



**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

**CITY OF BAY VILLAGE
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Village, Cuyahoga County, Ohio, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2002, the City implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 15, 2003

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City of Bay Village
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

The discussion and analysis of the City of Bay Village's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2002. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key Financial highlights for 2002 are as follows:

Total net assets decreased by \$825,402 or 3.9 percent from 2001.
Capital assets, net of depreciation, decreased by \$456,710 or 4.1 percent from 2001.
Total assets of governmental activities decreased by \$510,395 or 2.0 percent under 2001.
Total liabilities of governmental activities increased by \$985,129 or 7.2 percent from 2001.
In total, equity in pooled cash and cash equivalents decreased by \$510,323.
The City issued \$4,900,000 in general obligation bonds during 2002.
The City started construction of a new aquatic facility which opened in June 2003.
The City completed construction of the Walker-Walmar pump station.

Using This Annual Financial Report

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

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

Reporting the City of Bay Village as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2002. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

City of Bay Village
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

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

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

Reporting the City of Bay Village's Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 16. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Bay Village, the major governmental funds are the general fund, general obligation bond retirement fund, and the aquatic center improvement fund. The sewer fund is the City's only major business-type activities fund.

Governmental Funds

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

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

City of Bay Village
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

The City of Bay Village as a Whole

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

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Current and Other Assets	\$17,484,382	\$17,761,364	\$6,573,434	\$6,609,576	\$24,057,816	\$24,370,940
Capital Assets, Net	7,100,087	7,333,500	4,449,735	3,759,612	11,549,822	11,093,112
Total Assets	24,584,469	25,094,864	11,023,169	10,369,188	35,607,638	35,464,052
Current and Other Liabilities	6,318,972	5,962,208	37,876	33,044	6,356,848	5,995,252
Long-Term Liabilities:						
Due Within One Year	1,538,147	4,934,810	39,395	54,424	1,577,542	4,989,234
Due in More Than One Year	6,911,628	2,886,600	640,187	646,131	7,551,815	3,532,731
Total Liabilities	14,768,747	13,783,618	717,458	733,599	15,486,205	14,517,217
Invested in Capital Assets, Net of Related Debt	3,620,087	4,220,500	3,837,611	3,759,612	7,457,698	7,980,112
Restricted:						
Capital Projects	3,338,880	622,444	0	0	3,338,880	622,444
Debt Service	806,971	787,018	0	0	806,971	787,018
Other Purposes	1,815,699	1,545,663	0	0	1,815,699	1,545,663
Unrestricted	234,085	4,135,621	6,468,100	5,875,977	6,702,185	10,011,598
Total Net Assets	\$9,815,722	\$11,311,246	\$10,305,711	\$9,635,589	\$20,121,433	\$20,946,835

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Bay Village, total assets exceed total liabilities by \$20,121,433 as of December 31, 2002.

The largest portion of the City's governmental net assets (36.9 percent) reflects the investments in capital assets (land, construction in progress, buildings, machinery, equipment, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$143,586 from 2001 to 2002, and the City's total liabilities increased by \$968,988. The liability increase is due to an increase of debt to meet contractual payments for construction in progress projects as well as the City's payments to the Bay Village Board of Education for contractual commitments under their community gym joint operating agreement.

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

The total net assets of the City's governmental activities decreased by \$1,495,524 during the current year. The decrease was primarily due to an increase in total liabilities in 2002.

In order to further understand what makes up the changes in net assets for the current year, the following table provides further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to 2001 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues:			
Charges for Services	\$574,842	\$1,610,148	\$2,184,990
Operating Grants and Contributions	554,031	0	554,031
Capital Grants and Contributions	5,000	0	5,000
Total Program Revenues	1,133,873	1,610,148	2,744,021
General Revenues:			
Property Taxes	5,381,932	0	5,381,932
Municipal Income Taxes	5,081,978	0	5,081,978
Grants and Entitlements	3,413,950	0	3,413,950
Unrestricted Contributions and Donations	9,425	0	9,425
Interest	241,272	0	241,272
Miscellaneous	158,221	0	158,221
Total General Revenues	14,286,778	0	14,286,778
Total Revenues	15,420,651	1,610,148	17,030,799
Program Expenses			
General Government	3,063,284	0	3,063,284
Security of Persons and Property	5,582,832	0	5,582,832
Public Health and Welfare	668,795	0	668,795
Transportation	1,690,463	0	1,690,463
Community Environment	874,218	0	874,218
Basic Utility Services	1,677,569	0	1,677,569
Leisure Time Activities	2,228,952	0	2,228,952
Interest and Fiscal Charges	320,687	0	320,687
Sewer	0	1,543,903	1,543,903
Swimming Pool	0	205,498	205,498
Total Program Expenses	16,106,800	1,749,401	17,856,201
Decrease in Net Assets Before Transfers	(686,149)	(139,253)	(825,402)
Transfers	(809,375)	809,375	0
Increase (Decrease) in Net Assets	(\$1,495,524)	\$670,122	(\$825,402)

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

City of Bay Village
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2002, property tax accounted for 35 percent of total revenues, and municipal income tax accounted for 33 percent. The City's municipal income tax rate of 1.5 percent has remained unchanged since 1983. Grants and entitlements revenue totaling \$3,413,950, accounts for 22 percent of total governmental activity revenue. These funds are comprised of distributions from the State and county, the majority of which was estate taxes.

Security of persons and property, including the police and fire departments, accounted for \$5,582,832 which is 34.6 percent of total governmental activity expenses.

Table 3 presents a summary for governmental activities, to total cost of services and the net cost of providing these services. Comparison to 2001 has not been made since they are not available.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2002	2002
General Government	\$3,063,284	\$2,961,480
Security of Persons and Property	5,582,832	5,386,537
Public Health and Welfare	668,795	642,155
Transportation	1,690,463	1,195,132
Community Environment	874,218	819,582
Basic Utility Services	1,677,569	1,604,141
Leisure Time Activities	2,228,952	2,043,213
Interest and Fiscal Charges	320,687	320,687
Total Cost of Services	\$16,106,800	\$14,972,927

Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions all reduce the governmental activity expenses. For 2002, there was a difference of \$1,133,873 between the Total Cost of Services and the Net Cost of Services. The most significant contributing factors follow.

- General Government expenses were reduced by \$101,804 in program revenues which were derived primarily from building department registrations and permits.
- Security of Persons and Property expenses were reduced by \$196,295 primarily through charges for services which consist of police fines and fees and court fines and fees from the Rocky River Municipal Court which serves the City of Bay Village.
- Transportation expenses were reduced by \$495,331 which consists of gasoline taxes and vehicle registration fees.
- Leisure Time Activity expenses were reduced by \$185,739 primarily through charges for services for parks and recreation programs and facility rental.

City of Bay Village
Management's Discussion and Analysis
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Unaudited

Business-Type Activities

Charges for services is the primary source of revenue for the City's sewer operations and swimming pool activity. Although expenses exceeded program revenue by \$139,253 in 2002, the sewer rates charged to Bay Village residential and commercial accounts have remained the same since 1997, despite rising costs for the City's capital and operating contributions to the Rocky River Wastewater Treatment Plant, a joint venture among four municipalities.

In 2001 the City recognized the need to replace the outdated pool and concession structures. During 2002 the City issued \$2.6 million in bonds to fund the aquatic center construction. This center, which opened in June 2003, has expanded capacity and also provides concession access from both the pool and the adjacent park area which includes baseball diamonds, tennis courts, and a toddler playground.

Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,756,826 and total expenditures of \$17,363,605. The most significant fund is the general fund, which had an unreserved fund balance at year end of \$2,863,141 compared to expenditures of \$9,454,648. While revenues exceeded expenditures by \$1,459,313, the excess was transferred to other funds. These transferred funds enabled the City to fund other special revenue departments and capital improvements.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The City amended its general fund budget at various times throughout fiscal year 2002. All recommendations for budget amendments are initially presented to the Finance Committee of City Council for review before they are presented to the whole Council for Ordinance enactment on the change. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. The general fund supports many of the City's major activities such as the Police and Fire Departments as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the general fund, original budgeted revenues were \$9,819,703. The final budgeted revenue amount was \$11,806,770. The most significant change was an increase in estimated revenue of more than \$500,000 each in Property and Other Taxes, Municipal Income Taxes, and Intergovernmental Revenue. The City actually received approximately 83 percent of these estimated increases. The original appropriations for the general fund were \$9,244,034. The final appropriations were \$9,757,304. The increase of \$513,270 was primarily due to increases in salaries and benefits. The City's ending unencumbered cash balance in the general fund was \$143,400 below the final budgeted amount; however, the general fund's ending fund balance was \$330,397 higher than the original budget.

City of Bay Village
Management's Discussion and Analysis
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Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$412,101	\$412,101	\$40,000	\$40,000	\$452,101	\$452,101
Land Improvements	147,121	170,655	0	0	147,121	170,655
Buildings	1,879,091	1,952,964	401,635	412,565	2,280,726	2,365,529
Machinery and Equipment	734,547	617,306	24,948	26,796	759,495	644,102
Vehicles	1,165,899	1,266,998	122,431	154,440	1,288,330	1,421,438
Construction in Progress	0	0	833,886	0	833,886	0
Infrastructure						
Roads	1,885,604	2,004,602	0	0	1,885,604	2,004,602
Culverts	99,572	102,205	0	0	99,572	102,205
Traffic Signals	776,152	806,669	0	0	776,152	806,669
Sewer Lines	0	0	3,026,835	3,125,811	3,026,835	3,125,811
Total Capital Assets	\$7,100,087	\$7,333,500	\$4,449,735	\$3,759,612	\$11,549,822	\$11,093,112

The City's total capital assets for governmental activities decreased in 2002 by \$233,413. Fluctuations were moderate and generally related the City's updated valuations at December 31, 2002. Capital assets for business-type activities increased by \$690,123. The most significant increase was in construction in progress which primarily accounts for the new aquatic center. See note 9 for additional information on capital assets.

Debt

As of December 31, 2002, the City of Bay Village had \$7,792,124 in bonds and loans outstanding with \$1,167,007 due within one year.

Table 5
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	\$7,140,000	\$3,045,000	\$0	\$0	\$7,140,000	\$3,045,000
Special Assessment Bonds	40,000	68,000	0	0	40,000	68,000
OPWC Loan	0	0	612,124	646,131	612,124	646,131
Notes Payable	0	3,500,000	0	0	0	3,500,000
Total	\$7,180,000	\$6,613,000	\$612,124	\$646,131	\$7,792,124	\$7,259,131

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

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

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

During 2002 the City repaid \$3,500,000 in notes and had no notes outstanding at year-end.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5 percent of total assessed valuation. The City's overall legal debt margin was \$35,209,474 on December 31, 2002.

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

Current Financial Related Activities

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

The City's income tax rate of 1.5 percent has remained unchanged since 1983 and property taxes rates have remained consistent since 1995.

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

The City has purchased and paid for vehicles and equipment over the past five years. Sixty percent of the Police Department vehicles are three years old or less and three older vehicles are scheduled to be replaced in 2003. The City has also purchased new trucks and infield rakes for the parks and recreation facilities. The primary fire and emergency vehicles are less than eight years old and three utility vehicles are three years old or less. The Service and Street Departments continue to replace three to five vehicles annually.

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

In conjunction with the new aquatic center, the City will improve both the roadways and parking areas in the surrounding area. This center, along with the community gymnasium which is scheduled to open in 2004, will enhance the scope of the City's recreational programs and facilities.

City of Bay Village
Management's Discussion and Analysis
For the Year Ended December 31, 2002
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Contacting the City's Finance Department

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

City Of Bay Village

Statement of Net Assets

December 31, 2002

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$8,622,295	\$1,130,483	\$9,752,778
Materials and Supplies Inventory	101,546	5,621	107,167
Accrued Interest Receivable	38,670	0	38,670
Accounts Receivable	37,256	105,060	142,316
Intergovernmental Receivable	1,279,368	0	1,279,368
Prepaid Items	45,810	0	45,810
Municipal Income Taxes Receivable	1,511,242	0	1,511,242
Property Taxes Receivable	5,760,384	0	5,760,384
Special Assessments Receivable	87,811	0	87,811
Investment in Joint Venture	0	5,332,270	5,332,270
Capital Assets, Non-Depreciable	412,101	873,886	1,285,987
Capital Assets, Depreciable, Net	6,687,986	3,575,849	10,263,835
<i>Total Assets</i>	<u>24,584,469</u>	<u>11,023,169</u>	<u>35,607,638</u>
Liabilities			
Accounts Payable	116,008	13,220	129,228
Contracts Payable	370,434	3,678	374,112
Accrued Wages and Benefits	68,985	5,451	74,436
Intergovernmental Payable	349,613	15,527	365,140
Deferred Revenue	5,326,349	0	5,326,349
Accrued Interest Payable	23,070	0	23,070
Claims Payable	64,513	0	64,513
Long-Term Liabilities:			
Due Within One Year	1,538,147	39,395	1,577,542
Due In More Than One Year	6,911,628	640,187	7,551,815
<i>Total Liabilities</i>	<u>14,768,747</u>	<u>717,458</u>	<u>15,486,205</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,620,087	3,837,611	7,457,698
Restricted for:			
Capital Projects	3,338,880	0	3,338,880
Debt Service	806,971	0	806,971
Other Purposes	1,815,699	0	1,815,699
Unrestricted	234,085	6,468,100	6,702,185
<i>Total Net Assets</i>	<u>\$9,815,722</u>	<u>\$10,305,711</u>	<u>\$20,121,433</u>

See accompanying notes to the basic financial statements

City of Bay Village
Statement of Activities
For the Year Ended December 31, 2002

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$3,063,284	\$101,804	\$0	\$0
Security of Persons and Property	5,582,832	172,221	24,074	0
Public Health and Welfare	668,795	10,188	16,452	0
Transportation	1,690,463	4,553	490,778	0
Community Environment	874,218	29,195	20,441	5,000
Basic Utility Services	1,677,569	73,428	0	0
Leisure Time Activities	2,228,952	183,453	2,286	0
Interest and Fiscal Charges	320,687	0	0	0
<i>Total Governmental Activities</i>	<u>16,106,800</u>	<u>574,842</u>	<u>554,031</u>	<u>5,000</u>
Business-Type Activities				
Sewer	1,543,903	1,452,715	0	0
Swimming Pool	205,498	157,433	0	0
<i>Total Business-Type Activities</i>	<u>1,749,401</u>	<u>1,610,148</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$17,856,201</u></u>	<u><u>\$2,184,990</u></u>	<u><u>\$554,031</u></u>	<u><u>\$5,000</u></u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Debt Service
- Other Purposes

Municipal Income Taxes Levied for:

- General Purposes
- Capital Projects
- Other Purposes

Grants and Entitlements not Restricted
to Specific Programs

Unrestricted Contributions and Donations

Interest

Miscellaneous

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activity	Total
(\$2,961,480)	\$0	(\$2,961,480)
(5,386,537)	0	(5,386,537)
(642,155)	0	(642,155)
(1,195,132)	0	(1,195,132)
(819,582)	0	(819,582)
(1,604,141)	0	(1,604,141)
(2,043,213)	0	(2,043,213)
(320,687)	0	(320,687)
<u>(14,972,927)</u>	<u>0</u>	<u>(14,972,927)</u>
0	(91,188)	(91,188)
<u>0</u>	<u>(48,065)</u>	<u>(48,065)</u>
<u>0</u>	<u>(139,253)</u>	<u>(139,253)</u>
<u>(14,972,927)</u>	<u>(139,253)</u>	<u>(15,112,180)</u>
3,028,927	0	3,028,927
1,408,183	0	1,408,183
944,822	0	944,822
4,777,058	0	4,777,058
203,280	0	203,280
101,640	0	101,640
3,413,950	0	3,413,950
9,425	0	9,425
241,272	0	241,272
158,221	0	158,221
14,286,778	0	14,286,778
<u>(809,375)</u>	<u>809,375</u>	<u>0</u>
(1,495,524)	670,122	(825,402)
<u>11,311,246</u>	<u>9,635,589</u>	<u>20,946,835</u>
<u>\$9,815,722</u>	<u>\$10,305,711</u>	<u>\$20,121,433</u>

City of Bay Village

Balance Sheet

Governmental Funds

December 31, 2002

	General	General Obligation Bond Retirement	Aquatic Center Improvement	Other Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,164,125	\$211,739	\$1,971,225	\$3,562,421
Municipal Income Taxes Receivable	1,420,567	0	0	90,675
Property Taxes Receivable	3,242,562	1,506,824	0	1,010,998
Accounts Receivable	37,026	0	0	230
Intergovernmental Receivable	857,161	95,773	0	326,434
Accrued Interest Receivable	27,184	2,663	0	6,479
Materials and Supplies Inventory	7,952	0	0	93,594
Special Assessments Receivable	0	0	0	87,811
<i>Total Assets</i>	<u>\$7,756,577</u>	<u>\$1,816,999</u>	<u>\$1,971,225</u>	<u>\$5,178,642</u>
Liabilities				
Accounts Payable	\$82,487	\$0	\$0	\$33,521
Contracts Payable	3,001	0	337,180	30,253
Accrued Wages and Benefits	41,444	0	0	27,541
Intergovernmental Payable	127,733	0	0	27,236
Deferred Revenue	4,584,307	1,602,597	0	1,393,138
<i>Total Liabilities</i>	<u>4,838,972</u>	<u>1,602,597</u>	<u>337,180</u>	<u>1,511,689</u>
Fund Balances				
Reserved for Encumbrances	54,464	0	1,687,669	297,012
Unreserved:				
Undesignated, Reported in:				
General Fund	2,863,141	0	0	0
Special Revenue Funds	0	0	0	1,660,174
Debt Service Funds	0	214,402	0	315,804
Capital Projects Funds	0	0	(53,624)	1,393,963
<i>Total Fund Balances</i>	<u>2,917,605</u>	<u>214,402</u>	<u>1,634,045</u>	<u>3,666,953</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,756,577</u>	<u>\$1,816,999</u>	<u>\$1,971,225</u>	<u>\$5,178,642</u>

See accompanying notes to the basic financial statements

City of Bay Village
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2002*

<p style="text-align: center;">Total Governmental Funds</p>	<p>Total Governmental Fund Balances</p>	<p>\$8,433,005</p>
	<p><i>Amounts reported for governmental activities in the statement of net assets are different because</i></p>	
<p>\$7,909,510</p>	Capital assets used in governmental activities are not financial	
<p>1,511,242</p>	resources and therefore are not reported in the funds	7,100,087
<p>5,760,384</p>		
<p>37,256</p>	Other long-term assets are not available to pay for current-	
<p>1,279,368</p>	period expenditures and therefore are deferred in the funds:	
<p>36,326</p>	Municipal Income Taxes	879,833
<p>101,546</p>	Delinquent Property Taxes	434,035
<p>87,811</p>	Intergovernmental	852,014
<p><u>\$16,723,443</u></p>	Special Assessments	<u>87,811</u>
	Total	2,253,693
<p>\$116,008</p>	Three internal service funds are used by management to charge	
<p>370,434</p>	the cost of insurance and workers' compensation to individual	
<p>68,985</p>	funds. The assets and liabilities of the internal service funds are	
<p>154,969</p>	included in governmental activities in the statement of net assets.	666,984
<p>7,580,042</p>		
<p>8,290,438</p>	Due to other governments includes contractually required	
	pension contributions not expected to be paid with	
	expendable available financial resources and therefore	
	not reported in the funds.	(165,202)
	In the statement of activities, interest is accrued on outstanding	
	bonds, whereas in governmental funds, an interest expenditure	
	is reported when due	(23,070)
<p>2,863,141</p>		
<p>1,660,174</p>	Long-term liabilities, including bonds and compensated absences,	
<p>530,206</p>	are not due and payable in the current period therefore are not	
<p>1,340,339</p>	reported in the funds:	
<p>8,433,005</p>	General Obligation Bonds	(7,140,000)
<p><u>\$16,723,443</u></p>	Special Assessment Bonds	(40,000)
	Compensated Absences	<u>(1,269,775)</u>
	Total	<u>(8,449,775)</u>
	<i>Net Assets of Governmental Activities</i>	<u><u>\$9,815,722</u></u>

City of Bay Village
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2002

	General	General Obligation Bond Retirement	Aquatic Center Improvement	Other Governmental Funds
Revenues				
Property and Other Taxes	\$2,986,248	\$1,383,212	\$0	\$928,069
Municipal Income Taxes	4,067,452	0	0	259,626
Charges for Services	24,288	0	0	163,394
Fines, Licenses and Permits	316,870	0	0	3,457
Intergovernmental	3,273,248	191,547	0	615,010
Special Assessments	0	0	0	28,000
Interest	113,302	48,638	0	79,332
Contributions and Donations	9,425	0	0	44,857
Rentals	37,770	0	0	24,860
Miscellaneous	85,358	0	0	72,863
<i>Total Revenues</i>	<u>10,913,961</u>	<u>1,623,397</u>	<u>0</u>	<u>2,219,468</u>
Expenditures				
Current:				
General Government	2,773,253	53,493	0	49,889
Security of Persons and Property	4,025,800	0	0	1,300,017
Public Health and Welfare	253,254	0	0	36,022
Transportation	103,685	0	0	1,509,975
Community Environment	686,819	0	0	29,701
Basic Utility Services	1,611,837	0	0	2,800
Leisure Time Activities	0	0	0	860,781
Capital Outlay	0	0	1,115,955	1,809,546
Debt Service:				
Principal Retirement	0	805,000	0	28,000
Interest and Fiscal Charges	0	211,995	1,400	94,383
<i>Total Expenditures</i>	<u>9,454,648</u>	<u>1,070,488</u>	<u>1,117,355</u>	<u>5,721,114</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,459,313</u>	<u>552,909</u>	<u>(1,117,355)</u>	<u>(3,501,646)</u>
Other Financing Sources (Uses)				
Bonds Issued	0	0	2,600,000	2,300,000
Transfers In	0	0	153,413	2,497,837
Transfers Out	(2,047,500)	(513,750)	0	(150,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,047,500)</u>	<u>(513,750)</u>	<u>2,753,413</u>	<u>4,647,837</u>
<i>Net Change in Fund Balances</i>	(588,187)	39,159	1,636,058	1,146,191
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,505,792</u>	<u>175,243</u>	<u>(2,013)</u>	<u>2,520,762</u>
<i>Fund Balances End of Year</i>	<u>\$2,917,605</u>	<u>\$214,402</u>	<u>\$1,634,045</u>	<u>\$3,666,953</u>

See accompanying notes to the basic financial statements

City of Bay Village

*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, 2002*

	Net Change in Fund Balances - Total Governmental Funds	\$2,233,221
Total Governmental Funds	<i>Amounts reported for governmental activities in the statement of activities activities are different because</i>	
\$5,297,529	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
4,327,078	Capital Asset Additions	569,345
187,682	Current Year Depreciation	(703,311)
320,327	Total	(133,966)
4,079,805	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.	(99,447)
28,000	Proceeds of bonds in the governmental funds increased long-term liabilities in the statement of net assets.	(4,900,000)
241,272	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
54,282	Delinquent Property Taxes	84,403
62,630	Municipal Income Taxes	754,900
158,221	Intergovernmental	(151,681)
14,756,826	Special Assessments	(23,797)
	Total	663,825
2,876,635	Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	833,000
5,325,817	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(12,909)
289,276	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.	
1,613,660	Compensated Absences	(61,365)
716,520	Pension Obligation	(12,395)
1,614,637	Total	(73,760)
860,781	The internal service funds used by management to charge the costs of insurance to individual funds is not reported in entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change in governmental funds is reported for the year.	(5,488)
2,925,501	<i>Change in Net Assets of Governmental Activities</i>	<u>(\$1,495,524)</u>
833,000		
307,778		
17,363,605		
(2,606,779)		
4,900,000		
2,651,250		
(2,711,250)		
4,840,000		
2,233,221		
6,199,784		
\$8,433,005		

City of Bay Village
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$2,555,255	\$3,072,324	\$2,986,248	(\$86,076)
Municipal Income Taxes	3,426,435	4,119,792	3,972,695	(147,097)
Charges for Services	18,114	21,780	24,288	2,508
Fines, Licenses and Permits	256,043	307,855	326,299	18,444
Intergovernmental	3,298,239	3,965,654	3,878,312	(87,342)
Interest	149,175	179,361	143,005	(36,356)
Contributions and Donations	9,803	11,787	9,425	(2,362)
Rentals	37,507	45,096	37,770	(7,326)
Miscellaneous	69,132	83,121	94,715	11,594
<i>Total Revenues</i>	<u>9,819,703</u>	<u>11,806,770</u>	<u>11,472,757</u>	<u>(334,013)</u>
Expenditures				
Current:				
General Government	2,544,888	2,766,708	2,752,970	13,738
Security of Persons and Property	3,882,779	4,065,569	4,004,539	61,030
Public Health and Welfare	237,590	247,575	245,412	2,163
Transportation	227,932	227,932	217,464	10,468
Community Environment	670,179	709,654	682,205	27,449
Basic Utility Services	1,680,666	1,739,866	1,664,101	75,765
<i>Total Expenditures</i>	<u>9,244,034</u>	<u>9,757,304</u>	<u>9,566,691</u>	<u>190,613</u>
<i>Excess of Revenues Over Expenditures</i>	575,669	2,049,466	1,906,066	(143,400)
Other Financing Uses				
Transfers Out	<u>(1,047,500)</u>	<u>(2,047,500)</u>	<u>(2,047,500)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(471,831)	1,966	(141,434)	(143,400)
<i>Fund Balance Beginning of Year</i>	2,109,575	2,109,575	2,109,575	0
Prior Year Encumbrances Appropriated	<u>75,783</u>	<u>75,783</u>	<u>75,783</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,713,527</u></u>	<u><u>\$2,187,324</u></u>	<u><u>\$2,043,924</u></u>	<u><u>(\$143,400)</u></u>

See accompanying notes to the basic financial statements

City of Bay Village
Statement of Fund Net Assets
Proprietary Funds
December 31, 2002

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Nonmajor Fund	Total	
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$1,100,463	\$30,020	\$1,130,483	\$712,785
Accounts Receivable	105,060	0	105,060	0
Accrued Interest Receivable	0	0	0	2,344
Materials and Supplies Inventory	5,621	0	5,621	0
Prepaid Items	0	0	0	45,810
<i>Total Current Assets</i>	<u>1,211,144</u>	<u>30,020</u>	<u>1,241,164</u>	<u>760,939</u>
<i>Noncurrent Assets</i>				
Investment in Joint Venture	5,332,270	0	5,332,270	0
Non-Depreciable Capital Assets	124,511	749,375	873,886	0
Depreciable Capital Assets, Net	3,575,849	0	3,575,849	0
<i>Total Noncurrent Assets</i>	<u>9,032,630</u>	<u>749,375</u>	<u>9,782,005</u>	<u>0</u>
<i>Total Assets</i>	<u>10,243,774</u>	<u>779,395</u>	<u>11,023,169</u>	<u>760,939</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	13,220	0	13,220	0
Contracts Payable	3,678	0	3,678	0
Claims Payable	0	0	0	64,513
Accrued Wages and Benefits	5,451	0	5,451	0
Intergovernmental Payable	15,326	201	15,527	29,442
Compensated Absences Payable	5,388	0	5,388	0
OPWC Loans Payable	34,007	0	34,007	0
<i>Total Current Liabilities</i>	<u>77,070</u>	<u>201</u>	<u>77,271</u>	<u>93,955</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable (net of current portion)	62,070	0	62,070	0
OPWC Loans Payable (net of current portion)	578,117	0	578,117	0
<i>Total Long-Term Liabilities</i>	<u>640,187</u>	<u>0</u>	<u>640,187</u>	<u>0</u>
<i>Total Liabilities</i>	<u>717,257</u>	<u>201</u>	<u>717,458</u>	<u>93,955</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,088,236	749,375	3,837,611	0
Unrestricted	6,438,281	29,819	6,468,100	666,984
<i>Total Net Assets</i>	<u>\$9,526,517</u>	<u>\$779,194</u>	<u>\$10,305,711</u>	<u>\$666,984</u>

See accompanying notes to the basic financial statements

City of Bay Village
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2002*

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer	Nonmajor Fund	Total	
Operating Revenues				
Charges for Services	\$1,452,715	\$157,433	\$1,610,148	\$1,228,755
Other	0	0	0	33,683
<i>Total Operating Revenues</i>	<u>1,452,715</u>	<u>157,433</u>	<u>1,610,148</u>	<u>1,262,438</u>
Operating Expenses				
Personal Services	544,034	129,071	673,105	0
Materials and Supplies	36,780	32,970	69,750	0
Contractual Services	692,221	43,039	735,260	389,598
Claims	0	0	0	874,488
Other	225	418	643	6,900
Depreciation	143,763	0	143,763	0
<i>Total Operating Expenses</i>	<u>1,417,023</u>	<u>205,498</u>	<u>1,622,521</u>	<u>1,270,986</u>
<i>Operating Income (Loss)</i>	<u>35,692</u>	<u>(48,065)</u>	<u>(12,373)</u>	<u>(8,548)</u>
Non Operating Revenues (Expenses)				
Interest	0	0	0	3,060
Equity in Loss of Joint Venture	(126,880)	0	(126,880)	0
<i>Total Non Operating Revenues (Expenses)</i>	<u>(126,880)</u>	<u>0</u>	<u>(126,880)</u>	<u>3,060</u>
<i>Income (Loss) Before Transfers</i>	<u>(91,188)</u>	<u>(48,065)</u>	<u>(139,253)</u>	<u>(5,488)</u>
Capital Contributions	0	749,375	749,375	0
Transfers In	0	60,000	60,000	0
<i>Change in Net Assets</i>	<u>(91,188)</u>	<u>761,310</u>	<u>670,122</u>	<u>(5,488)</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>9,617,705</u>	<u>17,884</u>	<u>9,635,589</u>	<u>672,472</u>
<i>Net Assets End of Year</i>	<u><u>\$9,526,517</u></u>	<u><u>\$779,194</u></u>	<u><u>\$10,305,711</u></u>	<u><u>\$666,984</u></u>

See accompanying notes to the basic financial statements

City of Bay Village
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2002

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Nonmajor Fund	Total	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$1,458,213	\$157,433	\$1,615,646	\$0
Cash Received from Transactions with Other Funds	0	0	0	1,228,749
Cash Payments to Suppliers for Materials and Supplies	(31,181)	(32,970)	(64,151)	0
Cash Payments for Employee Services and Benefits	(542,750)	(128,870)	(671,620)	0
Cash Payments for Contractual Services	(687,060)	(43,039)	(730,099)	(412,998)
Cash Payments for Claims	0	0	0	(874,945)
Other Operating Revenues	0	0	0	33,683
Other Operating Expenses	(267)	(418)	(685)	(7,000)
<i>Net Cash Provided by (Used for) Operating Activities</i>	196,955	(47,864)	149,091	(32,511)
Cash Flows from Noncapital Financing Activities				
Transfers In	0	60,000	60,000	0
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(84,511)	0	(84,511)	0
Principal Paid on OPWC Loan	(34,007)	0	(34,007)	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	(118,518)	0	(118,518)	0
Cash Flows from Investing Activities				
Capital Contributed to Joint Venture	(52,289)	0	(52,289)	0
Interest on Investments	0	0	0	5,040
<i>Net Cash Provided by (Used for) Investing Activities</i>	(52,289)	0	(52,289)	5,040
Net Increase (Decrease) in Cash and Cash Equivalents	26,148	12,136	38,284	(27,471)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,074,315	17,884	1,092,199	740,256
<i>Cash and Cash Equivalents End of Year</i>	\$1,100,463	\$30,020	\$1,130,483	\$712,785

(continued)

City of Bay Village
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2002

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Sewer	Nonmajor Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used for) Operating Activities				
Operating Income (Loss)	\$35,692	(\$48,065)	(12,373)	(\$8,548)
<i>Adjustments:</i>				
Depreciation	143,763	0	143,763	0
(Increase) Decrease in Assets:				
Accounts Receivable	5,456	0	5,456	0
Materials and Supplies Inventory	(5,621)	0	(5,621)	0
Prepaid Items	0	0	0	(11,383)
Increase (Decrease) in Liabilities:				
Accounts Payable	12,738	0	12,738	(20,384)
Contracts Payable	3,678	0	3,678	0
Claims Payable	0	0	0	(457)
Accrued Wages and Benefits	(1,152)	0	(1,152)	0
Compensated Absences Payable	1,517	0	1,517	0
Intergovernmental Payable	884	201	1,085	8,261
<i>Total Adjustments</i>	161,263	201	161,464	(23,963)
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$196,955	(\$47,864)	\$149,091	(\$32,511)

Noncash Capital Financing Activities

During 2002, the swimming pool enterprise fund received construction in progress from the aquatic facility capital projects fund valued at \$749,375.

See accompanying notes to the basic financial statements

City of Bay Village
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2002

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$39,926</u></u>
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Liabilities

Undistributed Monies	<u><u>\$39,926</u></u>
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See accompanying notes to the basic financial statements

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City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 1 - Description of City and Reporting Entity

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

Reporting Entity

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

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

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

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

The City has an explicit and measurable interest in the Rocky River Wastewater Treatment Plant. There exists a residual interest in the assets upon dissolution of the joint venture. The City also has an ongoing financial responsibility for its share of the joint venture liabilities (See Note 16).

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 18.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

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

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

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

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

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

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

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

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

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

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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

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

D. Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 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. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

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

During the year, the City's investments were limited to a Repurchase Agreement, United States Treasury Notes, Federal Home Loan Notes and Federal National Mortgage Notes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2002 amounted to \$113,302, which includes \$48,900 assigned from other City funds.

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

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002 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.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City increased their capitalization threshold from one thousand five hundred dollars to five thousand dollars for 2002. 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	30 - 50 years

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

I. Interfund Balances

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

J. Compensated Absences

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

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.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Contributions of Capital

Contributions of capital in governmental and 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, or from grants or outside contributions of resources restricted to capital acquisition and construction.

O. 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

P. Budgetary Process

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

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

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

Q. 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 nonmajor 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.

R. 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.

S. Estimates

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

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 3 – Change in Accounting Principles and Restatement of Prior Year Net Assets

Change in Accounting Principles For 2002, the City has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments,” GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements,” GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus,” and Statement No. 38, “Certain Financial Statement Note Disclosures.”

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between governmental and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2001, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34, reclassification of notes payable, the conversion to the accrual basis of accounting and a change in the capital asset threshold amount from \$1,500 to \$5,000.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

The implementation of these changes had the following effect on fund balances of the major and nonmajor funds of the City as previously reported. The change in fund balances for the transition from governmental fund balances to net assets of the governmental activities is also presented.

	<u>General</u>	<u>General Obligation Bond Retirement</u>	<u>Aquatic Center Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2001	\$3,483,126	\$175,243	(\$2,013)	\$4,622,242	\$8,278,598
Implementation of GASB Interpretation No. 6	22,666	0	0	1,237	23,903
Fund Reclassification	0	0	0	197,283	197,283
Notes Payable Reclassification	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,300,000)</u>	<u>(2,300,000)</u>
Adjusted Fund Balance, December 31, 2001	<u>\$3,505,792</u>	<u>\$175,243</u>	<u>(\$2,013)</u>	<u>\$2,520,762</u>	6,199,784
GASB 34 Adjustments:					
Capital Assets					7,333,500
Internal Service Funds					672,472
Long-Term (Deferred) Assets					1,589,868
Long-Term Liabilities:					
Compensated Absences Payable					(1,208,410)
General Obligation Bonds					(3,113,000)
Pension Obligation					(152,807)
Accrued Interest Payable					<u>(10,161)</u>
Governmental Activities Net Assets, December 31, 2001					<u>\$11,311,246</u>

The implementation had the following effect on fund equity as it was previously reported. The City revaluated their capital assets and increased their capitalization threshold from \$1,500 to \$5,000. It was also determined that compensated absences payable was overstated at December 31, 2001.

	<u>Sewer</u>	<u>Nonmajor Fund</u>	<u>Total</u>
Fund Equity, December 31, 2001	\$13,042,424	\$41,574	\$13,083,998
Compensated Absences Payable Restatement	(63,516)	0	(63,516)
Capital Asset Restatement	<u>(3,361,203)</u>	<u>(23,690)</u>	<u>(3,384,893)</u>
Business-Type Activities Net Assets, December 31, 2001	<u>\$9,617,705</u>	<u>\$17,884</u>	<u>\$9,635,589</u>

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 4 – Legal Compliance

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

	<u>Appropriations</u>	<u>Expenditures/ Expenses</u>	<u>Excess</u>
Major Funds:			
<i>General Fund:</i>			
General Government:			
Department of Law			
Operating	\$81,650	\$87,432	(\$5,782)
Service Director			
Operating	483,281	522,584	(39,303)
<i>Debt Service Fund:</i>			
General Obligation Bond Retirement Fund:			
Debt Services:			
Interest and Fiscal Charges	324,975	325,745	(770)
Nonmajor Funds:			
<i>Special Revenue Fund:</i>			
Play in the Bay Fund:			
Leisure Time Activities:			
Operating	0	321	(321)
<i>Capital Projects Fund:</i>			
Walker Road Park Improvement Fund:			
Capital Outlay	195,578	258,130	(62,552)
<i>Internal Service Fund:</i>			
Health Insurance Fund:			
Operating	295,950	296,053	(103)
Claims	860,800	866,730	(5,930)

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

	<u>Estimated Revenue Plus Carryover Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
Nonmajor Funds:			
<i>Special Revenue Fund:</i>			
Community Development Block Grant Fund	\$20,907	\$50,000	(\$29,093)
<i>Capital Projects Fund:</i>			
Community Gym Improvement	1,100,000	1,200,000	(100,000)

Contrary to Ohio Revised Code Section 5705.39, the community development block grant special revenue fund had original appropriations in excess of estimated revenues and carryover balances of \$29,093.

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

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$588,187)
Net Adjustment for Revenue Accruals	528,321
Beginning Fair Value Adjustment for Investments	15,742
Ending Fair Value Adjustment for Investments	14,670
Unrecorded Cash	63
Net Adjustment for Expenditure Accruals	(6,575)
Encumbrances	<u>(105,468)</u>
Budget Basis	<u><u>(\$141,434)</u></u>

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 6 - Deposits and Investments

State statutes classify monies held by the City into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
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).

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

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

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

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

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

Deposits At year-end, the carrying amount of the City's deposits was \$2,955,605 and the bank balance was \$3,521,559. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$3,221,559 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 3	Carrying and Fair Value
Repurchase Agreements	\$1,756,437	\$1,756,437
Federal Home Loan Notes	3,535,686	3,535,686
Federal National Mortgage Notes	1,544,976	1,544,976
Total Investments	\$6,837,099	\$6,837,099

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

	Cash and Cash Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$9,792,704	\$0
Investments:		
Repurchase Agreements	(1,756,437)	1,756,437
Federal Home Loan Notes	(3,535,686)	3,535,686
Federal National Mortgage Notes	(1,544,976)	1,544,976
GASB Statement No. 3	\$2,955,605	\$6,837,099

Note 7 - Receivables

Receivables at December 31, 2002, 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 \$32,000 in the special assessment bond retirement fund. The amount of delinquent special assessments outstanding at year-end is \$57,215.

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 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility real and tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes which become a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2002 was \$14.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

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

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

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, 2002 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 2002 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 for income tax to another municipality which reduces the effective tax rate by one percent for such earnings.

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

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

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

C. Intergovernmental Receivables

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

	<u>Amount</u>
Local Government	\$657,107
Homestead and Rollback	366,845
Estate Tax	231,015
Grants	21,956
Prisoner Housing	2,200
Liquor Permits	<u>245</u>
Total	<u><u>\$1,279,368</u></u>

Note 8 - Contingencies

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. 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.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 9 – Capital Assets

Capital asset activity for the year ended December 31, 2002, was as follows:

	<u>Balance</u> 12/31/01	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/02
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$412,101	\$0	\$0	\$412,101
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	552,199	0	0	552,199
Buildings	3,858,766	0	(51,262)	3,807,504
Machinery and Equipment	1,812,808	325,578	(99,447)	2,038,939
Vehicles	3,528,737	243,767	(69,838)	3,702,666
Infrastructure:				
Roads	8,942,250	0	0	8,942,250
Culverts	143,103	0	0	143,103
Traffic Signals	915,500	0	0	915,500
<i>Total Capital Assets, Being Depreciated</i>	<u>19,753,363</u>	<u>569,345</u>	<u>(220,547)</u>	<u>20,102,161</u>
Less Accumulated Depreciation:				
Land Improvements	(381,544)	(23,534)	0	(405,078)
Buildings	(1,905,802)	(73,873)	51,262	(1,928,413)
Machinery and Equipment	(1,195,502)	(108,890)	0	(1,304,392)
Vehicles	(2,261,739)	(344,866)	69,838	(2,536,767)
Infrastructure:				
Roads	(6,937,648)	(118,998)	0	(7,056,646)
Culverts	(40,898)	(2,633)	0	(43,531)
Traffic Signals	(108,831)	(30,517)	0	(139,348)
<i>Total Accumulated Depreciation</i>	<u>(12,831,964)</u>	<u>(703,311) *</u>	<u>121,100</u>	<u>(13,414,175)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,921,399</u>	<u>(133,966)</u>	<u>(99,447)</u>	<u>6,687,986</u>
Governmental Activities Capital Assets, Net	<u>\$7,333,500</u>	<u>(\$133,966)</u>	<u>(\$99,447)</u>	<u>\$7,100,087</u>

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

	Balance 12/31/01	Additions	Deletions	Balance 12/31/02
Business-Type Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$40,000	\$0	\$0	\$40,000
Construction in Progress	0	833,886	0	833,886
<i>Total Capital Assets, Not Being Depreciated</i>	<u>40,000</u>	<u>833,886</u>	<u>0</u>	<u>873,886</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	546,500	0	0	546,500
Machinery and Equipment	27,720	0	0	27,720
Vehicles	730,809	0	0	730,809
Infrastructure:				
Sewer Lines	5,849,211	0	0	5,849,211
<i>Total Capital Assets, Being Depreciated</i>	<u>7,154,240</u>	<u>0</u>	<u>0</u>	<u>7,154,240</u>
Less Accumulated Depreciation:				
Buildings	(133,935)	(10,930)	0	(144,865)
Machinery and Equipment	(924)	(1,848)	0	(2,772)
Vehicles	(576,369)	(32,009)	0	(608,378)
Infrastructure:				
Sewer Lines	(2,723,400)	(98,976)	0	(2,822,376)
<i>Total Accumulated Depreciation</i>	<u>(3,434,628)</u>	<u>(143,763)</u>	<u>0</u>	<u>(3,578,391)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,719,612</u>	<u>(143,763)</u>	<u>0</u>	<u>3,575,849</u>
Business-Type Activities Capital Assets, Net	<u>\$3,759,612</u>	<u>\$690,123</u>	<u>\$0</u>	<u>\$4,449,735</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$44,498
Security of Persons and Property	213,745
Public Health and Welfare	379,519
Community Environment	33,701
Leisure Time Activities	31,848
Total Depreciation Expense	<u>\$703,311</u>

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City contracted with Clarendon National for all their insurance. The coverage and deductibles are as follows:

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

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

The City Participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for injured employees. The maintenance of these benefits is accounted for in the Workers' Compensation internal service fund. The claims liability of \$9,081 reported in the fund at December 31, 2002 is based on an estimate of costs relating to incurred but not reported claims.

The City manages the hospital/medical, dental, and life insurance benefits for its employees on a self-insured basis using an internal service fund. A third party administrator processes and pays the claims. The City purchases stop-loss coverage to insure against catastrophic claims. Incurred but not reported claims of \$55,432 have been accrued as a liability at December 31, 2002, based on an estimate by the third party administrator. An excess coverage insurance (stop-loss) policy covers claims in excess of \$30,000 per employee.

The claims liability of \$64,513 reported in the fund at December 31, 2002, 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 funds' claims liability amount in 2001 and 2002 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$86,241	\$637,416	\$658,687	\$64,970
2002	64,970	874,488	874,945	64,513

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 11 - Defined Benefit Pension Plans

A. Ohio Public Employee Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.50 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ended December 31, 2002, 2001 and 2000, were \$355,039, \$361,830 and \$183,729 respectively. The full amount has been contributed for 2001 and 2000. 75.28 percent has been contributed for 2002 with the remainder being presented as "intergovernmental payable" in the governmental activities column on the statement of net assets.

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 public employee retirement system administered by the OP&F's Board of Trustees. 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. The OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$158,364 and \$261,974 for the year ended December 31, 2002, \$157,684 and \$250,186 for the year ended December 31, 2001 and \$148,616 and \$249,010 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 74.81 and 74.41 percent, respectively, have been contributed for 2002, with the remainder being presented as "intergovernmental payable" in the governmental activities column on the statement of net assets.

Note 12 - Postemployment Benefits

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

was 13.55 percent of covered payroll; 5 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care.

Benefits are advanced-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants were 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$207,625. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

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 benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund 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 is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001, the percent used to fund healthcare was 7.5 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$104,453 for police and \$124,942 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2001, (the latest information available) were \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 13 – Other Employee Benefits

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

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

Note 14 – Long-Term Obligations

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

Debt Issue	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
<i>General Obligation Bonds:</i>				
Various Improvements	1993	2003	3.69 %	\$1,050,000
Various Improvements	1997	2007	4.94	700,000
Various Improvements	1997	2002	4.94	625,000
Street Improvements	1999	2004	4.08	100,000
Street Improvements	2001	2006	3.30	1,300,000
Motorized Equipment	2001	2006	3.30	200,000
Real Estate Acquisition	2001	2006	3.30	300,000
Various Improvements	2002	2007	3.21	1,200,000
Recreation Facilities - Community Gym	2002	2017	4.13	1,100,000
Recreation Facilities - Aquatics Facility	2002	2022	4.23	2,600,000
<i>Special Assessment Bonds:</i>				
Street Improvements - Cahoon Road	1987	2007	7.75	120,000
Sidewalk Improvements	1997	2007	4.49	130,000
Ohio Public Works Commission Loan	2000	2020	0.00	714,147

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Changes in bonds and other long-term obligations of the City during 2002 were as follows:

	Principal Outstanding 12/31/01	Additions	Deletions	Principal Outstanding 12/31/02	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
Various Improvements	\$100,000	\$0	\$50,000	\$50,000	\$50,000
Various Improvements	420,000	0	70,000	350,000	70,000
Various Improvements	125,000	0	125,000	0	0
Street Improvements	600,000	0	200,000	400,000	200,000
Street Improvements	1,300,000	0	260,000	1,040,000	260,000
Motorized Equipment	200,000	0	40,000	160,000	40,000
Real Estate Acquisition	300,000	0	60,000	240,000	60,000
Various Improvements	0	1,200,000	0	1,200,000	240,000
Recreation Facilities - Community Gym	0	1,100,000	0	1,100,000	75,000
Recreation Facilities - Aquatics Facility	0	2,600,000	0	2,600,000	130,000
<i>Total General Obligation Bonds</i>	<u>3,045,000</u>	<u>4,900,000</u>	<u>805,000</u>	<u>7,140,000</u>	<u>1,125,000</u>
<i>Special Assessment Bonds:</i>					
Street Improvements - Cahoon Road	36,000	0	6,000	30,000	6,000
Sidewalk Improvements	32,000	0	22,000	10,000	2,000
<i>Total Special Assessment Bonds</i>	<u>68,000</u>	<u>0</u>	<u>28,000</u>	<u>40,000</u>	<u>8,000</u>
Compensated Absences	1,208,410	129,360	67,995	1,269,775	405,147
<i>Total Governmental Activities</i>	<u>\$4,321,410</u>	<u>\$5,029,360</u>	<u>\$900,995</u>	<u>\$8,449,775</u>	<u>\$1,538,147</u>
Business-Type Activities					
Ohio Public Works Commission Loan	\$646,131	\$0	\$34,007	\$612,124	\$34,007
Compensated Absences	65,941	1,517	0	67,458	5,388
<i>Total Business-Type Activities</i>	<u>\$712,072</u>	<u>\$1,517</u>	<u>\$34,007</u>	<u>\$679,582</u>	<u>\$39,395</u>

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

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

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

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

The City's overall legal debt margin was \$35,209,474 and an unvoted debt margin of \$14,940,962 at December 31, 2002. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

Years	Governmental Activities						Business-Type Activities
	General Obligation Bonds		Special Assessment Bonds		Total		OPWC
	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2003	\$1,125,000	\$274,070	\$8,000	\$2,775	\$1,133,000	\$276,845	\$34,007
2004	1,075,000	233,920	8,000	2,220	1,083,000	236,140	34,007
2005	875,000	195,320	8,000	1,665	883,000	196,985	34,007
2006	875,000	164,430	8,000	1,110	883,000	165,540	34,007
2007	515,000	133,360	8,000	555	523,000	133,915	34,007
2008-2012	1,025,000	502,785	0	0	1,025,000	502,785	170,035
2013-2017	1,000,000	291,635	0	0	1,000,000	291,635	170,035
2018-2021	650,000	96,200	0	0	650,000	96,200	102,019
Total	\$7,140,000	\$1,891,720	\$40,000	\$8,325	\$7,180,000	\$1,900,045	\$612,124

Note 15 – Note Debt

A summary of note transactions for the year ended December 31, 2002 follows:

	Balance 12/31/01	Additions	Deletions	Balance 12/31/02
Aquatic Center Improvement Fund				
2001, 3.25%	\$100,000	\$0	\$100,000	\$0
Public Improvement Fund				
2001, 3.25%	400,000	0	400,000	0
Community Gym Improvement Fund				
2001, 3.25%	400,000	0	400,000	0
Walker Road Park Improvement Fund				
2001, 3.25%	300,000	0	300,000	0
Police Station Building Fund				
2001, 3.25%	2,300,000		2,300,000	0
Total	\$3,500,000	\$0	\$3,500,000	\$0

The notes were retired with bond proceeds of \$4,900,000 that were issued during 2002.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 16 - Joint Venture

Rocky River Wastewater Treatment Plant

The Rocky River Wastewater Treatment Plant (the "Plant") is a joint venture among the cities of Fairview Park, Bay Village, Rocky River and Westlake. The Plant is governed by a management board consisting of the elected mayors of the four member cities and a fifth person nominated and elected by the mayors. The board has complete authority over all aspects of the Plant's operation. The Plant supplies all participating residents of the member cities with sewer services. Each city owns the sewer lines located in its city and bills its residents for usage. Continued existence of the Plant is dependent on the City's continued participation, and the City does have an equity interest in the Plant. The City's equity interest is \$5,332,270 which represents 13.07 percent of the total equity in the Plant. The Plant is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard, Rocky River, Ohio 44116.

Note 17 - Community Gymnasium Joint Operating Agreement

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

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

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

The City's contributions are payable based on the percent of project completion as determined by the School District. In 2002, the City contributed \$699,484 which represents 40 percent of the total equity in the community gym. This is paid and reported as a capital outlay expenditure in the community gym capital projects fund on the City's basic financial statements.

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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

The City is responsible for maintaining liability insurance for activities in the Game 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 18 - 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 2002, the City contributed \$28,384, which represents 10.31 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 2002. Complete financial statements can be obtained from the City of Rocky River, 21012 Hilliard, Rocky River, Ohio 44116.

C. West Shore Area Rescue Association

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

Budgets are adopted by the Board. Each city's degree of control is limited to its representation on the Board. In 2002, the City contributed \$300 which represented 8.3 percent of total contributions.

City of Bay Village
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 19 - Interfund Transfers

Transfers are primarily from the general fund to various funds within the City. The general fund will transfer funds to help finance the various programs accounted for in other funds. Transfers are also made to cover the various debt obligations of the City between the capital projects funds and the general obligation bond retirement debt service fund. The transfer to the aquatic center improvement fund was used to finance the construction of the aquatic center.

Transfers made during the year ended December 31, 2002 were as follows:

	Transfer From			
Transfer To	<i>Governmental Activities</i>			
	General	General Obligation Bond Retirement	Nonmajor	Totals
<i>Governmental Activities</i>				
Aquatic Center Improvement	\$0	\$3,413	\$150,000	\$153,413
Nonmajor Funds	1,987,500	510,337	0	2,497,837
Total Governmental Activities	1,987,500	513,750	150,000	2,651,250
<i>Business-Type Activities</i>				
Nonmajor	60,000	0	0	60,000
Total	\$2,047,500	\$513,750	\$150,000	\$2,711,250

Note 20 - Construction and Other Significant Commitments

At December 31, 2002, the City's significant contractual commitments consisted of:

	Contract Amount	Amount Paid	Contract Remaining
Police Station Improvements	\$139,800	\$5,244	\$134,556
Aquatic Center Construction	1,575,723	552,845	1,022,878
Sewer Construction	226,010	142,039	83,971
Total	\$1,941,533	\$700,128	\$1,241,405



**Auditor of State
Betty Montgomery**

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

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

We have audited the basic financial statements of the City of Bay Village, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated August 15, 2003, wherein we noted the City adopted Government Accounting Standards Board Statement No. 34, and changed its accounting for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of finding as item 2002-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 15, 2003.

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

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

Betty Montgomery
Auditor of State

August 15, 2003

CITY OF BAY VILLAGE
CUYAHOGA COUNTY
DECEMBER 31, 2002

SCHEDULE OF FINDING

FINDING NUMBER	2002-001
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Budgetary Process *

The City's legal level of budget adoption is at the fund, function, and object level. However, the City passed its permanent appropriation measure and subsequent amendments at the subobject level. The results of our budgetary test at July 31, 2002 showed a total of 54 instances where expenditures exceeded appropriations at this subobject level. These budgetary violations resulted from a breakdown in the City's monitoring controls. We recommend the City review its monitoring procedures over the budgetary process and modify them as necessary to prevent any budgetary violations from occurring that would significantly impact the City's financial statements. This review should include procedures to anticipate necessary amendments and request Council to approve appropriation amendments before the line item expenditures exceed approved appropriations.

At December 31, 2002, the City made provisions which significantly reduced the number of instances where expenditures exceeded appropriations at the City's legal level.



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

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
SEPTEMBER 30, 2003**