859	-	133,859	-
Intergovernmental	-	-	-	15,668
Materials and supplies inventory	348	-	348	-
Total current assets	<u>1,427,238</u>	<u>86,455</u>	<u>1,513,693</u>	<u>63,229</u>
Noncurrent assets:				
Investment in joint venture	4,930,439	-	4,930,439	-
Capital assets:				
Land and construction-in-progress	40,000	-	40,000	-
Depreciable capital assets, net	<u>3,730,498</u>	<u>2,258,841</u>	<u>5,989,339</u>	<u>-</u>
Total capital assets	<u>3,770,498</u>	<u>2,258,841</u>	<u>6,029,339</u>	<u>-</u>
Total noncurrent assets	<u>8,700,937</u>	<u>2,258,841</u>	<u>10,959,778</u>	<u>-</u>
Total assets	<u>10,128,175</u>	<u>2,345,296</u>	<u>12,473,471</u>	<u>63,229</u>
Liabilities:				
Current liabilities:				
Accounts payable	21,183	1,503	22,686	-
Accrued wages and benefits	8,267	-	8,267	-
Claims payable	-	-	-	165,403
Intergovernmental payable	7,743	-	7,743	99,436
Accrued interest payable	1,073	-	1,073	-
Vacation benefit payable	34,864	-	34,864	-
General obligation bonds payable	50,000	-	50,000	-
OPWC loans payable	34,007	-	34,007	-
Total current liabilities	<u>157,137</u>	<u>1,503</u>	<u>158,640</u>	<u>264,839</u>
Noncurrent liabilities:				
Compensated absences	101,923	-	101,923	-
General obligation bonds payable	300,000	-	300,000	-
OPWC loans payable	<u>442,089</u>	<u>-</u>	<u>442,089</u>	<u>-</u>
Total noncurrent liabilities	<u>844,012</u>	<u>-</u>	<u>844,012</u>	<u>-</u>
Total liabilities	<u>1,001,149</u>	<u>1,503</u>	<u>1,002,652</u>	<u>264,839</u>
Net assets:				
Invested in capital assets, net of related debt	2,944,402	2,258,841	5,203,243	-
Unrestricted	<u>6,182,624</u>	<u>84,952</u>	<u>6,267,576</u>	<u>(201,610)</u>
Total net assets	<u>\$ 9,127,026</u>	<u>\$ 2,343,793</u>	11,470,819	<u>\$ (201,610)</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			<u>(11,888)</u>	
Net assets of business-type activities			<u>\$ 11,458,931</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>	
Operating revenues:				
Charges for services	\$ 1,444,138	\$ 333,983	\$ 1,778,121	\$ 1,571,175
Other	-	1,907	1,907	15,668
Total operating revenues	<u>1,444,138</u>	<u>335,890</u>	<u>1,780,028</u>	<u>1,586,843</u>
Operating expenses:				
Personal services	396,832	163,342	560,174	-
Benefits	151,096	25,372	176,468	-
Contractual services	742,008	48,840	790,848	290,335
Materials and supplies	39,043	73,286	112,329	-
Claims expense	-	-	-	1,477,421
Depreciation	140,763	115,967	256,730	-
Other	-	2,444	2,444	-
Total operating expenses	<u>1,469,742</u>	<u>429,251</u>	<u>1,898,993</u>	<u>1,767,756</u>
Operating loss	<u>(25,604)</u>	<u>(93,361)</u>	<u>(118,965)</u>	<u>(180,913)</u>
Nonoperating expenses:				
Loss on disposal of capital assets	(6,250)	-	(6,250)	-
Interest and fiscal charges	(14,250)	-	(14,250)	-
Equity in loss of joint venture	(106,357)	-	(106,357)	-
Total nonoperating expenses	<u>(126,857)</u>	<u>-</u>	<u>(126,857)</u>	<u>-</u>
Net loss before transfers	(152,461)	(93,361)	(245,822)	(180,913)
Transfers in	64,375	-	64,375	-
Changes in net assets	(88,086)	(93,361)	(181,447)	(180,913)
Net assets at beginning of year (restated)	<u>9,215,112</u>	<u>2,437,154</u>		<u>(20,697)</u>
Net assets at end of year	<u>\$ 9,127,026</u>	<u>\$ 2,343,793</u>		<u>\$ (201,610)</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			(11,888)	
Change in net assets of business-type activities			<u>\$ (193,335)</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, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from charges for services	\$ 1,426,278	\$ 333,983	\$ 1,760,261	\$ -
Cash received from transactions with other funds	-	-	-	1,571,175
Cash received from other operations	-	1,907	1,907	-
Cash payments to suppliers for materials and supplies	(34,164)	(73,286)	(107,450)	-
Cash payments for employee services and benefits	(537,341)	(188,714)	(726,055)	-
Cash payments for contractual services	(737,581)	(49,000)	(786,581)	(259,955)
Cash payments for claims.	-	-	-	(1,436,565)
Cash payments from other expenses	-	(2,444)	(2,444)	-
Net cash provided by (used in) operating activities	<u>117,192</u>	<u>22,446</u>	<u>139,638</u>	<u>(125,345)</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	<u>64,375</u>	<u>-</u>	<u>64,375</u>	<u>-</u>
Net cash provided by noncapital financing activities.	<u>64,375</u>	<u>-</u>	<u>64,375</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal paid on general obligation bonds.	(50,000)	-	(50,000)	-
Interest paid on general obligation bonds.	(14,375)	-	(14,375)	-
Principal paid on OPWC loans.	<u>(34,007)</u>	<u>-</u>	<u>(34,007)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(98,382)</u>	<u>-</u>	<u>(98,382)</u>	<u>-</u>
Cash flows from investing activities:				
Capital contributed to joint venture.	<u>(97,229)</u>	<u>-</u>	<u>(97,229)</u>	<u>-</u>
Net cash provided by investing activities.	<u>(97,229)</u>	<u>-</u>	<u>(97,229)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents.	(14,044)	22,446	8,402	(125,345)
Cash and cash equivalents at beginning of year	<u>1,307,075</u>	<u>64,009</u>	<u>1,371,084</u>	<u>172,906</u>
Cash and cash equivalents at end of year.	<u>\$ 1,293,031</u>	<u>\$ 86,455</u>	<u>\$ 1,379,486</u>	<u>\$ 47,561</u>

--Continued

CITY OF BAY VILLAGE, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Swimming Pool</u>	<u>Total</u>	
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (25,604)	\$ (93,361)	\$ (118,965)	\$ (180,913)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation.	140,763	115,967	256,730	-
Changes in assets and liabilities:				
(Increase) in accounts receivable.	(17,860)	-	(17,860)	-
(Increase) in intergovernmental receivable	-	-	-	(15,668)
Decrease in materials and supplies inventory	4,879	-	4,879	-
Increase (decrease) in accounts payable.	4,427	(160)	4,267	(1,395)
(Decrease) in accrued wages and benefits.	(67)	-	(67)	-
Increase in vacation benefit payable	222	-	222	-
Increase in compensated absences payable	10,477	-	10,477	-
Increase (decrease) in intergovernmental payable.	(45)	-	(45)	31,775
Increase in claims payable.	-	-	-	40,856
Net cash provided by (used in) operating activities.	<u>\$ 117,192</u>	<u>\$ 22,446</u>	<u>\$ 139,638</u>	<u>\$ (125,345)</u>

Non-cash Transactions:

The Sewer fund had \$10,800 and \$0 in capital assets purchased on account at December 31, 2006 and 2005, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 44,600
Total assets	<u>\$ 44,600</u>
Liabilities:	
Undistributed monies.	\$ 44,600
Total liabilities	<u>\$ 44,600</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 – DESCRIPTION OF CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

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

The City has an explicit and measurable interest in the Rocky River Wastewater Treatment Plant. There exists a residual interest in the assets upon dissolution of the joint venture. The City also has an ongoing financial responsibility for its share of the joint venture liabilities (See Note 13).

The City is associated with the West Shore Council of Governments, Safe Air for Environment (S.A.F.E.) Council of Governments and the West Shore Area Rescue Association. These are jointly governed organizations and are presented in Note 14.

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 business-type activities and to its proprietary funds unless those pronouncements conflict with or contradict GASB pronouncements.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

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

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

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

Fund Financial Statement - 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.

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:

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose and for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds.

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

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

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

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

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

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

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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (see Note 5.B). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5.A). Revenue from grants, entitlements and donations 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, 2006

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

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, 2006, but which were levied to finance year 2007 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 are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Investments are reported at fair value which is based in quoted market prices. During the year, the City's investments were limited to Federal National Mortgage Association Notes and Federal Home Loan Mortgage Corporation Notes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$151,903, which includes \$107,887 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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

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

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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. The City had no interfund receivables/payables between governmental funds reported on the governmental fund financial statements at December 31, 2006.

J. Compensated Absences

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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. Nets assets restricted for other purposes primarily include the resources restricted for the operations of the Bay family service and for alcohol intervention.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net 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. The City received no capital contributions in the enterprise funds during 2006.

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.

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.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

R. Budgetary Process

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

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

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

S. Operating Revenues and Expenses

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

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. The City reported an extraordinary item in 2006 for insurance proceeds related to restoration of the service garage which is described below.

On September 16, 2005, the service garage was partially destroyed by fire. Some contents and vehicles were also destroyed. In May 2006, the City began the building renovations to the service garage. During 2006, the City received \$2,394,254 in insurance proceeds related to the restoration. This amount has been reported as an extraordinary item in the governmental fund financial statements. The City suffered a net loss on disposal of the fire damage portion of the service garage of \$396,275. This net loss of the disposed building capital assets were offset by insurance proceeds of \$2,394,254 resulting in a net gain on the restoration of the service garage of \$1,997,979. This amount is reported in the statement of activities.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

U. Estimates

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

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Fund Balance

The City has reported a prior period adjustment to properly report certain pension obligations due at December 31, 2005 in the proper fund. Pension obligations previously reported in the general fund are being reported as obligations of the Police Pension, Fire Pension and Emergency Paramedics special revenue funds (other governmental funds). In addition, the Police Station Improvement capital projects fund is not considered a major fund for 2006. To aid in the reconciliation of fund balances between years, the table below shows the effect of reporting the Police Station Improvement fund balance at December 31, 2005 as a component of other governmental funds. The prior period adjustment had the following effect on fund balances as previously reported at December 31, 2005:

	General Fund	Other Governmental Funds
Fund balance, December 31, 2005	\$ 1,889,787	\$ 2,327,682
Fund reclassification	-	1,084,895
Pension obligation adjustment	201,806	(201,806)
Restated fund balance, December 31, 2005	\$ 2,091,593	\$ 3,210,771

The above prior period adjustment did not have an effect on net assets as previously reported at December 31, 2005.

B. Restatement of Net Assets

The City has reported a prior period adjustment to correct for errors and omission in the amounts reported as capital assets at December 31, 2005. For governmental activities, land improvements related to retention basin/field grading at Walker Road Park constructed prior to 2006 were not previously reported and certain land parcels owned by the City were not previously reported. For business-type activities, accumulated depreciation in the Swimming Pool enterprise fund was adjusted to reflect a material change in the useful life of the buildings.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

These prior period adjustments had the following effect on net assets as previously reported:

	Governmental Activities	Business-type Activities	Enterprise Funds Swimming Pool
Net assets, December 31, 2005	\$ 6,639,608	\$ 11,602,241	\$ 2,387,129
Capital asset adjustments	1,155,967	50,025	50,025
Restated net assets, December 31, 2005	\$ 7,795,575	\$ 11,652,266	\$ 2,437,154

C. Change in Accounting Principle

For fiscal year 2006, the City has implemented GASB Statement No. 47, “Accounting for Termination Benefits”. GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

D. Fund Deficits

The following funds had deficit fund balances as of December 31, 2006:

	Deficit
Nonmajor Governmental Funds	
Youth Activities	\$ 2,753
Police Pension	77,289
Fire Pension	76,934

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances resulted from recognition of accrued liabilities. The general fund is responsible for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

E. Compliance

At June 30, 2006, the City had three instances in which expenditures plus encumbrances exceeded appropriations at the City’s legal level of control, in violation of Ohio Revised Code Section 5705.41(B). In order to address these violations, the City intends to closely monitor expenditures and encumbrances to eliminate these weaknesses in future periods.

Throughout 2006, the City carried negative cash fund balances in various funds, in violation of Ohio Revised Code Section 5705.10. In order to address these violations, the City intends to review cash fund balances and utilize advances to avoid such deficits in the future.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

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.

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 Auditor by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$3,235,597 and the bank balance of all City deposits was \$1,905,849. Of the bank balance, \$1,374,644 was exposed to custodial risk as discussed below and \$531,205 was covered by Federal Deposit Insurance Corporation. Although the securities were held by the pledging institution’s trust department and all statutory requirements for the investment of the money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the City’s deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository whose market value at all times shall be at least one hundred five percent of all deposits being secured.

Investments

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

	Fair Value	Average Maturity
Federal National Mortgage Association Notes	\$ 493,992	3/23/2007
Federal Home Loan Mortgage Corporation Notes	1,496,128	1/3/2007 - 2/1/2007
	\$ 1,990,120	

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. The following is the City’s allocation as of December 31, 2006:

Investments	Average Maturity
Federal National Mortgage Association Notes	24.82%
Federal Home Loan Mortgage Corporation Notes	75.18%

Reconciliation of Cash and Investment to the Statement of Net Assets - The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,235,597
Investments	1,990,120
Total	\$ 5,225,717
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,801,631
Business type activities	1,379,486
Fiduciary funds	44,600
Total	\$ 5,225,717

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - RECEIVABLES

Receivables at December 31, 2006, 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 \$33,202 in the special assessment bond retirement fund.

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 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes which become a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 – RECEIVABLES – (Continued)

The full tax rate for all City operations for the year ended December 31, 2006 was \$14.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$ 506,420,470
Public Utility Property	6,403,190
Tangible Personal Property	<u>1,308,870</u>
Total Valuation	<u>\$ 514,132,530</u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Bay Village. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 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 2006 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 percent of earnings for income tax paid to another municipality which reduces the effective tax rate to one half percent for such earnings.

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

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

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 5 – RECEIVABLES – (Continued)

C. Intergovernmental Receivables

A summary of the governmental activities intergovernmental receivables follows:

	<u>Amount</u>
Local Government	\$ 355,963
Gasoline Tax	155,752
Gasoline Excise Tax	86,384
Motor Vehicle Tax	45,116
Permissive Tax	47,110
Homestead and Rollback	373,841
Estate Tax	48,282
Grants	2,000
Prisoner Housing	100
DUI Enforcement	50
Permissive Tax - Interest	62
Liquor Permits	<u>1,583</u>
Total	<u>\$ 1,116,243</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 – CAPITAL ASSETS

A. Governmental Activities

The beginning balance of the governmental activities capital assets at December 31, 2005 have been restated as described in Note 3.B. The previous balance of land in the amount of \$111,100 has been restated by \$172,967 to \$284,067 and the previous balance of land improvements in the amount of \$767,708 has been restated by \$983,000 to \$1,750,708. The effect of this restatement on total governmental capital assets (net of accumulated depreciation) is to increase capital assets from \$13,643,639 to \$14,799,606. Governmental activities capital asset activity for the year ended December 31, 2006 follows:

<u>Governmental Activities</u>	<u>Restated Balance 12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2006</u>
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 284,067			\$ 284,067
Construction in Progress	<u>5,827,117</u>	<u>1,867,778</u>	<u>(7,025,289)</u>	<u>669,606</u>
<i>Total Capital Assets, Not Being Depreciated</i>	<u>6,111,184</u>	<u>1,867,778</u>	<u>(7,025,289)</u>	<u>953,673</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	1,750,708	375,330	-	2,126,038
Buildings	3,724,004	9,385,363	(937,840)	12,171,527
Machinery and Equipment	2,292,528	196,678	(17,116)	2,472,090
Vehicles	3,905,657	350,198	(98,393)	4,157,462
Infrastructure:				
Roads	9,883,897	-	-	9,883,897
Culverts	143,103	-	-	143,103
Traffic Signals	<u>915,500</u>	<u>-</u>	<u>-</u>	<u>915,500</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>22,615,397</u>	<u>10,307,569</u>	<u>(1,053,349)</u>	<u>31,869,617</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(416,118)	(47,550)	-	(463,668)
Buildings	(2,011,311)	(148,123)	541,565	(1,617,869)
Machinery and Equipment	(1,645,332)	(143,259)	17,116	(1,771,475)
Vehicles	(2,761,012)	(322,448)	81,792	(3,001,668)
Infrastructure:				
Roads	(6,810,873)	(158,187)	-	(6,969,060)
Culverts	(51,430)	(2,633)	-	(54,063)
Traffic Signals	<u>(230,899)</u>	<u>(30,516)</u>	<u>-</u>	<u>(261,415)</u>
<i>Total Accumulated Depreciation</i>	<u>\$ (13,926,975)</u>	<u>\$ (852,716)</u>	<u>\$ 640,473</u>	<u>\$ (14,139,218)</u>
Total Capital Assets Being Depreciated, Net	<u>8,688,422</u>	<u>9,454,853</u>	<u>(412,876)</u>	<u>17,730,399</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,799,606</u>	<u>\$ 11,322,631</u>	<u>\$ (7,438,165)</u>	<u>\$ 18,684,072</u>

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 6 – CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$	136,101
Security of Persons and Property		210,769
Public Health and Welfare		72,359
Transportation		292,360
Basic utility services		34,072
Leisure Time Activities		88,447
Community Environment		<u>18,608</u>
Total Depreciation Expense	\$	<u><u>852,716</u></u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 – CAPITAL ASSETS – (Continued)

B. Business-type Activities

The beginning balance of the business-type activities capital assets at December 31, 2005 have been restated as described in Note 3.B. The previous balance of building accumulated depreciation in the amount of \$282,496 has been restated by \$50,025 to \$232,471. The effect of this restatement on total business-type capital assets (net of accumulated depreciation) is to increase capital assets from \$6,231,494 to \$6,281,519. Business-type activities capital asset activity for the year ended December 31, 2006 follows:

<u>Business-Type Activities</u>	Restated Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	895,722	-	-	895,722
Buildings	1,706,678	-	-	1,706,678
Machinery and Equipment	799,989	10,800	-	810,789
Vehicles	802,958	-	(99,995)	702,963
Infrastructure:				
Sewer Lines	6,228,763	-	-	6,228,763
<i>Total Capital Assets, Being Depreciated</i>	<u>10,434,110</u>	<u>10,800</u>	<u>(99,995)</u>	<u>10,344,915</u>
Less Accumulated Depreciation:				
Land Improvements	(98,692)	(39,476)	-	(138,168)
Buildings	(232,471)	(34,135)	-	(266,606)
Machinery and Equipment	(149,692)	(60,125)	-	(209,817)
Vehicles	(613,903)	(18,066)	93,745	(538,224)
Infrastructure:				
Sewer Lines	(3,097,833)	(104,928)	-	(3,202,761)
<i>Total Accumulated Depreciation</i>	<u>(4,192,591)</u>	<u>(256,730)</u>	<u>93,745</u>	<u>(4,355,576)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,241,519</u>	<u>(245,930)</u>	<u>(6,250)</u>	<u>5,989,339</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,281,519</u>	<u>\$ (245,930)</u>	<u>\$ (6,250)</u>	<u>\$ 6,029,339</u>

Depreciation expense was charged to the enterprise funds as follows:

Sewer	\$ 140,763
Swimming Pool	115,967
Total Depreciation Expense	<u>\$ 256,730</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 – RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with Clarendon National for their insurance. The types and amounts of coverage are as follows:

Type of Coverage	Coverage
Property/Inland Marine	\$ 2,204,859
Third Party Liability Umbrella	10,000,000
Public Official and Liability	1,000,000
Boiler	4,000,000
General Liability	1,000,000/2,000,000
Automobile Liability, Comprehensive and Collision	1,000,000
Law Enforcement	1,000,000
Employment Practices Liability	1,000,000
Buildings	19,931,125
EDP	196,233

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

B. Workers' Compensation

Through 2001, the City participated in the Ohio Bureau of Workers' Compensation (BWC) 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 \$21,327 reported in the fund at December 31, 2006 represents the claims run-off for year 2001 under the retrospective rating plan (\$9,548) as reported to the City from BWC as well as premiums required for applicable years under the retrospective rating plan (\$11,779).

Beginning in 2002, the City joined Compensation Management which is a third party administrator for claims administration and group rating services. The City pays an annual membership fee to Compensation Management which, for 2006, was \$8,044. In addition, the City makes premium payments to the BWC which are based on the City's group rating as determined by Compensation Management. The rating is based on the claims experience of the prior year. For 2006, the City's discount rate was forty-eight percent. The BWC premium for 2006 was \$152,102 which covered incurred claims.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 – RISK MANAGEMENT

C. Employee Health Care Benefits

The City manages health care benefits (medical, dental, vision and prescription drug) on a self-insured basis using an internal service fund. A third party administrator processes and pays the claims. The City purchases stop-loss coverage to insure against catastrophic claims. An excess coverage insurance (stop-loss) policy covers claims in excess of \$30,000 per employee.

The claims liability of \$144,076 reported in the fund at December 31, 2006, 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 2005 and 2006 were:

		Balance at Beginning <u>of Year</u>	Current <u>Year Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2006	\$	124,547	\$ 1,423,248	\$ (1,403,719)	\$ 144,076
2005		92,482	1,259,205	(1,227,140)	124,547

NOTE 8 - 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) 222-5601.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - PENSION PLANS – (Continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$405,907, \$437,193, and \$415,367, respectively; 88.93% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$44,938, is recorded as a liability. Contributions to the member-directed plan for 2006 were \$734 made by the City and \$482 made by 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 statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions for pension obligations to OP&F for police officers for the years ended December 31, 2006, 2005, and 2004 were \$188,638, \$209,030, and \$176,361 respectively. The City's contributions for pension obligations to OP&F for firefighters for the years ended December 31, 2006, 2005, and 2004 were \$289,898, \$245,855, and \$266,227 respectively. The full amounts for the police and fire departments have been contributed for 2005 and 2004. 70.95 percent for the police department and 71.27 percent for the fire department has been contributed for 2006. The unpaid contribution to fund pension obligations for police officers and firefighters for 2006 of \$54,808 and \$83,268, respectively, is recorded as a liability.

NOTE 9 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". 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 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - POSTRETIREMENT BENEFIT PLANS – (Continued)

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$198,542. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

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, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". 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% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 9 - POSTRETIREMENT BENEFIT PLANS – (Continued)

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$124,421 for police officers and \$138,259 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 10 – OTHER EMPLOYEE BENEFITS

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

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

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 – LONG TERM OBLIGATIONS

A. Governmental Activities

The original issue date, interest rate, original issue amount and date of maturity of each of the City’s governmental activities bonds and notes follows:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Governmental Activities</u>				
<i>General Obligation Bonds:</i>				
Various Improvements	1997	2007	4.94%	\$ 700,000
Street Improvements	2001	2006	3.30%	1,300,000
Motorized Equipment	2001	2006	3.30%	200,000
Real Estate Acquisition	2001	2006	3.30%	300,000
Various Improvements	2002	2007	3.21%	1,200,000
Recreation Facilities-Community Gym	2002	2017	4.13%	1,100,000
Recreation Facilities-Aquatics Facility	2002	2022	4.23%	2,600,000
Street Improvements	2003	2010	2.70%	700,000
Police Station Improvements	2003	2028	4.40%	5,000,000
Street Improvements	2004	2011	2.05-3.40%	700,000
Police Station Improvements	2004	2010	2.05-3.40%	300,000
Street Improvements	2005	2012	3.39%	700,000
Various Purpose	2005	2010	3.50%	250,000
Street Improvements	2006	2013	3.90-4.00%	700,000
Various Purpose	2006	2011	3.90-4.00%	500,000
<i>Long-Term Notes:</i>				
Police Station Improvements	2006	2007	4.50%	2,300,000
Park Improvements	2006	2007	4.50%	200,000
<i>Special Assessment Bond with Governmental Commitment:</i>				
Street Improvements-Cahoon Road	1987	2007	7.75%	120,000
Sidewalk Improvements	1997	2007	4.49%	130,000

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 – LONG TERM OBLIGATIONS – (Continued)

Changes in governmental activities long-term obligations of the City during 2006 were as follows:

Governmental Activities	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2006</u>	<u>Within</u>
					<u>One Year</u>
<i>General Obligation Bonds:</i>					
Various Improvements	\$ 140,000	\$ -	\$ 70,000	\$ 70,000	\$ 70,000
Street Improvements	260,000	-	260,000	-	-
Motorized Equipment	40,000	-	40,000	-	-
Real Estate Acquisition	60,000	-	60,000	-	-
Various Improvements	480,000	-	240,000	240,000	240,000
Recreation Facilities - Community Gym	875,000	-	75,000	800,000	75,000
Recreation Facilities - Aquatics Facility	2,210,000	-	130,000	2,080,000	130,000
Street Improvements	500,000	-	100,000	400,000	100,000
Police Station Improvements	4,800,000	-	100,000	4,700,000	100,000
Street Improvements	600,000	-	100,000	500,000	100,000
Police Station Improvements	250,000	-	50,000	200,000	50,000
Street Improvements	700,000	-	100,000	600,000	100,000
Various Purpose	250,000	-	50,000	200,000	50,000
Street improvements	-	700,000	-	700,000	100,000
Various Purpose	-	500,000	-	500,000	100,000
Unamortized Premium	56,644	-	3,864	52,780	-
<i>Total General Obligation Bonds</i>	<u>11,221,644</u>	<u>1,200,000</u>	<u>1,378,864</u>	<u>11,042,780</u>	<u>1,215,000</u>
<i>Special Assessment Bonds</i>					
<i>with Governmental Commitment:</i>					
Street Improvements - Cahoon Road	12,000	-	6,000	6,000	6,000
Sidewalk Improvements	4,000	-	2,000	2,000	2,000
<i>Total Special Assessment Bonds</i>	<u>16,000</u>	<u>-</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
<i>Long-Term Notes:</i>					
Police Station Improvements	300,000	300,000	300,000	300,000	300,000
Police Station Improvements	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Police Station Improvements	500,000	500,000	500,000	500,000	500,000
Park Improvements	200,000	200,000	200,000	200,000	200,000
Police Station Improvements	-	500,000	-	500,000	500,000
<i>Total Long-Term Notes</i>	<u>2,000,000</u>	<u>2,500,000</u>	<u>2,000,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
<i>Other long-term obligations:</i>					
Compensated Absences	1,119,060	102,403	69,849	1,151,614	471,638
Capital Lease	45,411	-	14,881	30,530	15,589
<i>Total Governmental Activities</i>	<u>\$ 14,402,115</u>	<u>\$ 3,802,403</u>	<u>\$ 3,471,594</u>	<u>\$ 14,732,924</u>	<u>\$ 4,210,227</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 – LONG TERM OBLIGATIONS - (Continued)

General obligation bonds and bond anticipation notes will be paid from tax money received 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.

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

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

The capital lease obligation is described in Note 12 to the financial statements.

The City's overall legal debt margin was \$43,257,236 and an unvoted debt margin of \$17,287,289 at December 31, 2006.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2006 are as follows:

Years	Governmental Activities					
	General		Special		Total	
	Obligation Bonds		Assessment Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,215,000	\$ 445,166	\$ 8,000	\$ 555	\$ 1,223,000	\$ 445,721
2008	905,000	405,729	-	-	905,000	405,729
2009	1,030,000	375,954	-	-	1,030,000	375,954
2010	1,030,000	337,679	-	-	1,030,000	337,679
2011	830,000	297,984	-	-	830,000	297,984
2012-2016	2,450,000	1,105,795	-	-	2,450,000	1,105,795
2017-2021	1,825,000	650,407	-	-	1,825,000	650,407
2022-2026	1,255,000	272,563	-	-	1,255,000	272,563
2027-2028	450,000	32,400	-	-	450,000	32,400
Total	\$ 10,990,000	\$3,923,677	\$ 8,000	\$ 555	\$ 10,998,000	\$ 3,924,232

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 – LONG TERM OBLIGATIONS - (Continued)

B. Business-type Activities

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Business Type Activities</u>				
<i>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

Changes in business-type activities long-term obligations of the City during 2006 were as follows:

	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2006</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
<i>General Obligation Bonds:</i>					
Sewer Improvements	400,000	-	50,000	350,000	50,000
<i>OPWC Loan:</i>					
Ohio Public Works Commission Loan	510,103	-	34,007	476,096	34,007
Compensated Absences	91,446	13,287	2,810	101,923	-
<i>Total Business-Type Activities</i>	<u>\$ 1,001,549</u>	<u>\$ 13,287</u>	<u>\$ 86,817</u>	<u>\$ 928,019</u>	<u>\$ 84,007</u>

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

Compensated absences will be paid from the sewer enterprise fund. However, if compensated absences are paid out at termination (i.e. resignation or retirement), then the balances to which the employee is entitled are paid from the Accrued Benefits Fund.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 – LONG TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire business-type activities long-term obligations outstanding at December 31, 2006 are as follows:

<u>Years</u>	<u>Business Type Activities</u>				
	<u>General</u>		<u>OPWC</u>	<u>Total</u>	
	<u>Obligation Bonds</u>			<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 50,000	\$ 12,875	\$ 34,007	\$ 84,007	\$ 12,875
2008	50,000	11,375	34,006	84,006	11,375
2009	50,000	9,875	34,007	84,007	9,875
2010	50,000	8,000	34,007	84,007	8,000
2011	50,000	6,000	34,007	84,007	6,000
2012-2016	100,000	6,000	170,034	270,034	6,000
2017-2020	-	-	136,028	136,028	-
Total	\$ 350,000	\$ 54,125	\$ 476,096	\$ 826,096	\$ 54,125

NOTE 12– CAPITAL LEASE

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

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2006.

<u>Year Ending December 31,</u>	
2007	\$ 16,679
2008	<u>15,289</u>
Total Minimum Lease Payments	31,968
Less: Amount Representing Interest	<u>(1,438)</u>
Present Value of Minimum Lease Payments	<u>\$ 30,530</u>

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 13 – JOINT VENTURE

Rocky River Wastewater Treatment Plant

The Rocky River Wastewater Treatment Plant (the “Plant”) is a joint venture among the cities of Fairview Park, Bay Village, Rocky River and Westlake. The Plant is governed by a Management Committee consisting of the elected mayors of the four member cities and a fifth person nominated and elected by the mayors. The Management Committee has complete authority over all aspects of the Plant’s operation. The Plant supplies all participating residents of the member cities with sewer services. Each city owns the sewer lines located in its city and bills its residents for usage. Continued existence of the Plant is dependent on the City’s continued participation, and the City does have an equity interest in the Plant. The City’s equity interest is \$4,930,439 which represents 17.30 percent of the total equity in the Plant. The Plant is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. 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 2006, the City contributed \$35,333, which represents 10.00 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 2006. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116.

CITY OF BAY VILLAGE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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 2006, the City contributed \$300 which represented 8.3 percent of total contributions.

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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 16 – COMMUNITY GYMNASIUM JOINT OPERATING AGREEMENT

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

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

The development and use agreement includes provisions for capital improvement funding. Under these provisions, both the City and the School District are required to establish and maintain a community gym fund. For the first year of operation, the City and School District 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, 2006

NOTE 16 – COMMUNITY GYMNASIUM JOINT OPERATING AGREEMENT – (Continued)

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 – INTERFUND TRANSFERS

Transfers are primarily from the general fund to various funds within the City. The transfers from the general fund were to help finance the various programs accounted for in other funds. The transfer from the general obligation bond retirement fund to the sewer fund was made for the payment of debt. The transfer from the special assessment bond retirement fund (other governmental fund) to the general fund was made in accordance with City ordinance. Transfers made during the year ended December 31, 2006 were as follows:

	<u>Transfer From</u>			
	<u>Governmental Activities</u>			
	General	General Obligation Bond Retirement	Other Governmental Funds	Totals
<u>Transfer To</u>				
<u>Governmental Activities</u>				
General	\$ -	\$ -	\$ 300,000	\$ 300,000
Parks & Recreation	415,000	-	-	415,000
Youth Activities	80,000	-	-	80,000
SCMR	300,000	-	-	300,000
Cahoon Park	42,500	-	-	42,500
Bay Family Services	36,000	-	-	36,000
Emergency Paramedic	35,000	-	-	35,000
Police Pension	152,500	-	-	152,500
Fire Pension	170,000	-	-	170,000
<i>Total Governmental Activities</i>	<u>1,231,000</u>	<u>0</u>	<u>300,000</u>	<u>1,531,000</u>
<u>Business-Type Activities</u>				
Sewer	-	64,375	-	64,375
Total	<u>\$ 1,231,000</u>	<u>\$ 64,375</u>	<u>\$ 300,000</u>	<u>\$ 1,595,375</u>

Transfers between governmental funds are eliminated for reporting on the statement of activities. Net transfers between governmental activities and business-type activities are reported on the statement of activities.

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 – BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance	
Budget Basis	\$ (648,089)
Net Adjustment for Revenue Accruals	266,919
Net Adjustment for Expenditure Accruals	(61,293)
Encumbrances	<u>59,727</u>
GAAP Basis	<u>\$ (382,736)</u>

CITY OF BAY VILLAGE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 19 – SUBSEQUENT EVENTS

In 2007, the City retired \$2,300,000 in general obligation bond anticipation notes and issued \$2,300,000 in new notes with a maturity date in 2008. The following table summarizes the activity.

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

In 2007, the City issued \$100,000 in general obligation bonds for park and recreational facilities and sites.

In 2007, the City issued \$200,000 in general obligation bonds reconstructing and renovating municipal buildings.

In 2007, the City issued \$300,000 in general obligation bonds for acquiring motorized equipment for various departments.

In 2007, the City issued \$700,000 in general obligation bonds for resurfacing and otherwise improving streets.



Mary Taylor, CPA

Auditor of State

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

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

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2007, wherein we noted the City restated January 1, 2006 Fund Balances due to a reclassification of pension obligations. The City also restated January 1, 2006 Net Assets for Governmental Type Activities and Business Type Activities due to capital asset adjustments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 and 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated October 15, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 15, 2007.

The City's responses to the findings identified in our audit are included in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and the City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 15, 2007

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

Items appearing with an asterisk (*) denote comments which have been previously reported in our audit of fiscal year ended December 31, 2005 financial statements in which no corrective action has been taken.

FINDING NUMBER	2006-001
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Material Noncompliance and Significant Deficiency

Expenditures and Encumbrances Exceeding Appropriations*

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by City Council may not exceed appropriations at the legal level for all funds.

The following funds had expenditures plus encumbrances in excess of appropriations as of June 30, 2006 at the legal level of control:

Fund	Appropriations Plus Prior Year Encumbrances June 30, 2006	Expenditures Plus Encumbrances June 30, 2006	Variance
General Fund (100) Prisoner Care Operating Supplies	\$2,000	\$2,733	\$733
Service Garage Restoration (492) Service Garage Fire Rehabilitation	0	1,429,885	1,429,885
Sewer Fund (580) Sewer Improvements	0	10,000	10,000

We recommend the City verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

Officials' Response:

In all cases the variances were corrected by year-end. The prison care operating supplies is a new account line established to assist in tracking specific costs at the newly constructed police station. The City continues to monitor these expenses in order to obtain a reasonable baseline budget. The Service Garage Restoration occurred because the City paid expenses from the capital project account while finalizing the settlement amount with the insurance carrier. For the sewer fund, this amount represents retainage paid on a contract for which the purchase order was closed in the previous year prior to the retainage being paid.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(CONTINUED)**

FINDING NUMBER	2006-002
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Material Noncompliance and Significant Deficiency

Negative Cash Fund Balances*

Ohio Revised Code Section 5705.10 states, in part, that money paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During the following months of fiscal year 2006, the City experienced the following negative cash fund ranges:

FUND	Range of Negative Balance	For Months Including:
100 General	\$101,045	May
232 Youth Activities	\$4,056—\$16,352	January through October
270 Street Construction Maintenance & Repair	\$160,747—\$184,584	May through June
280 Police Pension	\$4,459	June
480 Walker Road Park Improvement	\$13,442—\$21,308	February through June
490 Public Improvement	\$2,829—\$5,430	May through June
492 Service Garage Restoration	\$19,581—\$902,498	August through November
600 Health Insurance	\$132,802—\$352,081	January through November
601 General Insurance	\$19,364—\$27,664	June through July

Although these negative cash fund balances were corrected by year end, the deficit balances indicate that money from another fund was used to pay expenditures for these funds during the year. We recommend the City utilize cash advances to these funds or other appropriate measures to ensure that negative cash fund balances do not exist throughout the year. Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

Officials' Response:

In all cases the negative balances were timing issues that resolved themselves either from transfers from the General fund after final budget approval or the receipt of revenues. If necessary, the City will look at advancing funds to avoid these situations in the future. The health insurance may occur most often because the City charges the departments an equal amount on a monthly basis to avoid extreme monthly fluctuations at departmental levels. These amounts are adjusted at year-end based on the actual health care utilization.

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Bank reconciliations	No	Partially corrected; reissued as management letter comment.
2005-002	Negative cash fund balances	No	Reissued as 2006-002.
2005-003	Purchase order certification	No	Partially corrected; reissued as management letter comment



Mary Taylor, CPA
Auditor of State

CITY OF BAY VILLAGE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 24, 2007**