

CITY OF STRONGSVILLE, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

Honorable Mayor and
City Council
City of Strongsville
18688 Royalton Rd.
Strongsville, OH 44136

We have reviewed the Independent Auditor's Report of the City of Strongsville, Cuyahoga County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 5, 2004

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Ohio Society of Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Mayor, Finance Director,
and City Council
City of Strongsville, Ohio

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, the major fund and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and major Special Revenue Funds thereof and 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, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, changed its accounting for capital assets, payroll liabilities and reclassified funds.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 28, 2004 on our consideration of the City of Strongsville, Ohio'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 Government 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.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Strongsville, Ohio. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

James G. Zupka, CPA, Inc.
Certified Public Accountant

May 28, 2004

**CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Unaudited

As management of the City of Strongsville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

The City adopted the reporting standards of GASB Statement No. 34 for the reporting period ended December 31, 2003. Because this is the first year the City is reporting governmental activities on an accrual basis of accounting in accordance with GASB Statement No. 34, revenue and expense comparisons to 2002 are not available.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of 2003 by \$183,651,328. Of this amount, \$9,306,312 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$3,189,256 and may be used to meet the government's on-going obligations. The unrestricted net assets of the City's business-type activities are \$6,117,056 and may be used to meet the on-going obligations of the City's sanitary sewer activities.
- The City's total net assets increased \$618,928 or 0.34 percent in 2003. Net assets of the governmental activities increased \$1,691,615, which represents a 1.38 percent increase from 2002. Net assets of the business-type activities decreased \$1,072,687 or 1.8 percent from 2002.
- The general fund reported a fund balance of \$3,401,428 at the end of the current fiscal year. The unreserved fund balance for the general fund was \$2,650,342 or 16.42 percent of the total general fund expenditures (including transfers out). There was a \$1,045,607 decrease in the total general fund balance for the year ended December 31, 2003.
- On a cash basis, the City of Strongsville's income tax collections increased by approximately \$800,000 or 4.4 percent during 2003.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2003
Unaudited

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Strongsville's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. 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 nonmajor funds presented in one column.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, public health services, transportation, community development, basic utilities and leisure-time activities. The business-type activities include sanitary sewer services.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Community Improvement Corporation (CIC). Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Complete financial statements of the CIC may be obtained from the City.

CITY OF STRONGSVILLE, OHIO
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The government-wide financial statements can be found starting on page 16 of this report.

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

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

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

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, street construction, maintenance and repair fund, fire levy fund, general capital improvement fund, general bond retirement fund and special assessment bond retirement fund, all of which are considered to be major funds. Data from the other 25 governmental funds are combined into a single aggregated presentation.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

CITY OF STRONGSVILLE, OHIO
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Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its building maintenance and municipal garage services. The services provided by these funds predominantly benefit the governmental rather than the business-type functions. They have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer operations as it is considered a major fund. Conversely, all internal service funds are combined into a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 27-29 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 30-31 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and can be found on pages 32-72.

Government-wide Financial Analysis

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 looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting 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.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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These two statements report the City's net assets and the changes in those assets. The change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City 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 capital assets will also need to be evaluated.

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 and End of Year

The City of Strongsville 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 for 2003 compared to 2002.

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$26,066,511	\$ 29,598,467	\$ 8,778,812	\$9,428,267	\$34,845,323	\$39,026,734
Capital Assets	<u>144,768,205</u>	<u>140,259,453</u>	<u>58,833,564</u>	<u>60,077,311</u>	<u>203,601,769</u>	<u>200,336,764</u>
Total Assets	<u>170,834,716</u>	<u>169,857,920</u>	<u>67,612,376</u>	<u>69,505,578</u>	<u>238,447,092</u>	<u>239,363,498</u>
Liabilities						
Long-Term Liabilities	32,454,478	34,219,251	6,197,209	6,727,542	38,651,687	40,946,793
Other Liabilities	<u>13,678,103</u>	<u>12,628,149</u>	<u>2,465,974</u>	<u>2,756,156</u>	<u>16,144,077</u>	<u>15,384,305</u>
Total Liabilities	<u>46,132,581</u>	<u>46,847,400</u>	<u>8,663,183</u>	<u>9,483,698</u>	<u>54,795,764</u>	<u>56,331,098</u>
Invested in Capital Assets, Net of Related Debt	114,753,051	108,484,842	52,832,137	53,570,062	167,585,188	162,054,904
Restricted	6,759,828	12,782,049	0	0	6,759,828	12,782,049
Unrestricted	<u>3,189,256</u>	<u>1,743,629</u>	<u>6,117,056</u>	<u>6,451,818</u>	<u>9,306,312</u>	<u>8,195,447</u>
Total Net Assets	<u>\$124,702,135</u>	<u>\$123,010,520</u>	<u>\$58,949,193</u>	<u>\$60,021,880</u>	<u>\$183,651,328</u>	<u>\$183,032,400</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total assets exceeded total liabilities by \$183,651,328 at the close of the most recent fiscal year.

CITY OF STRONGSVILLE, OHIO
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The largest portion of the City's net assets (91.25 percent) reflects its investments in capital assets (e.g., land, buildings, land improvements, machinery and equipment, furniture and fixtures, vehicles, construction in progress and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets reflects resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's on-going obligations to citizens and creditors. It is important to note that, although the total unrestricted net assets is \$9,306,312; the net assets of the City's business-type activities (\$6,117,056) may not be used to fund governmental activities.

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

Total assets decreased by \$916,406 from 2002 to 2003, while the City's total liabilities decreased by \$1,535,334. This decrease of liabilities can be mainly attributed to paying down current debt without issuing additional debt. The decrease in assets can be attributed to the City's inability to acquire vehicles due to budgetary constraints, while also depreciating current assets at an increased rate.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers 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 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2 - Changes in Net Assets

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>	Total <u>2003</u>
Revenues			
Program Revenues			
Charges for Services and Sales	\$ 5,864,936	\$ 8,229,006	\$14,093,942
Operating Grants and Contributions	1,440,714	0	1,440,714
Capital Grants and Contributions	<u>6,852,376</u>	<u>0</u>	<u>6,852,376</u>
Total Program Revenues	<u>14,158,026</u>	<u>8,229,006</u>	<u>22,387,032</u>
General Revenues			
Property Taxes	7,593,027	0	7,593,027
Income Taxes	18,333,911	0	18,333,911
Other Taxes	463,455	0	463,455
Grants and Entitlements not Restricted to Specific Programs	2,344,109	0	2,344,109
Investment Earnings	180,822	0	180,822
Other	<u>24,135</u>	<u>0</u>	<u>24,135</u>
Total General Revenues	<u>28,939,459</u>	<u>0</u>	<u>28,939,459</u>
TOTAL REVENUES	<u>\$43,097,485</u>	<u>\$8,229,006</u>	<u>\$51,326,491</u>
Program Expenses			
Security of Persons and Property	13,918,171	0	13,918,171
Public Health and Welfare	1,702,553	0	1,702,553
Leisure Time Activities	4,434,228	0	4,434,228
Community Development	1,334,952	0	1,334,952
Basic Utilities	2,366,707	0	2,366,707
Transportation	11,343,328	0	11,343,328
General Government	4,774,546	0	4,774,546
Interest and Fiscal Charges	1,531,385	0	1,531,385
Sanitary Sewer	<u>0</u>	<u>9,301,693</u>	<u>9,301,693</u>
Total Program Expenses	<u>\$41,405,870</u>	<u>\$9,301,693</u>	<u>\$50,707,563</u>
Increase in Net Assets	<u>\$ 1,691,615</u>	<u>\$(1,072,687)</u>	<u>\$ 618,928</u>

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities

Governmental activities increased the City's net assets by \$1,691,615. The primary reason for the increase in net assets relates to the increases in revenues. Several types of revenues fund our governmental activities with the City income tax being the biggest contributor. The income tax rate was 2.0 percent for 2003, the same as the prior year. Both residents of the City and non-residents who work inside the City are subject to the income tax. However, if residents work in a locality that has a municipal income tax, the City has provided a 100 percent credit up to 2.0 percent for those who pay income tax to another City. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

The income tax revenue for 2003 was \$18,333,911. Of the \$43,097,485 in total revenues, income tax accounts for 42.54 percent of that total. Property taxes of \$7,593,027 account for 17.61 percent of total revenues; operating grants and capital grants and contributions, and general revenues from grants and entitlements account for 24.68 percent of total revenues; and charges for services and other revenue make up the remaining 15.17 percent.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. With the combination of property tax, income tax and intergovernmental funding, all expenses in the governmental activities are funded. The City monitors its sources of revenues very closely for fluctuations.

For the most part, increases in expenses closely parallel inflation and growth in the demand for services. The largest program function for the City relates to the security of persons and property. During 2003, 33.61 percent of program expenses related to safety forces, which include the police and fire departments.

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, decreased the City's net assets by \$1,072,687. This is due to increased contributions to the operations of the Sanitary Sewer Treatment Plants.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Government's Funds

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

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

As of December 31, 2003, the City's governmental funds reported ending fund balances of \$6,228,801, a decrease of \$4,745,251 in comparison with the prior year. This variance can be mainly attributed to the expense associated with the construction of a new library. Approximately \$1,250,589 of the ending fund balance for 2003 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period, to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Strongsville. At December 31, 2003, unreserved fund balance of the general fund was \$2,650,342, while total fund balance was \$3,401,428. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out).

The fund balance of the City's general fund when compared to 2002 decreased by \$1,045,607 during 2003. Key factors in this decline are as follows:

- Investment income decreased due to significant decreases in rates earned by investments permitted by the Ohio Revised Code.
- Soaring increases in employee fringe benefits, primarily in the areas of hospitalization and workers' compensation premiums, increased by approximately 40 percent and 140 percent respectively.

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- Costs associated with building maintenance continue to increase; Insurance premiums on land, buildings and equipment continue to increase; and general fund expenditure as it relates to Revenue Sharing with the Strongsville City School district continues to increase as the City sees its own revenues increasing.
- Revenues from licenses and permits decreased due to fewer building permits issued throughout fiscal year 2003.

GENERAL FUND

The General Fund is the chief operating fund of the City. At the end of the current year, total fund balance for the general fund was \$3,401,428. General Fund expenditures (including transfers out) at the end of the current year were \$21,992,018 with revenues and other financing sources of \$20,946,411 leaving a fund balance of \$3,401,428 and an unreserved balance of \$2,650,342 in the General Fund.

General Fund Budgetary 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. During the course of 2003, the City amended its general fund budget on various occasions. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City does allow small interdepartmental budget changes that modify line items within departments within the same fund. The general fund supports many of our major activities such as our Police Department and Fire Departments, Service Department, and Recreation Department, 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 (including other financing sources) were \$20,764,100. The final budgeted revenue amount (including other financing sources) was \$21,349,964. Original general fund budgeted expenditures (including other financing uses) were \$21,797,357 and the final amended budgeted expenditures (including other financing uses) were \$22,441,355. Actual general fund expenditures were \$22,367,716 or \$73,639 less than was budgeted.

CITY OF STRONGSVILLE, OHIO
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Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, amounts to \$203,601,769 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles, streets and sidewalks, traffic signalization and drainage systems.

Table 3 - Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 6,129,901	\$ 6,129,901	\$ 1,508,079	\$ 1,508,079	\$ 7,637,980	\$ 7,637,980
Construction in Progress	2,930,151	3,559,064	0	0	2,930,151	3,559,064
Total Non-Depreciable	<u>9,060,052</u>	<u>9,688,965</u>	<u>1,508,079</u>	<u>1,508,079</u>	<u>10,568,131</u>	<u>11,197,044</u>
Buildings	25,397,401	18,574,257	6,045,693	5,729,237	31,443,094	24,303,494
Land Improvements	707,176	756,636	450,467	637,948	1,157,643	1,394,584
Machinery and Equipment	644,997	827,945	158,704	186,964	803,701	1,014,909
Furniture and Fixtures	32,772	39,292	0	0	32,772	39,292
Vehicles	2,055,315	2,822,023	0	0	2,055,315	2,822,023
Infrastructure:						
Storm Drainage	44,579,414	43,948,577	0	0	44,579,414	43,948,577
Streets	55,929,904	57,337,878	0	0	55,929,904	57,337,878
Sidewalks	4,315,897	4,188,787	0	0	4,315,897	4,188,787
Traffic Signalization	2,045,277	2,075,093	0	0	2,045,277	2,075,093
Water and Sewer	0	0	50,670,621	52,015,083	50,670,621	52,015,083
Total Depreciable	<u>\$135,708,153</u>	<u>\$130,570,488</u>	<u>\$57,325,485</u>	<u>\$58,569,232</u>	<u>\$193,033,638</u>	<u>\$189,139,720</u>
TOTAL CAPITAL ASSETS	<u>\$144,768,205</u>	<u>\$140,259,453</u>	<u>\$58,833,564</u>	<u>\$60,077,311</u>	<u>\$203,601,769</u>	<u>\$200,336,764</u>

Major capital asset events during 2003 included the following:

- Total capital assets, net of accumulated depreciation, increased by approximately \$3,265,005 or 1.63 percent.
- Business-type activity capital assets decreased by \$1,243,747 (net of accumulated depreciation). The decrease was due to the aging of infrastructure.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2003
Unaudited

- Governmental activity capital assets increased by \$4,508,730 (net of accumulated depreciation). This increase was primarily due to increases in storm sewers and sidewalks; and increases in buildings as it relates to the construction of a new library, which became fully operational in October 2003.

Debt

The general bond retirement debt service fund has a total fund balance of \$993,267. The general bond retirement fund is funded primarily with real estate tax revenue at the level necessary to meet debt service requirements. At December 31, 2003, the City, the primary government, had \$38,966,581 of notes, bonds and loans outstanding, with \$32,965,154 in governmental activities and \$6,001,427 in business-type activities, and are included herein.

Table 4 - Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Short Term Debt						
Notes Payable	\$ 2,950,000	\$ 2,950,000	\$ 0	\$ 0	\$ 2,950,000	\$ 2,950,000
Long Term Debt						
General Obligation Bonds	27,780,000	29,410,000	0	0	27,780,000	29,410,000
OPWC Loan	245,154	264,611	170,070	184,243	415,224	448,854
OWDA Loan	0	0	4,016,357	4,393,006	4,016,357	4,393,006
Special Assessment Bonds	1,990,000	2,100,000	0	0	1,990,000	2,100,000
Sanitary Sewer Bonds	0	0	1,815,000	1,930,000	1,815,000	1,930,000
Total Outstanding Debt	\$32,965,154	\$34,724,611	\$ 6,001,427	\$ 6,507,249	\$38,966,581	\$41,231,860

- During February 2003, the City issued \$850,000 for the sale of notes, in anticipation of the issuance of bonds, for the purpose of acquiring an aerial platform fire truck.
- During July 2003, the City issued \$2,100,000 for the sale of notes, in anticipation of the issuance of bonds, for the purpose of improving streets as designated in plans approved or to be approved by City Council by, where necessary as set forth in such plans grading, draining, reconstructing pavement, curbs, catch basins and driveway aprons, resurfacing, installing curb ramps and catch basins, and otherwise improving the same and acquiring motorized vehicles and equipment, together with any necessary appurtenances thereto, for use by the Service Department.
- The OPWC Loan is being paid semi-annually from the debt service fund, which is funded primarily by property taxes collected by the County and distributed to the appropriate municipality.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2003
Unaudited

In a continuing effort to be conscientious about how taxpayer dollars are spent, the City maintained throughout 2003 a Moody's Investors Service Aa1 rating. Strongsville remains one of the few suburbs in Ohio to have been awarded the Aa1 rating.

The City is within all of its legal debt limitations. The Ohio Revised Code provides that the net debt (as defined in the Ohio Revised Code) of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The statutory limitations on debt are measured by the ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2003, the City's total net debt amounted to 2.48 percent of the total assessed value of all property within the City. Unvoted net debt amounted to 2.20 percent of the total assessed value of all property within the City. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which the City lies, is limited to ten mills. This millage is measured against the property values in each overlapping district.

Economic Factors and Next Year's General Fund Budget

The City's elected and appointed officials considered many factors when setting the fiscal year 2003 budget. The events of September 11, 2001 and the impact of those events on the economy had a significant influence on the objectives that the City set for the 2003 budget: jobs, safety, and long-term fiscal stability. With the uncertainty surrounding the economy, the City considered the impact on two primary revenues sources: income tax revenue and state shared revenue. City Council decided that it was important to: 1) continue the City's investment in job creation; 2) put the highest premium on safety for the people of the City and City employees; and 3) adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2003 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources.

The 2003 general fund budget was originally \$20,394,100. Downward pressures on 2003 estimated revenues, especially in the areas of shared revenue support from the state, stagnate income tax collections, a continued decline in interest rates causing a decrease in investment earnings resulted in a modest increase of only \$935,928 to a new estimated \$21,330,028. Further cost containment and/or revenue enhancement actions will be necessary. With prudent fiscal management and careful planning, the City of Strongsville will continue to maintain its finances in a conscientious manner to bring us in line with being excellent stewards of the City's assets.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Strongsville's finances and to show accountability for the money it receives, spends or invests. If you have any questions about this report or need financial information contact Director of Finance, Donald C. Batke, City of Strongsville, 16099 Foltz Industrial Parkway, Strongsville, Ohio 44149, telephone 440-238-5720 extension 2106.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Community Improvement Corporation
<u>Assets</u>				
Equity in Pooled Cash and Cash				
Equivalents	\$ 6,585,283	\$ 5,633,602	\$12,218,885	\$ 19,806
Accounts Receivable	238,904	3,145,210	3,384,114	0
Intergovernmental Receivable	2,005,179	0	2,005,179	0
Taxes Receivable	12,523,589	0	12,523,589	0
Special Assessments Receivable	3,294,328	0	3,294,328	0
Inventory	782,709	0	782,709	0
Prepaid Items	349,030	0	349,030	0
Unamortized Bond Issuance Costs	287,489	0	287,489	0
Nondepreciable Capital Assets	9,060,052	1,508,079	10,568,131	0
Depreciable Capital Assets, Net	<u>135,708,153</u>	<u>57,325,485</u>	<u>193,033,638</u>	<u>0</u>
Total Assets	<u>170,834,716</u>	<u>67,612,376</u>	<u>238,447,092</u>	<u>19,806</u>
<u>Liabilities</u>				
Accounts Payable	49,221	0	49,221	0
Contracts Payable	1,340,248	2,369,004	3,709,252	0
Accrued Wages and Benefits	712,773	55,402	768,175	0
Intergovernmental Payable	966,006	41,568	1,007,574	0
Accrued Interest Payable	117,364	0	117,364	0
Deferred Revenue	7,542,491	0	7,542,491	0
Notes Payable	2,950,000	0	2,950,000	0
Long-Term Liabilities:				
Due within One Year	3,277,414	682,581	3,959,995	0
Due in More Than One Year	<u>29,177,064</u>	<u>5,514,628</u>	<u>34,691,692</u>	<u>0</u>
Total Liabilities	<u>46,132,581</u>	<u>8,663,183</u>	<u>54,795,764</u>	<u>0</u>
<u>Net Assets</u>				
Invested in Capital Assets,				
Net of Related Debt	114,753,051	52,832,137	167,585,188	0
Restricted for:				
Debt Service	5,053,289	0	5,053,289	0
Other Purposes	1,706,539	0	1,706,539	0
Unrestricted	<u>3,189,256</u>	<u>6,117,056</u>	<u>9,306,312</u>	<u>19,806</u>
Total Net Assets	<u>\$124,702,135</u>	<u>\$58,949,193</u>	<u>\$183,651,328</u>	<u>\$ 19,806</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Community Improvement Corporation
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities:								
Security of Persons and Property	\$ 13,918,171	\$ 698,320	\$ 51,332	\$ 0	\$ (13,168,519)	\$ 0	\$ (13,168,519)	\$ 0
Public Health and Welfare	1,702,553	42,338	27,200	0	(1,633,015)	0	(1,633,015)	0
Leisure Time Activities	4,434,228	2,884,123	12,795	0	(1,537,310)	0	(1,537,310)	0
Community Development	1,334,952	151,180	0	0	(1,183,772)	0	(1,183,772)	0
Basic Utilities	2,366,707	0	64,139	47,724	(2,254,844)	0	(2,254,844)	0
Transportation	11,343,328	14,901	1,281,944	6,804,652	(3,241,831)	0	(3,241,831)	0
General Government	4,774,546	2,074,074	3,304	0	(2,697,168)	0	(2,697,168)	0
Interest and Fiscal Charges	1,531,385	0	0	0	(1,531,385)	0	(1,531,385)	0
Total Governmental Activities	<u>41,405,870</u>	<u>5,864,936</u>	<u>1,440,714</u>	<u>6,852,376</u>	<u>(27,247,844)</u>	<u>0</u>	<u>(27,247,844)</u>	<u>0</u>
Business-Type Activities:								
Sanitary Sewer Fund	9,301,693	8,229,006	0	0	0	(1,072,687)	(1,072,687)	0
Total Business-Type Activities	<u>9,301,693</u>	<u>8,229,006</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,072,687)</u>	<u>(1,072,687)</u>	<u>0</u>
Total Primary Government	<u>\$ 50,707,563</u>	<u>\$ 14,093,942</u>	<u>\$ 1,440,714</u>	<u>\$ 6,852,376</u>	<u>(27,247,844)</u>	<u>(1,072,687)</u>	<u>(28,320,531)</u>	<u>0</u>
Component Unit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
General Revenues:								
Property Taxes Levied for:								
General Purposes					584,274	0	584,274	0
Special Revenue					3,608,915	0	3,608,915	0
Debt Service					3,361,459	0	3,361,459	0
Capital Outlay					38,379	0	38,379	0
Income Taxes Levied for:								
General Purposes					16,313,603	0	16,313,603	0
Special Revenue					2,020,308	0	2,020,308	0
Other Taxes for:								
General Purposes					125,193	0	125,193	0
Special Revenue					338,262	0	338,262	0
Grants and Entitlements not Restricted to Specific Programs					2,344,109	0	2,344,109	0
Gain on Sale of Capital Assets					19,935	0	19,935	0
Investment Earnings					180,822	0	180,822	0
Miscellaneous					4,200	0	4,200	123
Total General Revenues					<u>28,939,459</u>	<u>0</u>	<u>28,939,459</u>	<u>123</u>
Change in Net Assets					1,691,615	(1,072,687)	618,928	123
Net Assets, Beginning of Year, as Restated (Note 3)					<u>123,010,520</u>	<u>60,021,880</u>	<u>183,032,400</u>	<u>19,683</u>
Net Assets End of Year					<u>\$ 124,702,135</u>	<u>\$ 58,949,193</u>	<u>\$ 183,651,328</u>	<u>\$ 19,806</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Fire Levy</u>	<u>General Bond Retirement</u>
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 421,733	\$ 172,478	\$ 32,714	\$ 705,778
Accounts Receivable	72,771	0	0	0
Intergovernmental Receivable	803,388	580,840	126,285	188,151
Taxes Receivable	4,237,208	725,377	2,116,840	3,795,812
Special Assessments Receivable	0	0	0	0
Inventory	83,164	492,338	0	0
Prepaid Items	341,389	1,828	915	0
Unamortized Bond Issuance Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>287,489</u>
Total Assets	<u>5,959,653</u>	<u>1,972,861</u>	<u>2,276,754</u>	<u>4,977,230</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	32,002	1,983	5,309	0
Contracts Payable	0	0	0	0
Accrued Wages and Benefits	323,124	101,651	180,016	0
Intergovernmental Payable	218,283	76,156	113,161	0
Deferred Revenue	1,984,816	780,461	2,243,125	3,983,963
General Obligation Notes Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>2,558,225</u>	<u>960,251</u>	<u>2,541,611</u>	<u>3,983,963</u>
<u>Fund Balances</u>				
Reserved for Inventory	83,164	492,338	0	0
Reserved for Prepaid Items	341,389	1,828	915	0
Reserved for Encumbrances	326,533	166,953	14,887	1,925
Reserved for Debt Service	0	0	0	991,342
Unreserved, Reported in:				
General Fund	2,650,342	0	0	0
Special Revenue Funds	0	351,491	(280,659)	0
Capital Projects Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances (Deficits)	<u>3,401,428</u>	<u>1,012,610</u>	<u>(264,857)</u>	<u>993,267</u>
Total Liabilities and Fund Balances	<u>\$ 5,959,653</u>	<u>\$ 1,972,861</u>	<u>\$ 2,276,754</u>	<u>\$ 4,977,230</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2003
(CONTINUED)

	Special Assessment <u>Bond Retirement</u>	General Capital <u>Improvement</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 412,547	\$ 925,496	\$ 3,897,907	\$ 6,568,653
Accounts Receivable	0	107,156	58,977	238,904
Intergovernmental Receivable	0	2,889	303,626	2,005,179
Taxes Receivable	0	0	1,648,352	12,523,589
Special Assessments Receivable	3,294,328	0	0	3,294,328
Inventory	0	0	59,767	635,269
Prepaid Items	0	0	4,898	349,030
Unamortized Bond Issuance Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>287,489</u>
Total Assets	<u>3,706,875</u>	<u>1,035,541</u>	<u>5,973,527</u>	<u>25,902,441</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	0	0	9,927	49,221
Contracts Payable	0	0	1,340,248	1,340,248
Accrued Wages and Benefits	0	0	85,469	690,260
Intergovernmental Payable	0	0	63,778	471,378
Deferred Revenue	3,294,328	2,889	1,882,951	14,172,533
General Obligation Notes Payable	<u>0</u>	<u>2,100,000</u>	<u>850,000</u>	<u>2,950,000</u>
Total Liabilities	<u>3,294,328</u>	<u>2,102,889</u>	<u>4,232,373</u>	<u>19,673,640</u>
<u>Fund Balances</u>				
Reserved for Inventory	0	0	59,767	635,269
Reserved for Prepaid Items	0	0	4,898	349,030
Reserved for Encumbrances	0	921,053	1,158,673	2,590,024
Reserved for Debt Service	412,547	0	0	1,403,889
Unreserved, Reported in:				
General Fund	0	0	0	2,650,342
Special Revenue Funds	0	0	1,013,578	1,084,410
Capital Projects Funds	<u>0</u>	<u>(1,988,401)</u>	<u>(495,762)</u>	<u>(2,484,163)</u>
Total Fund Balances (Deficits)	<u>412,547</u>	<u>(1,067,348)</u>	<u>1,741,154</u>	<u>6,228,801</u>
Total Liabilities and Fund Balances	<u>\$ 3,706,875</u>	<u>\$ 1,035,541</u>	<u>\$ 5,973,527</u>	<u>\$ 25,902,441</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003

Total Governmental Fund Balances	\$ 6,228,801
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	144,768,205
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:	
Property Taxes	\$ 606,158
Grants and Entitlements	1,412,852
Income Tax	1,316,704
Special Assessments	<u>3,294,328</u>
Total	6,630,042
The internal service funds are used by management to account for building maintenance and municipal garage services provided to City departments. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	63,052
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.	(479,191)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(27,780,000)
OPWC Loan	(245,154)
Special Assessment Bonds	(1,990,000)
Compensated Absences	(2,001,296)
Accrued Interest Payable	(117,364)
Accrued Police Pension	(78,809)
Retirement Incentive	<u>(296,151)</u>
Total	<u>(32,508,774)</u>
Net Assets of Governmental Activities	<u>\$124,702,135</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Street Construction, Maintenance and Repair	Fire Levy	General Bond Retirement
Revenues				
Municipal Income Taxes	\$16,543,203	\$2,076,461	\$ 0	\$ 0
Property Taxes	563,340	0	2,003,343	3,216,956
Other Taxes	146,059	0	0	0
Intergovernmental Revenue	1,644,480	1,157,452	234,449	406,235
Special Assessments	0	0	0	0
Charges for Services	335,943	850	1,300	0
Fines, Licenses, and Permits	1,355,004	0	0	0
Interest Income	155,413	0	0	0
Miscellaneous	182,378	9,426	2,082	0
Total Revenues	<u>20,925,820</u>	<u>3,244,189</u>	<u>2,241,174</u>	<u>3,623,191</u>
Expenditures				
Current:				
Security of Persons and Property	6,904,082	0	4,816,693	0
Public Health and Welfare	991,802	0	0	0
Leisure Time Activities	299,187	0	0	0
Community Development	1,347,534	0	0	0
Basic Utilities	2,341,302	0	0	0
Transportation	0	5,049,975	0	0
General Government	4,255,456	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	1,630,000
Interest and Fiscal Charges	0	0	0	1,376,255
Total Expenditures	<u>16,139,363</u>	<u>5,049,975</u>	<u>4,816,693</u>	<u>3,006,255</u>
Excess of Revenues Over (Under) Expenditures	<u>4,786,457</u>	<u>(1,805,786)</u>	<u>(2,575,519)</u>	<u>616,936</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	19,936	0	0	0
Transfers In	655	1,822,000	2,360,000	0
Transfers Out	(5,852,655)	0	0	(53,905)
Bond Issuance Costs	0	0	0	(15,971)
Total Other Financing Sources (Uses)	<u>(5,832,064)</u>	<u>1,822,000</u>	<u>2,360,000</u>	<u>(69,876)</u>
Net Change in Fund Balances	<u>(1,045,607)</u>	<u>16,214</u>	<u>(215,519)</u>	<u>547,060</u>
Fund Balances (Deficits) - Beginning of Year, as Restated	<u>4,447,035</u>	<u>996,396</u>	<u>(49,338)</u>	<u>446,207</u>
Fund Balances (Deficits) - End of Year	<u>\$3,401,428</u>	<u>\$1,012,610</u>	<u>\$ (264,857)</u>	<u>\$ 993,267</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

	Special Assessment Bond Retirement	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Municipal Income Taxes	\$ 0	\$ 0	\$ 0	\$18,619,664
Property Taxes	0	38,379	1,473,610	7,295,628
Other Taxes	0	0	317,396	463,455
Intergovernmental Revenue	0	0	2,345,447	5,788,063
Special Assessments	273,454	0	0	273,454
Charges for Services	0	436,726	3,378,144	4,152,963
Fines, Licenses, and Permits	0	0	78,604	1,433,608
Interest Income	0	0	25,409	180,822
Miscellaneous	0	5,778	61,560	261,224
Total Revenues	<u>273,454</u>	<u>480,883</u>	<u>7,680,170</u>	<u>38,468,881</u>
Expenditures				
Current:				
Security of Persons and Property	0	0	1,862,358	13,583,133
Public Health and Welfare	0	0	402,718	1,394,520
Leisure Time Activities	0	0	3,984,321	4,283,508
Community Development	0	0	0	1,347,534
Basic Utilities	0	0	25,405	2,366,707
Transportation	0	0	107,838	5,157,813
General Government	0	0	0	4,255,456
Capital Outlay	0	860,446	6,671,214	7,531,660
Debt Service:				
Principal Retirement	110,000	0	0	1,740,000
Interest and Fiscal Charges	125,085	37,800	18,626	1,557,766
Total Expenditures	<u>235,085</u>	<u>898,246</u>	<u>13,072,480</u>	<u>43,218,097</u>
Excess of Revenues Over (Under) Expenditures	<u>38,369</u>	<u>(417,363)</u>	<u>(5,392,310)</u>	<u>(4,749,216)</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	0	0	19,936
Transfers In	0	482,800	1,686,105	6,351,560
Transfers Out	0	0	(445,000)	(6,351,560)
Bond Issuance Costs	0	0	0	(15,971)
Total Other Financing Sources (Uses)	<u>0</u>	<u>482,800</u>	<u>1,241,105</u>	<u>3,965</u>
Net Change in Fund Balances	<u>38,369</u>	<u>65,437</u>	<u>(4,151,205)</u>	<u>(4,745,251)</u>
Fund Balances (Deficits) - Beginning of Year, as Restated	<u>374,178</u>	<u>(1,132,785)</u>	<u>5,892,359</u>	<u>10,974,052</u>
Fund Balances (Deficits) - End of Year	<u>\$ 412,547</u>	<u>\$(1,067,348)</u>	<u>\$ 1,741,154</u>	<u>\$ 6,228,801</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net Change in Fund Balances - Total Governmental Funds	\$(4,745,251)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays and transportation as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,830,757
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(3,074,245)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Grants and Entitlements	\$ 143,509
Income Tax	(285,750)
Special Assessments	(315,362)
Property Tax	297,402
Contributions	4,752,240
Total	4,592,039
Repayment of bond principal, retirement incentive and police and fire pension are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,864,991
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.	42,352
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences	(113,193)
Pension Obligation	205,832
Total	92,639
The internal service funds used by management to account for billing maintenance and municipal garage services provided to City departments are not reported in entity-wide statement of activities. The net revenue (expense) of the internal service fund is allocated among the government activities.	88,333
Change in Net Assets of Governmental Activities	\$ 1,691,615

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts			Variance
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Municipal Income Taxes	\$15,745,000	\$16,480,928	\$16,648,009	\$ 167,081
Property Taxes	620,325	620,325	563,340	(56,985)
Other Taxes	176,000	176,000	158,086	(17,914)
Intergovernmental Revenue	1,676,835	1,876,835	1,842,340	(34,495)
Special Assessments	0	0	0	0
Charges for Services	242,975	242,975	336,093	93,118
Fines, Licenses, and Permits	1,544,700	1,544,700	1,332,141	(212,559)
Interest Income	252,000	252,000	159,053	(92,947)
Miscellaneous	136,265	136,265	179,535	43,270
Total Revenues	<u>20,394,100</u>	<u>21,330,028</u>	<u>21,218,597</u>	<u>(111,431)</u>
Expenditures				
Current:				
Security of Persons and Property	6,927,998	6,931,000	6,924,669	6,331
Public Health and Welfare	971,777	1,003,000	999,704	3,296
Leisure Time Activities	291,496	295,000	294,553	447
Community Development	1,330,195	1,375,700	1,372,150	3,550
Basic Utilities	2,301,500	2,550,000	2,548,774	1,226
Transportation	0	0	0	0
General Government	4,191,959	4,434,000	4,375,211	58,789
Total Expenditures	<u>16,014,925</u>	<u>16,588,700</u>	<u>16,515,061</u>	<u>73,639</u>
Excess of Revenues Over (Under) Expenditures	<u>4,379,175</u>	<u>4,741,328</u>	<u>4,703,536</u>	<u>(37,792)</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	19,936	19,936	0
Transfers In	370,000	0	655	655
Transfers Out	(5,782,432)	(5,852,655)	(5,852,655)	0
Total Other Financing Sources (Uses)	<u>(5,412,432)</u>	<u>(5,832,719)</u>	<u>(5,832,064)</u>	<u>655</u>
Net Change in Fund Balance	<u>(1,033,257)</u>	<u>(1,091,391)</u>	<u>(1,128,528)</u>	<u>(37,137)</u>
Fund Balance at Beginning of Year,				
as Restated	949,782	949,782	949,782	0
Prior Year Encumbrances Appropriated	<u>259,782</u>	<u>259,782</u>	<u>259,782</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 176,307</u>	<u>\$ 118,173</u>	<u>\$ 81,036</u>	<u>\$ (37,137)</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Municipal Income Taxes	\$ 2,336,282	\$ 2,099,421	\$ 2,087,316	\$ (12,105)
Intergovernmental Revenue	1,150,000	1,150,000	1,161,679	11,679
Charges for Services	850	850	850	0
Miscellaneous	9,000	9,000	9,426	426
Total Revenues	<u>3,496,132</u>	<u>3,259,271</u>	<u>3,259,271</u>	<u>0</u>
<u>Expenditures</u>				
Current:				
Transportation	5,616,600	5,378,000	5,376,197	1,803
Total Expenditures	<u>5,616,600</u>	<u>5,378,000</u>	<u>5,376,197</u>	<u>1,803</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,120,468)</u>	<u>(2,118,729)</u>	<u>(2,116,926)</u>	<u>1,803</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	1,822,000	1,822,000	1,822,000	0
Total Other Financing Sources (Uses)	<u>1,822,000</u>	<u>1,822,000</u>	<u>1,822,000</u>	<u>0</u>
Net Change in Fund Balance	(298,468)	(296,729)	(294,926)	1,803
Fund Balance at Beginning of Year	141,673	141,673	141,673	0
Prior Year Encumbrances Appropriated	<u>156,796</u>	<u>156,796</u>	<u>156,796</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 1</u>	<u>\$ 1,740</u>	<u>\$ 3,543</u>	<u>\$ 1,803</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 1,835,900	\$ 2,000,000	\$ 2,003,343	\$ 3,343
Intergovernmental Revenue	307,686	235,000	234,449	(551)
Charges for Services	0	1,300	1,300	0
Miscellaneous	0	0	1,982	1,982
Total Revenues	<u>2,143,586</u>	<u>2,236,300</u>	<u>2,241,074</u>	<u>4,774</u>
Expenditures				
Current:				
Security of Persons and Property	4,666,278	4,780,000	4,769,588	10,412
Total Expenditures	<u>4,666,278</u>	<u>4,780,000</u>	<u>4,769,588</u>	<u>10,412</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,522,692)</u>	<u>(2,543,700)</u>	<u>(2,528,514)</u>	<u>15,186</u>
Other Financing Sources (Uses)				
Transfers In	2,341,761	2,364,774	2,360,000	(4,774)
Total Other Financing Sources (Uses)	<u>2,341,761</u>	<u>2,364,774</u>	<u>2,360,000</u>	<u>(4,774)</u>
Net Change in Fund Balance	(180,931)	(178,926)	(168,514)	10,412
Fund Balance at Beginning of Year	180,455	180,455	180,455	0
Prior Year Encumbrances Appropriated	477	477	477	0
Fund Balance at End of Year	<u>\$ 1</u>	<u>\$ 2,006</u>	<u>\$ 12,418</u>	<u>\$ 10,412</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003

	<u>Business- Type Activities</u>	<u>Governmental Activities</u>
	<u>Sanitary Sewer Fund</u>	<u>Internal Service Funds Municipal Garage & Building Maintenance</u>
<u>Current Assets</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 5,633,602	\$ 16,630
Accounts Receivable	3,145,210	0
Inventory	<u>0</u>	<u>147,440</u>
Total Current Assets	<u>8,778,812</u>	<u>164,070</u>
<u>Noncurrent Assets</u>		
Land and Construction in Progress	1,508,079	0
Depreciable Capital Assets, Net	<u>57,325,485</u>	<u>0</u>
Total Noncurrent Assets	<u>58,833,564</u>	<u>0</u>
Total Assets	<u>67,612,376</u>	<u>164,070</u>
<u>Current Liabilities</u>		
Contracts Payable	2,369,004	0
Accrued Wages and Benefits	55,402	22,513
Retirement Incentive Payable	30,533	18,304
Intergovernmental Payable	41,568	15,437
Compensated Absences Payable	101,528	44,764
General Obligation Notes Payable	120,000	0
Ohio Water Development Authority Bonds Payable	416,347	0
Ohio Public Works Commission	<u>14,173</u>	<u>0</u>
Total Current Liabilities	<u>3,148,555</u>	<u>101,018</u>
<u>Noncurrent Liabilities</u>		
Compensated Absences Payable	63,721	0
General Obligation Notes Payable	1,695,000	0
Ohio Water Development Authority Bonds Payable	3,600,010	0
Ohio Public Works Commission	<u>155,897</u>	<u>0</u>
Total Noncurrent Liabilities	<u>5,514,628</u>	<u>0</u>
Total Liabilities	<u>8,663,183</u>	<u>101,018</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	52,832,137	0
Unrestricted	<u>6,117,056</u>	<u>63,052</u>
Total Net Assets	<u>\$58,949,193</u>	<u>\$ 63,052</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Business- Type Activities</u>	<u>Governmental Activities</u>
	<u>Sanitary Sewer Fund</u>	<u>Internal Service Funds Municipal Garage & Building Maintenance</u>
<u>Operating Revenues</u>		
Charges for Services	\$ 8,229,006	\$ 2,089,973
Total Operating Revenues	<u>8,229,006</u>	<u>2,089,973</u>
<u>Operating Expenses</u>		
Wages and Benefits	1,529,824	539,951
Utilities	9,503	476,693
Contractual Services	4,488,535	976,945
Maintenance	417,437	8,051
Depreciation	2,300,341	0
Other	<u>423</u>	<u>0</u>
Total Operating Expenses	<u>8,746,063</u>	<u>2,001,640</u>
Net Income (Loss) from Operations	<u>(517,057)</u>	<u>88,333</u>
<u>Non-Operating Expenses</u>		
Interest and Fiscal Charges	<u>(555,630)</u>	<u>0</u>
Total Non-Operating Expenses	<u>(555,630)</u>	<u>0</u>
CHANGE IN NET ASSETS	(1,072,687)	88,333
NET ASSETS BEGINNING OF YEAR, AS RESTATED	<u>60,021,880</u>	<u>(25,281)</u>
NET ASSETS END OF YEAR	<u><u>\$58,949,193</u></u>	<u><u>\$ 63,052</u></u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Business- Type Activities</u>	<u>Governmental Type Activities</u>
	<u>Sanitary Sewer Fund</u>	<u>Internal Service Funds Municipal Garage & Building Maintenance</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 8,250,563	\$ 2,091,358
Cash Paid to Employees	(1,550,818)	(557,024)
Cash Paid to Suppliers for Goods and Services	<u>(5,209,597)</u>	<u>(1,517,704)</u>
<i>Net Cash Provided By (Used) for Operating Activities</i>	<u>1,490,148</u>	<u>16,630</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Long-Term Debt	(505,822)	0
Interest Paid on Long Term Debt	(555,630)	0
Acquisition of Fixed Assets	<u>(1,056,594)</u>	<u>0</u>
<i>Net Cash Provided By (Used) for Capital and Related Financing Activities</i>	<u>(2,118,046)</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(627,898)	16,630
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,261,500</u>	<u>0</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,633,602</u></u>	<u><u>\$ 16,630</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:		
Operating Income (Loss)	\$ (517,057)	\$ 88,333
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:		
(Increase) Decrease in Assets:		
Depreciation	2,300,341	0
Accounts Receivable	21,557	1,385
Inventory	0	10,522
Increase (Decrease) in Liabilities:		
Accounts Payable	(24,131)	(66,537)
Contracts Payable	(269,568)	0
Accrued Wages and Benefits	15,083	749
Retirement Incentive Payable	(30,533)	(18,304)
Compensated Absences Payable	6,022	5,329
Due to Governments	<u>(11,566)</u>	<u>(4,847)</u>
TOTAL ADJUSTMENTS	<u>2,007,205</u>	<u>(71,703)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u><u>\$ 1,490,148</u></u>	<u><u>\$ 16,630</u></u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2003

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<u>Assets</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 94,534	\$1,575,539
Cash and Cash Equivalents in Segregated Accounts	<u>0</u>	<u>69,526</u>
Total Assets	\$ 94,534	\$1,645,065
	=====	=====
<u>Liabilities</u>		
Deposits Held and Due to Others	\$ 0	\$1,600,831
Compensated Absences Payable	<u>0</u>	<u>44,234</u>
Total Liabilities	<u>0</u>	<u>1,645,065</u>
<u>Net Assets</u>		
Unreserved	<u>\$ 94,534</u>	
Total Net Assets	<u>\$ 94,534</u>	

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Private Purpose Trusts</u>
<u>Additions</u>	
Charges for Services	\$ <u>7,559</u>
<u>Deductions</u>	
Change in Net Assets	7,559
Net Assets - January 1, 2003	<u>86,975</u>
Net Assets - December 31, 2003	<u>\$ 94,534</u> =====

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1: **REPORTING ENTITY**

The City of Strongsville, Cuyahoga County, Ohio (City) was incorporated under the laws of the State of Ohio in 1958. The City operates under and is governed by a Mayor/Council form of government in accordance with the general laws of the State of Ohio. In addition, the City may exercise all powers of local self-government under the Ohio Constitution, to the extent not in conflict with the applicable general laws of Ohio.

The City provides various services including police and fire protection, road maintenance and repair, snow removal, traffic signalization, street lighting, storm and sanitary sewers, waste collection and general administrative services. These City operations form the oversight unit and are included as part of the reporting entity.

The City's financial statements include all organizations, activities, functions, and component units for which the City (primary government) is financial accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely Presented Component Unit - The Strongsville Community Improvement Corporation (CIC), a non-profit organization, serves the City and all the citizens of the government and is governed by a board of the government's elected council and community representatives. The CIC, charged with the responsibilities of advancing, encouraging, and promoting the industrial, economic, commercial, and civic development of the Strongsville area, is empowered with the ability to carry out the actions they consider necessary to achieve these responsibilities. Due to the nature and significance of the CIC's relationship with the City, the CIC is presented as a component unit of the City. The CIC has elected not to apply GASB Statement No. 29 since it has applied the AICPA not-for-profit model. Separately issued financial statements can be obtained from the City. The CIC is presented as a governmental fund type.

Also, the City is associated with Southwest General Health Center which is a jointly governed organization as described in Note 18.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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 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 funds are 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.

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 program or business activity is self-financing or draws from the general revenues of the City.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Basis of Presentation** (Continued)

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. The internal service funds are presented in a single column on the face of the proprietary fund statements. 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.

Governmental Funds - Governmental funds are those through which most governmental functions 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 balance. The following are the City's major governmental funds:

- *General Fund* - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract 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 charter of the City of Strongsville and/or the general laws of Ohio.
- *Street Construction, Maintenance and Repair (SCMR) Fund* - This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.
- *Fire Levy Fund* - This fund is used to account for accumulated property taxes levied for the payment of salaries and related expenditures for the safety force.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

- *General Capital Improvement Fund* - This fund accounts for various capital projects and equipment financed by property tax receipts, charges for services and note proceeds.
- *General Bond Retirement Fund* - The general bond retirement fund accounts for the accumulation of resources used for the payment of principal and interest and fiscal charges on general obligation debt.
- *Special Assessment Bond Retirement Fund* - This fund accounts for resources used for the retirement of debt issued to finance public improvements deemed to benefit the properties against which special assessments are levied.

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 City's only major enterprise fund is the Sanitary Sewer Fund which accounts 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 account for building maintenance and municipal garage services.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Fund Accounting (Continued)

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. The City has several private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for money received for deposits held for contractors and developers, and money on deposit for senior citizens travel.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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

Like the government-wide statements, all proprietary funds 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 fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., 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.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Measurement Focus** (Continued)

The private-purpose trust funds are reported using a flow of economic resources measurement focus.

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.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Basis of Accounting (Continued)

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

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

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

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

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

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

E. Pooled 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2003, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements). Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City's policy is to hold investments until maturity or until market values equal or exceed cost.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Pooled Cash and Cash Equivalents** (Continued)

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$155,413, which includes \$150,751 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the financial statements as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

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. Investments with an initial maturity of more than three months are reported as investments.

F. **Receivables**

Receivables at December 31, 2003, consist of taxes, amounts due from other governments, accounts (billings for user charged services), special assessments, and accrued interest on investments. All are deemed collectible in full.

G. **Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

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

Inventory consists of expendable supplies held for consumption.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. Prepaid Items

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

I. 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 capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, watermains, storm sewers, culverts and traffic signals. 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:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. **Capital Assets** (Continued)

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Land Improvements	15-20 years	15-20 years
Buildings and Improvements	50 years	50 years
Furniture and Fixtures	7-10 years	7-10 years
Machinery and Equipment	5-20 years	5-20 years
Vehicles	3-6 years	3-6 years
Infrastructure	50 years	50 years

J. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “due to/from other funds.” 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. As of December 31, 2003, there were no outstanding interfund loans or unpaid amounts for interfund services.

K. **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. Leave time that has been earned but is unavailable for use as paid time off, or as some other form of compensation, because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that conditions for compensation will be met in the future.

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates depending upon length of service and type of employment. Vacation leave is recognized as earned. All full-time City employees earn vacation at varying rates based upon length of service. An employee’s vacation leave balance will carry over into the next fiscal year if it is not used. Upon retirement, termination, lay-off or death, employees are paid accumulated vacation leave. Sick leave may accrue

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. **Compensated Absences** (Continued)

with various limits based upon contracts. Upon retirement, an employee with at least ten years of continuous service is paid one-fourth (1/4) or one-third (1/3) of his or her accumulated sick leave up to various maximum number of hours at current wage rates, based on their contract agreements.

L. **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.

M. **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. Fund balance reserves have been established for encumbrances, inventories, debt service, and prepaid items.

N. **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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

N. **Net Assets** (Continued)

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

O. **Grants and Intergovernmental Revenues**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues in the period when all applicable eligibility requirements have been met and the resources are available.

P. **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 sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. **Contributions of Capital**

Contributions of capital in governmental and business-type activity basic 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.

R. **Interfund Activity**

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

S. 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. Neither type of transaction occurred during 2003.

T. 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.

U. Budgetary Data

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 level for all funds, except the general fund which is at the object level with each department. 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 issued during 2003.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

U. **Budgetary Data** (Continued)

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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.

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Changes in Accounting Principles**

For 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 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.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY** (Continued)

A. **Changes in Accounting Principles** (Continued)

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the elimination of internal service funds and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB 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. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

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. The City restated the fund liability of compensated absences that had not matured during fiscal year 2002.

Also, the City restated the retirement incentive liability at December 31, 2002. Retirement incentive expenditures were reported in the governmental funds as expenditures of the funds but did not result in the outflow of current financial resources. Therefore, the retirement incentive liability was overstated.

B. **Restatement of Fund Balances**

The implementation of these changes and the reevaluation of capital assets by the City engineer had the following effects on fund balances of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)

B. Restatement of Fund Balances (Continued)

	General	Street Construction, Maintenance and Repair	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	General Capital Improvement	Nonmajor Funds	Total Governmental
Fund Balances 12/31/02 \$	4,151,434	\$ 871,724	\$(101,156)	\$ 446,207	\$ 374,178	\$(1,132,785)	\$ 5,811,779	\$ 10,421,381
Fund Reclassification*	112,511	0	0	0	0	0	1,148	113,659
Compensated Absences Payable	102,092	28,603	51,818	0	0	0	7,120	189,633
Retirement Incentive Payable	80,998	96,069	0	0	0	0	72,312	249,379
Adjusted Fund Balances, December 31, 2002	<u>\$ 4,447,035</u>	<u>\$ 996,396</u>	<u>\$ (49,338)</u>	<u>\$ 446,207</u>	<u>\$ 374,178</u>	<u>\$(1,132,785)</u>	<u>\$ 5,892,359</u>	10,974,052
GASB 34 Adjustments:								
Capital Assets								140,259,453
Internal Service Fund								(25,281)
Long-Term Liabilities								(34,828,231)
Accrued Interest Payable								(159,716)
Long-Term (Deferred) Assets								6,790,243
Governmental Activities Net Assets, 12/31/2002								<u>\$123,010,520</u>

Net Assets, December 31, 2002	\$ 43,319,749
Reevaluation of Assets	16,702,131
Adjusted Net Assets, December 31, 2002	<u>\$ 60,021,880</u>

*The following internal service and expendable trust funds were reclassified as governmental activities at December 31, 2002: municipal garage, building maintenance and operation, and cemetery trust.

C. Restatement of Budgetary Fund Balance

The budgetary fund balance at the beginning of the year for the General Fund was restated from \$1,036,159 to \$949,782 due to an accounting error.

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

Fund Deficit

Fund balance/retained earnings at December 31, 2003, included the following individual fund deficits:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

<u>Special Revenue Fund</u>	
Fire Levy	\$ 264,857
Recreation Levy	25,386
Multi-Purpose Complex	27,766
<u>Capital Projects Fund</u>	
General Capital Improvement	1,067,348
Route 82 Corridor	34,286
<u>Internal Service</u>	
Building Maintenance and Operation Fund	18,785

The fund deficits in the Fire Levy special revenue fund, Recreation Levy special revenue fund, and Multi Purpose Complex special revenue fund and the Route 82 Corridor capital projects fund were due to the recognition of expenditures on the modified accrual basis which is greater than expenditures recognized on the cash basis. The fund deficit in the General Capital Improvement capital project fund is the result of reclassing note proceeds to a general obligation note payable account. The Building Maintenance and Operation internal service fund deficit was carried forward from prior years due to the recognition of expenditures on the accrual basis which is greater than expenditures recognized on cash basis. The deficit does not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), 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 and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

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). Budgetary basis transfers differ from GAAP basis transfers due to payment of notes from the General Bond Retirement Fund (Debt Service) and on a GAAP basis paid from the General Capital Improvement Fund (Capital Projects) and Fire Department Vehicle Fund (Special Revenue).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the major special revenue funds.

Net Changes in Fund Balance
General and Major Special Revenue Funds

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Fire Levy</u>
GAAP Basis	\$(1,045,607)	\$ 16,214	\$ (215,519)
Net Adjustment for Revenue Accruals	292,122	(1,806,918)	(2,360,100)
Transfers In	655	1,822,000	2,360,000
Net Adjustment for Expenditure Accruals	5,814,654	(157,287)	67,301
Transfers Out	(5,852,655)	0	0
Encumbrances	<u>(337,697)</u>	<u>(168,935)</u>	<u>(20,196)</u>
Budget Basis	<u><u>\$(1,128,528)</u></u>	<u><u>\$ (294,926)</u></u>	<u><u>\$ (168,514)</u></u>

NOTE 6: **DEPOSITS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited 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 or 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. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
7. The State Treasury Asset Reserve of Ohio (STAROhio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits

- Category 1* - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2* - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3* - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.)

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Investments

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end, the carrying amount of the City's deposits was \$7,114,575 with \$4,200 of cash on hand and the bank balance was \$7,813,545. Of the bank balance, \$795,918 was fully insured by federal depository insurance. All remaining deposits were classified at Category 3.

The credit risk, for purposes of Governmental Accounting Standards Board Statement No. 3 is the same as that of uncollateralized deposits. The pledged assets consist of eligible securities with an aggregate market value at least equal to the excess of all public deposits over and above those insured by the Federal Deposit Insurance Corporation or any other agency or instrumentality of the Federal government.

B. Investments

Investments as of December 31, 2003, are summarized below.

<u>Category</u>		<u>Carrying</u> <u>Value</u>	<u>Fair Value</u>
3	Repurchase Agreement	\$ 6,839,709	\$ 6,839,709
Totals		\$ 6,839,709	\$ 6,839,709
		=====	=====

The investments are carried at fair value with the exception of the repurchase agreement and commercial paper which are carried at cost.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

C. **Reconciliation of Cash, Cash Equivalents, and Investments**

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3. The captions on the combined balance sheet related to cash and cash equivalents are as follows:

	Cash & Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 13,958,484	\$ 0
Investments:		
Repurchase Agreement	<u>(6,839,709)</u>	<u>6,839,709</u>
GASB Statement No. 3	<u>\$ 7,118,775</u>	<u>\$ 6,839,709</u>
	=====	=====

The City maintains a cash pool that is available for the use by all funds and accounts except for the Mayor's Court (agency fund).

Component Unit Cash

The Community Improvement Corporation cash deposit of \$19,806 which was fully insured, is maintained separately.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for utility services). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes**

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values for real property are established by State law at 35 percent of appraised market value. All property is required to be revaluated every six years. The latest revaluation was completed in 2000. Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Public utility property taxes are assessed on tangible personal property at 88 percent of true value. Taxes collected from tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property assessments are 25 percent of true value.

The assessed value upon which the 2003 tax receipts were based on was \$1,302,427,721. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2003 was \$11.60 per \$1,000 of assessed valuation.

Real and public utility 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 30. Under certain circumstances, state statute permits earlier or 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 by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Municipal Income Taxes

The City's municipal income tax of 2.0 percent is levied on gross salaries, wages and other personal service compensation earned by residents both in and out of the City and on the earnings of nonresidents (except certain transients) earned in the City. This tax also applies to net income of business organizations within the City. Residents of the City are granted a 100 percent credit for all income taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The tax is collected by RITA and remitted to the City monthly.

Municipal income taxes are allocated by City ordinance as follows: 16.67 percent of the original 1.5 percent of the City income tax is restricted in its use for street construction and road surface maintenance and is included in the special revenue funds. All other income tax proceeds are included in the general fund.

C. Special Assessments

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include sidewalk repair, sewer maintenance, sewer rehabilitation, paving and curbing, and water main tap-ins which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

Special assessments expected to be collected, amount to \$3,294,328 in the special assessment bond retirement fund. At December 31, 2003, the amount of delinquent special assessments was \$68,428.

D. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Government Activities:	
Local Government	\$ 608,465
Estate Tax	154,401
Homestead and Rollback	381,585
Gasoline Tax	627,935
Public Utility Reimbursement	64,139
Grants	<u>168,654</u>
Total Governmental Activities	<u>\$2,005,179</u>

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

As of December 31, 2003, interfund transfers were as follows:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental General Fund</u>	<u>General Bond Retirement Fund</u>	
General Fund	\$ 0	\$ 0	\$ 655	\$ 655
Street Construction, Maintenance and Repair Fund	1,822,000	\$ 0	0	1,822,000
Fire Levy Fund	2,360,000	0	0	2,360,000
General Capital Improvement Fund	0	445,000	37,800	482,800
Nonmajor Governmental Funds	1,670,655	0	15,450	1,686,105
	<u>\$ 5,852,655</u>	<u>\$ 445,000</u>	<u>\$ 53,905</u>	<u>\$ 6,351,560</u>

All transfers were made to provide additional resources for current operations.

As of December 31, 2003, there were no interfund balances.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2003 follows:

	Restated Balance <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 6,129,901	\$ 0	\$ 0	\$ 6,129,901
Construction in Progress	<u>3,559,064</u>	<u>2,445,332</u>	<u>(3,074,245)</u>	<u>2,930,151</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>9,688,965</u>	<u>2,445,332</u>	<u>(3,074,245)</u>	<u>9,060,052</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	22,623,268	7,257,946	0	29,881,214
Land Improvements	1,422,080	0	0	1,422,080
Machinery and Equipment	2,538,898	67,720	(23,784)	2,582,834
Furniture and Fixtures	92,618	0	0	92,618
Vehicles	10,524,558	8,400	(626,616)	9,906,342
Infrastructure:				
Storm Drainage	67,677,488	2,002,839	0	69,680,327
Streets	108,917,638	3,009,750	0	111,927,388
Sidewalks	7,171,601	375,596	0	7,547,197
Traffic Signalization	<u>2,215,000</u>	<u>60,000</u>	<u>0</u>	<u>2,275,000</u>
<i>Total Capital Assets Being Depreciated</i>	<u>223,183,149</u>	<u>12,782,251</u>	<u>(650,400)</u>	<u>235,315,000</u>
Less Accumulated Depreciation:				
Buildings	(4,049,011)	(434,802)	0	(4,483,813)
Land Improvements	(665,444)	(49,460)	0	(714,904)
Machinery and Equipment	(1,710,953)	(250,668)	23,784	(1,937,837)
Furniture and Fixtures	(53,326)	(6,520)	0	(59,846)
Vehicles	(7,702,535)	(775,108)	626,616	(7,851,027)
Infrastructure:				
Storm Drainage	(23,728,911)	(1,372,002)	0	(25,100,913)
Streets	(51,579,760)	(4,417,724)	0	(55,997,484)
Sidewalks	(2,982,814)	(248,486)	0	(3,231,300)
Traffic Signalization	<u>(139,907)</u>	<u>(89,816)</u>	<u>0</u>	<u>(229,723)</u>
Total Accumulated Depreciation	<u>(92,612,661)</u>	<u>(7,644,586)</u>	<u>650,400</u>	<u>(99,606,847)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>130,570,488</u>	<u>5,137,665</u>	<u>0</u>	<u>135,708,153</u>
Total Governmental Activities Capital Assets, Net	<u>\$140,259,453</u>	<u>\$ 7,582,997</u>	<u>\$(3,074,245)</u>	<u>\$144,768,205</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 9: **CAPITAL ASSETS** (Continued)

A summary of changes in capital assets during 2003 follows:

	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
<u>Business-Type Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,508,079	\$ 0	\$ 0	\$ 1,508,079
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,508,079</u>	<u>0</u>	<u>0</u>	<u>1,508,079</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	8,923,801	500,000	0	9,423,801
Land Improvements	3,753,215	0	0	3,753,215
Machinery and Equipment	8,309,394	0	0	8,309,394
Furniture and Fixtures	32,748	0	0	32,748
Vehicles	154,175	0	0	154,175
Infrastructure:				
Water and Sewer	<u>94,770,707</u>	<u>556,594</u>	<u>0</u>	<u>95,327,301</u>
<i>Total Capital Assets Being Depreciated</i>	<u>115,944,040</u>	<u>1,056,594</u>	<u>0</u>	<u>117,000,634</u>
Less Accumulated Depreciation:				
Buildings	(3,194,564)	(183,544)	0	(3,378,108)
Land Improvements	(3,115,267)	(187,481)	0	(3,302,748)
Machinery and Equipment	(8,122,430)	(28,260)	0	(8,150,690)
Furniture and Equipment	(32,748)	0	0	(32,748)
Vehicles	(154,175)	0	0	(154,175)
Infrastructure:				
Water and Sewer	<u>(42,755,624)</u>	<u>(1,901,056)</u>	<u>0</u>	<u>(44,656,680)</u>
<i>Total Accumulated Depreciation</i>	<u>(57,374,808)</u>	<u>(2,300,341)</u>	<u>0</u>	<u>(59,675,149)</u>
Total Capital Assets Being Depreciated, Net	<u>58,569,232</u>	<u>(1,243,747)</u>	<u>0</u>	<u>57,325,485</u>
Total Business-Type Capital Assets, Net	<u>\$ 60,077,311</u>	<u>\$ (1,243,747)</u>	<u>\$ 0</u>	<u>\$ 58,833,564</u>

NOTE 10: **RISK MANAGEMENT**

The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, and general liability risks including public officials' liability.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 10: **RISK MANAGEMENT** (Continued)

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Limits</u>	<u>Deductible</u>	
Arch Insurance	Commercial Property Coverage	\$73,593,117	\$ 1,000	
	- Ancillary Equipment	0	1,000	
	- Earthquake Damage	5,000,000	1,000	
	- Flood Damage	500,000	1,000	
	- Inland Marine	154,397	500	
		½ year		
	Crime - Theft, Disappearance and Destruction	25,000	250	
	Crime - Employee Dishonesty	50,000	250	
	General Liability	3,000,000	0	
	- Fire Damage	50,000	0	
	- Medical Expense	10,000	5	
	Stop Gap	1M/1M	0	
	Employee Benefits Liability	3M/1M	1,000	
	Cemetery Professional Liability	1M/1M	0	
	Government Medical Liability	1M/1M	5,000	
	Law Enforcement Liability	1M/1M	0	
	Public Officials Liability	1M/1M	10,000	
	Max Sewer Liability Limit	2,500	0	
		Per Claimant		
	Business Auto Coverage			
	- Auto Liability	1,000,000	0	
	- Medical Payments	5,000	0	
	- Comprehensive (ACV or Cost of Repair)	Lesser of ACV/Repair	250	
- Collision Damage (ACV or Cost of Repair)	Lesser of ACV/Repair	1,000		
Commercial Umbrella	10,000,000	10,000		
Travelers Property Casualty	Boiler and Machinery	30,000,000	10,000	

In addition to the above coverage the City has contracted with Specialty National Insurance to carry blanket catastrophic excess liability insurance. The umbrella policy was acquired to cover losses which exceed the primary coverage limits.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 10: **RISK MANAGEMENT** (Continued)

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage limits in any of the past four fiscal years.

The City pays the State Workers' Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the Member Directed Plan.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 11: **PENSION PLAN** (Continued)

A. Ohio Public Employees Retirement System (Continued)

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

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

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$757,550, \$780,479, and \$699,253 respectively; 74 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$5,057 made by the City and \$3,172 made by plan members.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The 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 for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 11: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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 the OP&F for police and firefighters, respectively, were \$500,901 and \$603,811 for the year ended December 31, 2003, \$486,837 and \$595,182 for the year ended December 31, 2002, and \$488,123 and \$529,855 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 71 percent and 73 percent, respectively, have been contributed for 2003.

NOTE 12 : **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement 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 with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5 percent was the portion that was used to fund health care for 2003.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, 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 .50 percent and 6.30 percent based on additional annual pay increases. Health care costs 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.

At December 31, 2003, the number of active contributing participants was 364,881. The City's annual contributions for 2003 used to fund postemployment benefits were \$443,004. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are 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 2003 and 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$330,019 for police and \$288,045 for fire. OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available), were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 13: **NOTES PAYABLE**

Note activity for the year ended December 31, 2003, consisted of the following:

	Balance January 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2003</u>
Various Purpose Improvement				
Notes Series 2002	\$ 2,100,000	\$ 2,100,000	\$(2,100,000)	\$ 2,100,000
Fire Truck Notes	<u>850,000</u>	<u>850,000</u>	<u>(850,000)</u>	<u>850,000</u>
Total Notes Payable	<u>\$ 2,950,000</u>	<u>\$ 2,950,000</u>	<u>\$(2,950,000)</u>	<u>\$ 2,950,000</u>

The City reissued the various purpose improvement notes for \$2,100,000 on July 23, 2003 at an interest rate of 1.15% per year for the purpose of improving streets and acquiring motorized vehicles and equipment together with any necessary appurtenances for use by the service department.

The City reissued a bond anticipation note for \$850,000 on February 12, 2003 at an interest rate of 1.40% per year for the purpose of acquiring an aerial platform fire truck.

All the notes are backed by the full faith and credit of the City. In governmental fund financial statements the note liability is reflected in the fund which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS

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

	Restated Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Amounts Due in One Year
Governmental Activities:					
<i>General Obligation Bonds</i>					
Variable Rate (4.0% in 1997 to 5.95% in 2021), \$3,760,000 1996 Various Purpose Improvement Bonds refunding due through 2021	\$ 1,745,000	\$ 0	\$ (405,000)	\$ 1,340,000	\$ 425,000
Variable Rate (4.0% in 1994 to 6.0% in 2014), \$1,395,000 1994 Various Purpose Improvement Bonds due through 2014	450,000	0	(85,000)	365,000	85,000
Variable Rate (4.05% in 2000 to 5.05% in 2014), \$5,955,000 1997 Street Improvement Bonds due through 2014	2,875,000	0	(375,000)	2,500,000	390,000
Variable Rate (3% in 2002 to 3.5% in 2006), \$7,190,000 Library Improvement Bonds due through 2020	6,730,000	0	(265,000)	6,465,000	275,000
Variable Rate (3% in 2002 to 4% in 2007), 2002 \$1,775,000 Fire Station Bonds due through 2021	1,775,000	0	(15,000)	1,760,000	15,000
Variable Rate (3% in 2002 to 5% in 2021), \$13,910,000 refunded 1992 and 1996 Various Purpose Improvement Bonds, due through 2021	13,860,000	0	(390,000)	13,470,000	395,000
Variable Rate (3% in 2002 to 4% in 2007), \$870,000 Fire Truck Acquisition Bonds due through 2011	870,000	0	(70,000)	800,000	70,000
Variable Rate (3% in 2002 to 4% in 2007), \$650,000 Communications Equipment Acquisition Bonds due through 2016	650,000	0	(15,000)	635,000	15,000
Variable Rate (3% in 2002 to 4% in 2007), \$455,000 Service Center Expansion Bond due through 2021	455,000	0	(10,000)	445,000	5,000
<i>Total General Obligation Bonds</i>	<u>29,410,000</u>	<u>0</u>	<u>(1,630,000)</u>	<u>27,780,000</u>	<u>1,675,000</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Restated Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Amounts Due in One Year
Government Activities: (Continued)					
<i>OPWC Loan</i>					
Ohio Public Works Commission - 0% 1995, \$218,938 Note due through 2015	142,310	0	(10,947)	131,363	10,947
Ohio Public Works Commission - 0% 1996, \$90,900 Note due through 2016	61,357	0	(4,545)	56,812	4,545
Ohio Public Works Commission- 0% 1998, \$67,476 Note due through 2017	50,605	0	(3,374)	47,231	3,374
Ohio Public Works Commission 0% \$11,817 Note Due through 2020	10,339	0	(591)	9,748	591
<i>Total OPWC Loan</i>	<u>264,611</u>	<u>0</u>	<u>(19,457)</u>	<u>245,154</u>	<u>19,457</u>
<i>Special Assessment Bonds</i>					
Various Purpose Improvement Bonds - 1994, \$1,170,000 (4.0% in 1994 to 6.0% in 2014) due through 2014	835,000	0	(50,000)	785,000	55,000
Various Purpose Improvement Bonds - 1996, \$1,255,000, 5.7% due through 2016	995,000	0	(50,000)	945,000	50,000
Various Purpose Improvement Bonds - 1998, \$305,000, (4.55% in 1998 to 5.50% in 2018) due through 2018	270,000	0	(10,000)	260,000	10,000
<i>Total Special Assessment Bonds</i>	<u>2,100,000</u>	<u>0</u>	<u>(110,000)</u>	<u>1,990,000</u>	<u>115,000</u>
<i>Other Liabilities</i>					
Compensated Absences	1,927,538	118,522	0	2,046,060	1,152,173
Police and Fire Pension Liability 1968, \$91,312 due through 2035	79,988	0	(1,179)	78,809	1,229
Retirement Incentive	437,114	0	(122,659)	314,455	314,555
<i>Total Other Liabilities</i>	<u>2,444,640</u>	<u>118,522</u>	<u>(123,838)</u>	<u>2,439,324</u>	<u>1,467,957</u>
Total Governmental Activities	<u>\$ 34,219,251</u>	<u>\$ 118,522</u>	<u>\$(1,883,295)</u>	<u>\$ 32,454,478</u>	<u>\$ 3,277,414</u>
Business-Type Activities:					
<i>Enterprise Fund Debt - Sewer:</i>					
Ohio Water Development Authority, 10.54% 1986 Bonds due through 2011	\$ 4,393,006	\$ 0	\$ (376,649)	\$ 4,016,357	\$ 416,347
Ohio Public Works Commission - 0% \$283,455 1995 Note due through 2015	184,243	0	(14,173)	170,070	14,173
Variable Rate (4.05% in 2000 to 5.05% in 2014), 1997 \$2,130,000 Sanitary Sewer various purpose Improvement due through 2014	1,930,000	0	(115,000)	1,815,000	120,000
<i>Total Enterprise Fund Debt - Sewer</i>	<u>6,507,249</u>	<u>0</u>	<u>(505,822)</u>	<u>6,001,427</u>	<u>550,520</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

	Restated Balance January 1, 2003	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2003	Amounts Due in One Year
Business-Type Activities (Continued)					
<i>Other Liabilities:</i>					
Compensated Absences	\$ 159,227	\$ 6,022	\$ 0	\$ 165,249	\$ 101,528
Retirement Incentive	<u>61,066</u>	<u>0</u>	<u>(30,533)</u>	<u>30,533</u>	<u>30,533</u>
<i>Total Other Liabilities</i>	<u>220,293</u>	<u>6,022</u>	<u>(30,533)</u>	<u>195,782</u>	<u>132,061</u>
Total Business-Type Activities	<u>6,727,542</u>	<u>6,022</u>	<u>(536,355)</u>	<u>6,197,209</u>	<u>682,581</u>
Total Long-Term Liabilities	<u>\$ 40,946,793</u>	<u>\$ 124,544</u>	<u>\$(2,419,650)</u>	<u>\$ 38,651,687</u>	<u>\$ 3,959,995</u>

General obligation bonds will be paid from revenue derived from charges for services in the enterprise funds. The special assessment bonds will be paid from special assessments and property tax receipts in the debt service fund. In the event the special assessment is not paid by the property owner, the City would be required to pay the debt. The police and fire pension liability will be paid from general revenues. Compensated absences will be paid from the fund from which the employees' salaries are paid. The retirement incentive liability will be paid from the fund from which the employees' salaries are paid.

Prior Years' Defeasance Debt

In prior years, the City has defeased general obligation bonds of \$13,910,000 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of December 31, 2003, the amount of defeased debt outstanding but removed from the General Long-Term Debt amounted to \$13,470,000.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Due In	Governmental					
	General Obligation Bonds		Special Assessment Bonds		Police & Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,675,000	\$ 1,291,920	\$ 115,000	\$ 119,530	\$ 1,229	\$ 3,336
2005	1,690,000	1,221,616	120,000	113,105	1,282	3,284
2006	1,775,000	1,150,945	130,000	106,298	1,337	3,229
2007	1,815,000	1,075,205	140,000	98,895	1,394	3,171
2008	1,680,000	1,001,048	145,000	90,423	1,454	3,111
2009-2013	6,875,000	4,056,723	850,000	308,060	8,265	14,565
2014-2018	7,470,000	2,405,935	490,000	59,045	10,198	12,631
2019-2023	4,800,000	468,475	0	0	12,584	10,244
2024-2028	0	0	0	0	15,529	7,298
2029-2033	0	0	0	0	19,163	3,664
2034	0	0	0	0	6,374	268
	<u>\$ 27,780,000</u>	<u>\$ 12,671,867</u>	<u>\$ 1,990,000</u>	<u>\$ 895,356</u>	<u>\$ 78,809</u>	<u>\$ 64,801</u>

Due In	OPWC		Totals	
	Principal	Interest	Principal	Interest
2004	\$ 19,457	\$ 0	\$ 1,810,686	\$ 1,414,786
2005	19,457	0	1,830,739	1,338,005
2006	19,457	0	1,925,794	1,260,472
2007	19,457	0	1,975,851	1,177,271
2008	19,457	0	1,845,911	1,094,582
2009-2013	97,285	0	7,830,550	4,379,348
2014-2018	49,707	0	8,019,905	2,477,611
2019-2023	877	0	4,813,461	478,719
2024-2028	0	0	15,529	7,298
2029-2033	0	0	19,163	3,664
2034	0	0	6,374	268
	<u>\$ 245,154</u>	<u>\$ 0</u>	<u>\$ 30,093,963</u>	<u>\$ 13,632,024</u>

Due In	Business-Type					
	General Obligation Bonds		OWDA		OPWC	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 120,000	\$ 87,663	\$ 416,347	\$ 423,324	\$ 14,173	\$ 0
2005	140,000	82,442	460,230	379,441	14,173	0
2006	145,000	76,213	508,739	330,933	14,173	0
2007	155,000	69,687	562,360	277,311	14,173	0
2008	165,000	62,635	621,633	218,039	14,173	0
2009-2013	885,000	189,376	1,447,048	232,297	70,865	0
2014-2017	205,000	10,353	0	0	28,340	0
	<u>\$ 1,815,000</u>	<u>\$ 578,369</u>	<u>\$ 4,016,357</u>	<u>\$ 1,861,345</u>	<u>\$170,070</u>	<u>\$ 0</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements (Continued)

<u>Due In</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 550,520	\$ 510,987
2005	614,403	461,883
2006	667,912	407,146
2007	731,533	346,998
2008	800,806	280,674
2009-2013	2,402,913	421,672
2014-2017	<u>233,340</u>	<u>10,353</u>
	<u>\$ 6,001,427</u>	<u>\$ 2,439,713</u>

NOTE 15: **CONDUIT DEBT**

The City of Strongsville is party to certain conduit debt obligations:

<u>Type</u>	<u>On Behalf of</u>	<u>Original Issuance</u>	<u>Year Issued</u>	<u>Balance at 12/31/03</u>
Industrial Revenue Bonds	Nutro Corporation	\$ 1,350,000	1994	\$ 715,000
Industrial Revenue Bonds	Nutro Corporation	<u>1,750,000</u>	2000	<u>1,565,000</u>
Total		<u>\$ 3,100,000</u>		<u>\$ 2,280,000</u>

Although conduit debt obligations bear the name of the City of Strongsville, the City has no responsibility for principal and interest payments on these issues.

NOTE 16: **CONSTRUCTION COMMITMENTS**

As of December 31, 2003, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Traffic Signalization	\$ 45,175
Route 82	<u>3,448,949</u>
Total	<u>\$ 3,494,124</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 17: **CONTINGENT LIABILITIES**

There are several lawsuits pending in which the City is involved. City management estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

Under the terms of federal and state grants, periodic audits are required and certain expenditures may be questioned as not appropriate under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

NOTE 18: **JOINTLY GOVERNED ORGANIZATIONS**

Southwest General Health Center

The Southwest General Health Center is an Ohio nonprofit corporation providing health services. The Health Center is a jointly governed organization among the communities of Berea, Brook Park, Columbia Township, Middleburg Heights, Olmsted Falls and Strongsville.

The Health Center is governed by a Board of Trustees consisting of the following: one member of the legislative body from each of the political subdivisions, one resident from each of the political subdivisions who is not a member of the legislative body, three persons who are residents of any of the participating political subdivisions, the president and the executive vice president of the corporations, and the president and the vice president of the medical staff. The legislative body of each political subdivision elect their own member to serve on the Board of Trustees of the Health Center.

The Board exercises total control over the operation of the Health Center including budgeting, appropriating, contracting and designating management. Each City's control is limited to its representation on the Board. In 2003, the City of Strongsville contributed \$400,567 to the Health Center.

NOTE 19: **SUBSEQUENT EVENTS**

On April 1, 2004, City Council passed an ordinance whereas the residents of the City are granted a 75 percent credit for all income taxes paid to other municipalities instead of the 100 percent tax credit allowed for 2003.

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor, Finance Director and
Members of City Council
City of Strongsville, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units each major fund, and the aggregate remaining fund information of the City of Strongsville, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City of Strongsville, Ohio's basic financial statements and have issued our report thereon dated May 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we 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 of Strongsville, Ohio, in a separate letter dated May 28, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain 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, 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. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 1-1-City's Fixed Asset System.

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 over financial reporting that might be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Strongsville, Ohio in a separate letter dated May 28, 2004.

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

James G. Zupka, CPA, Inc.
Certified Public Accountants

May 28, 2004

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Honorable Mayor, Finance Director
and Members of City Council
City of Strongsville, Ohio

Compliance

We have audited the compliance of the City of Strongsville, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City of Strongsville, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Strongsville, Ohio's management. Our responsibility is to express an opinion on the City of Strongsville, Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Strongsville, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Strongsville, Ohio's compliance with those requirements.

In our opinion, the City of Strongsville, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. However, the results of our auditing procedures disclosed immaterial instances of noncompliance with those requirements that we have reported to the management of the City in a separate letter dated May 28, 2004.

Internal Control Over Compliance

The management of the City of Strongsville, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Strongsville, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the City of Strongsville, Ohio's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 1-2-Grant Reporting.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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 believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.
Certified Public Accountants

May 28, 2004

**CITY OF STRONGSVILLE, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Pass Through Entity Identifying Number	Expenditures
<u>United States Department of Transportation</u>			
Pass through the Ohio Department of Transportation			
Highway Planning and Construction (Federal Aid Highway Program)	20.205	CUY-SR-82	<u>\$ 1,537,386</u>
Total United States Department of Transportation			<u>1,537,386</u>
<u>United States Department of Justice</u>			
Direct Program			
COPS Homeland Security	16.710	2003OMWX0095	3,304
Bulletproof Vest Program	16.607	*	<u>1,165</u>
Total Direct Program			4,469
Pass through the Ohio Office of the Attorney General			
Drug Abuse Resistance Education	16.580	*	<u>22,218</u>
Total United States Department of Justice			<u>26,687</u>
<u>United States Department of Housing and Urban Development</u>			
Pass through the Cuyahoga County Department of Development			
Community Development Block Grant	14.218	0300109-01	<u>23,102</u>
Total United States Department of Housing and Urban Development			<u>23,102</u>
<u>United States Department of Homeland Security</u>			
Pass through the Ohio Department of Public Safety			
Federal Emergency Management Agency	97.036	3187-EM-035-75098	<u>14,715</u>
Total United States Department of Homeland Security			<u>14,715</u>
Total Expenditures of Federal Awards			<u><u>\$1,601,890</u></u>

*Grant number not available

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF STRONGSVILLE, OHIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1: **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards of the City of Strongsville, Ohio, presents the activity of all federal financial assistance programs of the City. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal financial assistance received directly from federal agencies as well as financial assistance passed through other government agencies are included on this schedule.

NOTE 2: **BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting and has been reconciled to the program's federal financial reports. The following is a reconciliation by grant from the cash basis to the accrual basis at December 31, 2003.

	<u>Program Expenditures</u>
<u>Department of Transportation</u>	
Cash Basis	\$1,358,528
2003 Accrual Adjustment	<u>178,858</u>
Department of Transportation - Accrual Basis	<u>\$1,537,386</u>
<u>Department of Justice</u>	
Cash Basis	\$ 26,687
2003 Accrual Adjustment	<u>0</u>
Department of Justice - Accrual Basis	<u>\$ 26,687</u>
<u>Department of Housing and Urban Development</u>	
Cash Basis	\$ 23,102
2003 Accrual Adjustment	<u>0</u>
Department of Housing and Urban Development - Accrual Basis	<u>\$ 23,102</u>
<u>Department of Homeland Security</u>	
Cash Basis	\$ 14,715
2003 Accrual Adjustment	<u>0</u>
Department of Homeland Security - Accrual Basis	<u>\$ 14,715</u>

CITY OF STRONGSVILLE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & .505
 DECEMBER 31, 2003

1. **SUMMARY OF AUDITOR'S RESULTS**

2003(i)	Type of Financial Statement Opinion	Unqualified
2003(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2003(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
2003(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
2003(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2003(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
2003(v)	Type of Major Programs' Compliance Opinions	Unqualified
2003(vi)	Are there any reportable findings under .510?	No
2003(vii)	Major Programs (list):	1. Highway Planning and Construction (Federal Aid Highway Program)
2003(viii)	Dollar Threshold: A/B Programs	Type A: \$300,000 Type B: All Others
2003(ix)	Low Risk Auditee?	No

CITY OF STRONGSVILLE, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2003

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

See 1-1 City's Fixed Asset System on accompanying schedule.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

See 1-1 City's Fixed Asset System and
1-2 Grant Reporting on accompanying schedule.

CITY OF STRONGSVILLE, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(CONTINUED)

1-1-City's Fixed Asset System

Condition

In testing the City's fixed assets, we noted a reportable condition exists in the fixed asset software program that allows errors to occur and which may not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted that the following errors were not detected by management:

- Duplication of six items in infrastructure-sidewalks and also minor inconsistencies in calculation of accumulated depreciation but depreciation expense is properly calculated. Also, the previous construction in progress completed in 2003 was not recorded as 2003 asset addition.

Criteria

A fixed asset software program should have internal edit checks which should warn or prevent an employee from entering a duplicate asset by checking all relevant data fields for possible duplications. The City should document all asset additions.

Cause

No internal edit checks built into fixed asset software program.

Effect

Fixed assets of the City are over/understated.

Recommendation

We recommend that edit checks need to be built into the fixed asset system to help prevent the duplication of fixed assets. The fixed asset software program formulas for calculating accumulated depreciation of fixed assets should be corrected to provide consistent applications. In addition, periodic verification of calculations should be performed by a designated employee on a sample basis. We also recommend that the Assistant Finance Director, at the time of approval of purchase orders, indicate on the purchase order which items should be added to the fixed asset system.

Corrective Action Plan

The fixed asset software program will be modified, and upgraded if necessary in order to correct the calculation of accumulated depreciation so that there are no inconsistencies regarding this particular calculation. In addition, the software will be enhanced in order to provide an internal edit check that will warn of duplicate asset entry.

**CITY OF STRONGSVILLE, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(CONTINUED)**

1-2-Grant Reporting

Condition/Criteria

Per review of the City's grant procedures, we noted the following:

- The City does not have one individual responsible for monitoring all City grants.
- The Finance Department does not reconcile grant activity per their records to the records of the respective department receiving the grant on a periodic basis.
- The Finance Department needs to accumulate all grant activity, including direct payments from the funding source to contractors (i.e. Perk Co.), in order to determine that budget awards are not exceeded.
- Timely requests of funds are not being submitted to the funding source.
- For the Community Development Block Grant, grant revenues are being netted against related expenses in one account.

Cause

Insufficient internal control procedures over grant reporting.

Effect

Improper grant reporting to funding source or over/under recording of expenditures of grant projects.

Recommendation

We recommend the following actions:

- The City should have one individual responsible for monitoring all City grants.
- The Finance Department should reconcile grant activity per their records to the records of the respective department receiving the grant on a periodic basis.
- The Finance Department should accumulate all grant activity, including direct payments from the funding source to contractors, in order to determine that budget awards are not exceeded.
- The City should submit timely requests to the funding source.
- Grant revenues and grant expenditures should be maintained in separate accounts rather than being netted together.

Once implemented, these actions will help strengthen the City's internal controls over grants to ensure proper reporting of grant activity to the funding source.

Corrective Action Plan

The City Administration will delegate at least one individual who will be responsible for the monitoring of all City grants. These responsibilities will include reconciling grant activity in the Finance Department to the grant activity received by the respective department; tracking all grant activity in order to make certain that budget awards are not exceeded; and work in conjunction with the appropriate department to ensure that the City submits requests to the funding source in a timely fashion so as not to impede or hamper the acceptance of any grant, either as a reimbursement or award.

CITY OF STRONGSVILLE, OHIO
SUMMARY SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003

Prior Recommendations

The prior audit report, as of December 31, 2002, included management letter recommendations. These have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



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CITY OF STRONGSVILLE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 19, 2004**