



**Auditor of State  
Betty Montgomery**



**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Members of City Council  
City of Strongsville  
Cuyahoga County  
16099 Foltz Industrial Parkway  
Strongsville, Ohio 44149

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Street Construction, Maintenance and Repair Fund, and Fire Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the basic financial statements, the City restated the fund balance of the Internal Service Fund, the Sanitary Sewer Fund, and the Net Assets of the Governmental Activities and Business-Type Activities as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2006, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

March 13, 2006

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(Unaudited)**

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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, 2004. We encourage readers to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of 2004 by \$186,336,405. Of this amount, \$10,868,631 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$4,540,033 and may be used to meet the government's on-going obligations. The unrestricted net assets of the City's business-type activities are \$6,328,598, with Invested with Capital Assets, Net of Related Debt accounting for \$48,489,963 or 88.5 percent of the total net assets.
- The City's total net assets increased \$5,399,951 or 3.0 percent in 2004. Net assets of the governmental activities increased \$6,832,339, which represents a 5.5 percent increase from 2003. Net assets of the business-type activities decreased \$1,432,388 or 2.5 percent from 2003.
- The general fund reported a fund balance of \$5,029,037 at the end of the current fiscal year. The unreserved fund balance for the general fund was \$4,602,828 or 20 percent of the total general fund expenditures (including transfers out). There was a \$1,627,609 increase in the total general fund balance for the year ended December 31, 2004.
- On a cash basis, the City's income tax collections increased by approximately \$1,819,750 or 9.7 percent during 2004.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City'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.

**CITY OF STRONGSVILLE, OHIO**  
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**(Unaudited)**

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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 environment, basic utilities, leisure-time activities, and interest and fiscal charges. The business-type activities include sanitary sewer services and improvements.

The government-wide financial statements can be found starting on page 14 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*.



**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2004**  
**(Unaudited)**

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The City maintains 30 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, Route 82 capital improvement, street construction, maintenance and repair fund, fire levy fund, general capital improvement fund, Route 82 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 23 governmental funds are combined into a single aggregated presentation.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

***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, and the sewer capital improvement, which is considered a nonmajor 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 23-25 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 26 and 27 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 28-63.

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**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 2004?" 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.

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 2004 compared to 2003.

**Table 1 - Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current and Other Assets	\$ 35,169,594	\$ 26,049,881	\$ 8,819,589	\$ 8,778,812	\$ 43,989,183	\$ 34,828,693
Capital Assets	145,032,305	144,768,205	56,522,590	58,833,564	201,554,895	203,601,769
<b>Total Assets</b>	<u>180,201,899</u>	<u>170,818,086</u>	<u>65,342,179</u>	<u>67,612,376</u>	<u>245,544,078</u>	<u>238,430,462</u>
<b>Liabilities</b>						
Long-Term Liabilities	30,505,497	32,454,478	8,174,580	8,895,453	38,680,077	41,349,931
Other Liabilities	18,178,558	13,678,103	2,349,038	2,465,974	20,527,596	16,144,077
<b>Total Liabilities</b>	<u>48,684,055</u>	<u>46,132,581</u>	<u>10,523,618</u>	<u>11,361,427</u>	<u>59,207,673</u>	<u>57,494,008</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Related Debt	116,826,605	114,753,051	48,489,963	50,133,893	165,316,568	164,886,944
Restricted	10,151,206	6,759,828	0	0	10,151,206	6,759,828
Unrestricted	4,540,033	3,172,626	6,328,598	6,117,056	10,868,631	9,289,682
<b>Total Net Assets</b>	<u>\$131,517,844</u>	<u>\$124,685,505</u>	<u>\$54,818,561</u>	<u>\$56,250,949</u>	<u>\$186,336,405</u>	<u>\$180,936,454</u>

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2004**  
**(Unaudited)**

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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 \$186,336,405 at the close of the most recent fiscal year.

The largest portion of the City's total net assets (88.7 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 \$10,868,631; the unrestricted net assets of the City's business-type activities \$6,328,598 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 increased by \$7,113,616 from 2003 to 2004, while the City's total liabilities increased by \$1,713,665. The increase in assets can be attributed to an increase in cash and cash equivalents, which is the result of an increase in note sales and income tax revenue. The increase in the income tax revenue is attributable to a reduction to the City's income tax credit allowed to the taxpayer. The increase in liabilities is primarily due to the increase in the issuance of notes.

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.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 6,197,563	\$ 5,864,936	\$ 8,470,409	\$ 8,229,006	\$ 14,667,972	\$ 14,093,942
Operating Grants and Contributions	1,713,689	1,440,714	0	0	1,713,689	1,440,714
Capital Grants and Contributions	7,568,425	6,852,376	0	0	7,568,425	6,852,376
General Revenues:						
Property Taxes	7,450,022	7,593,027	0	0	7,450,022	7,593,027
Income Taxes	22,007,379	18,333,911	0	0	22,007,379	18,333,911
Other Taxes	500,223	463,455	0	0	500,223	463,455
Grants and Entitlements	3,224,703	2,344,109	0	0	3,224,703	2,344,109
Investment Earnings	350,735	180,822	0	0	350,735	180,822
Other	55,497	24,135	0	0	55,497	24,135
<b>Total Revenues</b>	<b>49,068,236</b>	<b>43,097,485</b>	<b>8,470,409</b>	<b>8,229,006</b>	<b>57,538,645</b>	<b>51,326,491</b>
<b>Program Expenses</b>						
General Government	4,706,740	4,774,546	0	0	4,706,740	4,774,546
Security of Persons and Property	14,055,241	13,918,171	0	0	14,055,241	13,918,171
Public Health Services	1,531,421	1,702,553	0	0	1,531,421	1,702,553
Transportation	10,795,267	11,343,328	0	0	10,795,267	11,343,328
Community Environment	1,415,563	1,334,952	0	0	1,415,563	1,334,952
Basic Utility Services	3,960,528	2,366,707	0	0	3,960,528	2,366,707
Leisure Time Activities	4,361,827	4,434,228	0	0	4,361,827	4,434,228
Interest and Fiscal Charges	1,409,310	1,531,385	671,067	555,630	2,080,377	2,087,015
Sewer	0	0	9,231,730	8,746,063	9,231,730	8,746,063
<b>Total Program Expenses</b>	<b>42,235,897</b>	<b>41,405,870</b>	<b>9,902,797</b>	<b>9,301,693</b>	<b>52,138,694</b>	<b>50,707,563</b>
<i>Increase (Decrease) in Net Assets</i>	<u>\$ 6,832,339</u>	<u>\$ 1,691,615</u>	<u>\$(1,432,388)</u>	<u>\$(1,072,687)</u>	<u>\$ 5,399,951</u>	<u>\$ 618,928</u>

**Governmental Activities**

Governmental activities increased the City's net assets by \$6,832,339. 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 2004, 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 75 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 2004 was \$22,007,379. Of the \$49,068,236 in total revenues, income tax accounts for 45 percent of that total. Property taxes of \$7,450,022 account for 15 percent of total revenues; operating grants and capital grants and contributions, and general revenues from grants and entitlements account for 25 percent of total governmental revenues; and charges for services and other revenue make up the remaining 15 percent.

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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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 2004, 33 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 pertain to the City's sewer operations, decreased the City's net assets by \$1,432,388. This is due to increased contributions to the operations of the Sanitary Sewer Treatment Plants.

**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, 2004, the City's governmental funds reported ending fund balances of \$10,397,368, an increase of \$4,168,567 in comparison with the prior year. This variance can be mainly attributed to the expense associated with the construction of a new library. \$6,684,527 of the ending fund balance for 2004 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, 2004, unreserved fund balance of the general fund was \$4,602,828, while total fund balance was \$5,029,037. 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 2003 increased by \$1,627,609 during 2004. Key factors in this increase are as follows:

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2004**  
**(Unaudited)**

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- Investment income increased slightly due to an increase in rates earned by investments.
- Modest increase in employee fringe benefits.
- Reduction of tax credit granted by the City from 100 percent to 75 percent for income tax paid to other municipalities by City residents.

**GENERAL FUND**

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$3,401,428. General Fund expenditures (including transfers out) for the current year were \$22,861,285 with revenues and other financing sources of \$24,488,894, leaving a fund balance of \$5,029,037 and an unreserved balance of \$4,602,828 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 2004, 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 the City's major activities such the 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 \$22,466,295. The final budgeted revenue amount (including other financing sources) was \$23,685,963. The increase was due to grant revenue. Original General Fund budgeted expenditures (including other financing uses) were \$22,547,325 and the final amended budgeted expenditures (including other financing uses) were \$23,615,800. Actual General Fund expenditures were \$23,293,326 or \$322,474 less than was budgeted because of prudent fiscal management.

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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, 2004, amounts to \$201,554,895 (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 at December 31, 2004, Net of Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 6,129,901	\$ 6,129,901	\$ 1,508,079	\$ 1,508,079	\$ 7,637,980	\$ 7,637,980
Construction in Progress	8,305,086	2,930,151	0	0	8,305,086	2,930,151
<b>Total Non-Depreciable</b>	<u>14,434,987</u>	<u>9,060,052</u>	<u>1,508,079</u>	<u>1,508,079</u>	<u>15,943,066</u>	<u>10,568,131</u>
Buildings	24,996,893	25,397,401	5,857,217	6,045,693	30,854,110	31,443,094
Improvements	599,449	707,176	262,882	450,467	862,331	1,157,643
Machinery and Equipment	500,725	644,997	130,559	158,704	631,284	803,701
Furniture and Fixtures	19,207	32,772	0	0	19,207	32,772
Vehicles	1,570,534	2,055,315	0	0	1,570,534	2,055,315
Infrastructure:						
Streets	51,452,808	55,929,904	0	0	51,452,808	55,929,904
Sidewalks	4,064,324	4,315,897	0	0	4,064,324	4,315,897
Storm Sewers	43,185,731	44,579,414	0	0	43,185,731	44,579,414
Traffic Signals	4,207,647	2,045,277	0	0	4,207,647	2,045,277
Sanitary Sewer	0	0	48,763,853	50,670,621	48,763,853	50,670,621
<b>Total Depreciable</b>	<u>130,597,318</u>	<u>135,708,153</u>	<u>55,014,511</u>	<u>57,325,485</u>	<u>185,611,829</u>	<u>193,033,638</u>
<b>Total Capital Assets</b>	<u>\$145,032,305</u>	<u>\$144,768,205</u>	<u>\$56,522,590</u>	<u>\$58,833,564</u>	<u>\$201,554,895</u>	<u>\$203,601,769</u>

Major capital asset events during 2004 included the following:

- Total capital assets, net of accumulated depreciation, decreased by \$2,046,874 or 1 percent.
- Business-type activity capital assets decreased by \$2,310,974 (net of accumulated depreciation). The decrease was due to the aging of infrastructure.
- Governmental activity capital assets increased by \$264,100 (net of accumulated depreciation). This increase was primarily due to increases in construction-in-progress and traffic signalization.

**Debt**

The general bond retirement debt service fund has a total fund balance of \$1,844,692. 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, 2004, the City had \$42,988,327 of notes, bonds and loans outstanding, with \$34,955,700 in governmental activities and \$8,032,627 in business-type activities, and are included herein.

**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2004**  
**(Unaudited)**

**Table 4 - Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Short Term Debt</b>						
Notes Payable	\$ 6,750,000	\$ 2,950,000	\$ 0	\$ 0	\$ 6,750,000	\$ 2,950,000
<b>Long Term Debt</b>						
General Obligation Bonds	26,105,000	27,780,000	0	0	26,105,000	27,780,000
OPWC Loan	225,700	245,154	155,897	170,070	381,597	415,224
OWDA Loan	0	0	6,181,730	6,714,601	6,181,730	6,714,601
Special Assessment Bonds	1,875,000	1,990,000	0	0	1,875,000	1,990,000
Sanitary Sewer Bonds	0	0	1,695,000	1,815,000	1,695,000	1,815,000
<b>Total Outstanding Debt</b>	<u>\$34,955,700</u>	<u>\$32,965,154</u>	<u>\$ 8,032,627</u>	<u>\$ 8,699,671</u>	<u>\$42,988,327</u>	<u>\$41,664,825</u>

- During June 2004, the City issued \$6,750,000 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 City departments.
- The City reissued a bond anticipation note for \$850,000 in February 2004 at an interest rate of 1.40 percent per year for the purpose of acquiring an aerial platform fire truck. The bond anticipation note was retired with the proceeds from the various purpose improvement note issued on June 30, 2004.
- 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 City.

In a continuing effort to be conscientious about how taxpayer dollars are spent, the City maintained throughout 2004 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, 2004, the City's total net debt amounted to 2.87 percent of the total assessed value of all property within the City. Unvoted net debt amounted to 2.33 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.



**CITY OF STRONGSVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2004**  
**(Unaudited)**

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**Economic Factors and Next Year's General Fund Budget**

The City's elected and appointed officials considered many factors when setting the fiscal year 2004 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 2004 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 2004 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources.

The 2004 General Fund revenue budget was originally \$22,466,295. However, the final revenue budget was increased by \$1,219,668 primarily due to significant increases in Operating Grants, Capital Grants, and Grants and Entitlements.

**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, 2004**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 11,923,686	\$ 5,821,028	\$ 17,744,714
Materials and Supplies Inventory	697,510	0	697,510
Accounts Receivable	191,304	3,130,116	3,321,420
Internal Balances	221,237	(221,237)	0
Intergovernmental Receivable	2,710,151	0	2,710,151
Prepaid Items	331,352	89,682	421,034
Taxes Receivable	15,541,505	0	15,541,505
Special Assessments Receivable	3,281,331	0	3,281,331
Unamortized Bond Issuance Costs	271,518	0	271,518
Nondepreciable Capital Assets	14,434,987	1,508,079	15,943,066
Depreciable Capital Assets, Net	<u>130,597,318</u>	<u>55,014,511</u>	<u>185,611,829</u>
<b>Total Assets</b>	<u>180,201,899</u>	<u>65,342,179</u>	<u>245,544,078</u>
<b>Liabilities</b>			
Accounts Payable	515,431	40	515,471
Accrued Wages	225,858	18,927	244,785
Contracts Payable	647,662	2,286,344	2,934,006
Intergovernmental Payable	903,737	43,727	947,464
Accrued Interest Payable	111,913	0	111,913
Deferred Revenue	9,023,957	0	9,023,957
Notes Payable	6,750,000	0	6,750,000
Long-Term Liabilities:			
Due within One Year	3,087,293	834,112	3,921,405
Due in More Than One Year	<u>27,418,204</u>	<u>7,340,468</u>	<u>34,758,672</u>
<b>Total Liabilities</b>	<u>48,684,055</u>	<u>10,523,618</u>	<u>59,207,673</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	110,076,605	48,489,963	158,566,568
Restricted for:			
Debt Service	5,881,588	0	5,881,588
Other Purposes	4,269,618	0	4,269,618
Unrestricted	<u>11,290,033</u>	<u>6,328,598</u>	<u>17,618,631</u>
<b>Total Net Assets</b>	<u>\$ 131,517,844</u>	<u>\$ 54,818,561</u>	<u>\$ 186,336,405</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Business-Type Activities	
					Governmental	Business-Type
				Governmental	Business-Type	Total
<b>Governmental Activities:</b>						
Security of Persons and Property	\$ 14,055,241	\$ 798,451	\$ 231,514	\$ 0	\$ (13,025,276)	\$ (13,025,276)
Public Health and Welfare	1,531,421	56,605	0	0	(1,474,816)	(1,474,816)
Leisure Time Activities	4,361,827	2,870,919	4,057	0	(1,486,851)	(1,486,851)
Community Environment	1,415,563	115,528	0	25,384	(1,274,651)	(1,274,651)
Basic Utilities	3,960,528	0	0	156,004	(3,804,524)	(3,804,524)
Transportation	10,795,267	28,063	1,467,207	7,387,037	(1,912,960)	(1,912,960)
General Government	4,706,740	2,327,997	10,911	0	(2,367,832)	(2,367,832)
Interest and Fiscal Charges	1,409,310	0	0	0	(1,409,310)	(1,409,310)
<b>Total Governmental Activities</b>	<b>42,235,897</b>	<b>6,197,563</b>	<b>1,713,689</b>	<b>7,568,425</b>	<b>(26,756,220)</b>	<b>(26,756,220)</b>
<b>Business-Type Activities:</b>						
Sewer Capital Improvement	154,410	379,511	0	0	0	225,101
Sanitary Sewer Fund	9,748,387	8,090,898	0	0	0	(1,657,489)
<b>Total Business-Type Activities</b>	<b>9,902,797</b>	<b>8,470,409</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,432,388)</b>
<b>Total Primary Government</b>	<b>\$ 52,138,694</b>	<b>\$ 14,667,972</b>	<b>\$ 1,713,689</b>	<b>\$ 7,568,425</b>	<b>(26,756,220)</b>	<b>(28,188,608)</b>
<b>General Revenues:</b>						
Property Taxes Levied for:						
General Purposes					541,604	541,604
Special Revenue					3,511,137	3,511,137
Debt Service					3,397,281	3,397,281
Income Taxes Levied for:						
General Purposes					19,424,237	19,424,237
Special Revenue					2,583,142	2,583,142
Other Taxes for:						
General Purposes					158,290	158,290
Special Revenue					341,933	341,933
Grants and Entitlements not Restricted to Specific Programs					3,224,703	3,224,703
Gain or Loss on Sale of Capital Assets					55,497	55,497
Investment Earnings					350,735	350,735
<b>Total General Revenues</b>					<b>33,588,559</b>	<b>33,588,559</b>
Change in Net Assets					6,832,339	5,399,951
Net Assets Beginning of Year, as Restated (Note 3)					124,685,505	180,936,454
<b>Net Assets End of Year</b>					<b>\$ 131,517,844</b>	<b>\$ 186,336,405</b>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	General	SCMR	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	General Capital Improvement	Route 82 Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>									
Equity in Pooled Cash and Cash Equivalents	\$ 1,157,311	\$ 668,601	\$ 378,319	\$ 1,351,937	\$ 439,359	\$ 2,787,790	\$ 1,586,717	\$ 3,551,235	\$ 11,921,269
Taxes Receivable	5,446,016	967,532	3,622,108	3,826,871	0	0	0	1,678,977	15,541,504
Accounts Receivable	42,268	0	0	0	0	113,956	0	35,080	191,304
Special Assessments Receivable	0	0	0	0	3,281,331	0	0	0	3,281,331
Intergovernmental Receivable	1,057,207	688,562	174,081	165,630	0	111,472	368,458	144,741	2,710,151
Due from Other Funds	0	0	0	221,237	0	0	0	0	221,237
Inventory	83,164	391,404	0	0	0	0	0	59,767	534,335
Prepaid Expenses	324,220	1,681	0	0	0	0	0	5,451	331,352
Unamortized Bond Issuance Costs	0	0	0	271,518	0	0	0	0	271,518
<b>Total Assets</b>	<b>\$ 8,110,186</b>	<b>\$ 2,717,780</b>	<b>\$ 4,174,508</b>	<b>\$ 5,837,193</b>	<b>\$ 3,720,690</b>	<b>\$ 3,013,218</b>	<b>\$ 1,955,175</b>	<b>\$ 5,475,251</b>	<b>\$ 35,004,001</b>
<b>Liabilities and Fund Balances</b>									
<b>Liabilities</b>									
Accounts Payable	\$ 312,526	\$ 183,042	\$ 284	\$ 0	\$ 0	\$ 1,600	\$ 0	\$ 1,366	\$ 498,818
Contracts Payable	0	0	0	0	0	267,188	368,458	0	635,646
Salaries, Wages, and Benefits Payable	101,904	36,726	54,890	0	0	0	0	23,878	217,998
Intergovernmental Payable	54,238	31,008	13,582	0	0	0	0	13,324	112,152
Deferred Revenue	2,612,481	879,809	3,796,189	3,992,501	3,281,331	86,088	0	1,744,220	16,392,619
General Obligation Notes Payable	0	0	0	0	0	3,400,000	2,500,000	850,000	6,750,000
<b>Total Liabilities</b>	<b>\$ 3,081,149</b>	<b>\$ 1,130,585</b>	<b>\$ 3,864,945</b>	<b>\$ 3,992,501</b>	<b>\$ 3,281,331</b>	<b>\$ 3,754,876</b>	<b>\$ 2,868,458</b>	<b>\$ 2,632,788</b>	<b>\$ 24,606,633</b>
<b>Fund Balances</b>									
Reserved for Inventory	83,164	391,404	0	0	0	0	0	59,767	534,335
Reserved for Prepaid Items	324,220	1,681	0	0	0	0	0	5,451	331,352
Reserved for Encumbrances	18,825	17,628	0	0	0	257,808	224,893	43,949	563,103
Reserved for Debt Service	0	0	0	1,844,692	439,359	0	0	0	2,284,051
Unreserved	4,602,828	1,176,482	309,563	0	0	(999,466)	(1,138,176)	2,733,296	6,684,527
<b>Total Fund Balances (Deficits)</b>	<b>\$ 5,029,037</b>	<b>\$ 1,587,195</b>	<b>\$ 309,563</b>	<b>\$ 1,844,692</b>	<b>\$ 439,359</b>	<b>\$ (741,658)</b>	<b>\$ (913,283)</b>	<b>\$ 2,842,463</b>	<b>\$ 10,397,368</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,110,186</b>	<b>\$ 2,717,780</b>	<b>\$ 4,174,508</b>	<b>\$ 5,837,193</b>	<b>\$ 3,720,690</b>	<b>\$ 3,013,218</b>	<b>\$ 1,955,175</b>	<b>\$ 5,475,251</b>	<b>\$ 35,004,001</b>

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, 2004**

<b>Total Governmental Fund Balances</b>		<b>\$10,397,368</b>
<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.		145,032,305
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 664,544	
Grants and Entitlements	1,388,985	
Income Tax	2,033,802	
Special Assessments	<u>3,281,331</u>	
Total		7,368,662
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.		52,262
Due to other governments includes contractually required pension contributions and Workers' Compensation not expected to be paid with expendable available financial resources and therefore not reported in the funds:		
Pension Contributions	(452,244)	
Workers' Compensation	<u>(321,758)</u>	
		(774,002)
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	(26,105,000)	
OPWC Loan	(225,700)	
Special Assessment Bonds	(1,875,000)	
Compensated Absences	(2,116,786)	
Accrued Interest Payable	(111,913)	
Accrued Police Pension	(77,580)	
Retirement Incentive	<u>(46,772)</u>	
Total		<u>(30,558,751)</u>
<b>Net Assets of Governmental Activities</b>		<b><u>\$131,517,844</u></b>

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, 2004**

	General	SCMR	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	General Capital Improvement	Route 82 Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>									
Municipal Income Taxes	\$18,838,439	\$ 2,451,839	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$21,290,278
Property Taxes	545,230	0	1,947,143	3,417,152	0	0	0	1,507,868	7,417,393
Other Taxes	157,638	0	0	0	0	0	0	0	157,638
Intergovernmental Revenue	2,515,569	1,516,799	209,912	382,654	0	722,807	6,696,786	660,736	12,705,263
Special Assessments	0	0	0	0	115,000	0	0	0	115,000
Charges for Services	264,815	0	1,100	0	0	557,156	0	3,393,904	4,216,975
Fines, Licenses, and Permits	1,659,630	0	0	0	0	0	0	69,645	1,729,275
Interest Income	204,394	0	0	0	146,341	0	0	2,810	353,545
Miscellaneous	247,682	17,313	1,179	0	0	0	7,400	15,175	288,749
<b>Total Revenues</b>	<b>24,433,397</b>	<b>3,985,951</b>	<b>2,159,334</b>	<b>3,799,806</b>	<b>261,341</b>	<b>1,279,963</b>	<b>6,704,186</b>	<b>5,650,138</b>	<b>48,274,116</b>
<b>Expenditures</b>									
Current:									
General Government	4,206,014	0	0	0	0	0	0	0	4,206,014
Security of Persons and Property	6,611,114	0	4,729,914	0	0	0	0	2,198,817	13,539,845
Public Health and Welfare	962,335	0	0	0	0	0	0	454,391	1,416,726
Leisure Time Activities	248,620	0	0	0	0	0	0	3,574,584	3,823,204
Community Environment	1,271,570	0	0	0	0	0	0	92,835	1,364,405
Basic Utilities	2,581,632	0	0	0	0	0	0	26,683	2,608,315
Transportation	0	4,811,365	0	0	0	951,538	0	537,484	6,300,387
Capital Outlay	0	0	0	0	0	91,752	7,583,183	0	7,674,935
Debt Service:									
Principal Retirement	0	0	0	1,694,454	115,000	0	0	0	1,809,454
Interest and Fiscal Charges	0	0	0	1,253,927	119,529	35,983	0	5,322	1,414,761
<b>Total Expenditures</b>	<b>15,881,285</b>	<b>4,811,365</b>	<b>4,729,914</b>	<b>2,948,381</b>	<b>234,529</b>	<b>1,079,273</b>	<b>7,583,183</b>	<b>6,890,116</b>	<b>44,158,046</b>
Excess of Revenues Over (Under) Expenditures	8,552,112	(825,414)	(2,570,580)	851,425	26,812	200,690	(878,997)	(1,239,978)	4,116,070
<b>Other Financing Sources (Uses)</b>									
Transfers In	0	1,400,000	3,145,000	0	0	125,000	0	2,307,000	6,977,000
Transfers Out	(6,980,000)	0	0	0	0	0	0	0	(6,980,000)
Sale of Fixed Assets	55,497	0	0	0	0	0	0	0	55,497
<b>Total Other Financing Sources (Uses)</b>	<b>(6,924,503)</b>	<b>1,400,000</b>	<b>3,145,000</b>	<b>0</b>	<b>0</b>	<b>125,000</b>	<b>0</b>	<b>2,307,000</b>	<b>52,497</b>
Net Change in Fund Balances	1,627,609	574,586	574,420	851,425	26,812	325,690	(878,997)	1,067,022	4,168,567
Fund Balances (Deficits) - Beginning of Year	3,401,428	1,012,609	(264,857)	993,267	412,547	(1,067,348)	(34,286)	1,775,441	6,228,801
<b>Fund Balances (Deficits) - End of Year</b>	<b>\$ 5,029,037</b>	<b>\$ 1,587,195</b>	<b>\$ 309,563</b>	<b>\$ 1,844,692</b>	<b>\$ 439,359</b>	<b>\$ (741,658)</b>	<b>\$ (913,283)</b>	<b>\$ 2,842,463</b>	<b>\$ 10,397,368</b>

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, 2004**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 4,168,567**

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	\$ 8,052,682	
Current Year Depreciation	<u>(7,788,582)</u>	264,100

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Tax	58,386	
Grants and Entitlements	(23,867)	
Income Tax	717,098	
Special Assessments	<u>(12,997)</u>	
Total		738,620

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. 2,060,062

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 5,451

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	(115,490)	
Pension Obligation	26,947	
Workers' Compensation	<u>(321,758)</u>	
Total		(410,301)

The internal service funds used by management to account for building maintenance and municipal garage services provided to City departments are not reported in entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 5,840

**Change in Net Assets of Governmental Activities** **\$ 6,832,339**

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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Municipal Income Taxes	\$18,207,000	\$18,230,903	\$18,214,089	\$ (16,814)
Property Taxes	570,000	545,733	545,230	(503)
Other Taxes	150,000	150,364	150,225	(139)
Intergovernmental Revenue	1,701,000	2,322,806	2,304,957	(17,849)
Charges for Services	291,995	340,200	337,586	(2,614)
Fines, Licenses, and Permits	1,291,300	1,637,357	1,624,775	(12,582)
Interest Income	120,000	205,977	204,394	(1,583)
Miscellaneous	<u>135,000</u>	<u>252,623</u>	<u>250,682</u>	<u>(1,941)</u>
<b>Total Revenues</b>	<u>22,466,295</u>	<u>23,685,963</u>	<u>23,631,938</u>	<u>(54,025)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	7,015,306	7,025,000	6,905,276	119,724
Public Health and Welfare	978,850	1,013,500	987,998	25,502
Leisure Time Activities	350,900	304,000	260,172	43,828
Community Environment	1,324,340	1,380,300	1,298,223	82,077
Basic Utilities	2,451,500	2,601,000	2,599,957	1,043
General Government	<u>4,339,179</u>	<u>4,683,000</u>	<u>4,261,700</u>	<u>421,300</u>
<b>Total Expenditures</b>	<u>16,460,075</u>	<u>17,006,800</u>	<u>16,313,326</u>	<u>693,474</u>
Excess of Revenues Over (Under) Expenditures	<u>6,006,220</u>	<u>6,679,163</u>	<u>7,318,612</u>	<u>639,449</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	0	0	55,497	55,497
Transfers Out	<u>(6,087,250)</u>	<u>(6,609,000)</u>	<u>(6,980,000)</u>	<u>(371,000)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(6,087,250)</u>	<u>(6,609,000)</u>	<u>(6,924,503)</u>	<u>(315,503)</u>
Net Change in Fund Balance	(81,030)	70,163	394,109	323,946
Fund Balance at Beginning of Year, as Restated	81,036	81,036	81,036	0
Prior Year Encumbrances Appropriated	<u>337,697</u>	<u>337,697</u>	<u>337,697</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 337,703</u>	<u>\$ 488,896</u>	<u>\$ 812,842</u>	<u>\$ 323,946</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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Municipal Income Taxes	\$ 2,321,000	\$ 2,440,998	\$ 2,340,986	\$ (100,012)
Intergovernmental Revenue	1,353,000	1,377,131	1,377,124	(7)
Miscellaneous	0	17,313	17,313	0
<b>Total Revenues</b>	<u>3,674,000</u>	<u>3,835,442</u>	<u>3,735,423</u>	<u>(100,019)</u>
<b><u>Expenditures</u></b>				
Current:				
Transportation	5,048,200	5,080,000	4,665,948	414,052
<b>Total Expenditures</b>	<u>5,048,200</u>	<u>5,080,000</u>	<u>4,665,948</u>	<u>414,052</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,374,200)</u>	<u>(1,244,558)</u>	<u>(930,525)</u>	<u>314,033</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	1,374,200	1,300,000	1,400,000	100,000
<b>Total Other Financing Sources (Uses)</b>	<u>1,374,200</u>	<u>1,300,000</u>	<u>1,400,000</u>	<u>100,000</u>
Net Change in Fund Balance	0	55,442	469,475	414,033
Fund Balance at Beginning of Year	3,543	3,543	3,543	0
Prior Year Encumbrances Appropriated	<u>168,935</u>	<u>168,935</u>	<u>168,935</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 172,478</u>	<u>\$ 227,920</u>	<u>\$ 641,953</u>	<u>\$ 414,033</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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,944,000	\$ 1,947,196	\$ 1,947,143	\$ (53)
Intergovernmental Revenue	270,000	209,969	209,912	(57)
Charges for Services	0	1,050	1,100	50
Miscellaneous	<u>0</u>	<u>1,220</u>	<u>1,279</u>	<u>59</u>
<b>Total Revenues</b>	<u>2,214,000</u>	<u>2,159,435</u>	<u>2,159,434</u>	<u>(1)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	<u>5,148,450</u>	<u>5,050,000</u>	<u>4,958,713</u>	<u>91,287</u>
<b>Total Expenditures</b>	<u>5,148,450</u>	<u>5,050,000</u>	<u>4,958,713</u>	<u>91,287</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,934,450)</u>	<u>(2,890,565)</u>	<u>(2,799,279)</u>	<u>91,286</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	<u>2,934,450</u>	<u>3,000,000</u>	<u>3,145,000</u>	<u>145,000</u>
<b>Total Other Financing Sources (Uses)</b>	<u>2,934,450</u>	<u>3,000,000</u>	<u>3,145,000</u>	<u>145,000</u>
Net Change in Fund Balance	0	109,435	345,721	236,286
Fund Balance at Beginning of Year	12,418	12,418	12,418	0
Prior Year Encumbrances Appropriated	<u>20,196</u>	<u>20,196</u>	<u>20,196</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 32,614</u>	<u>\$ 142,049</u>	<u>\$ 378,335</u>	<u>\$ 236,286</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2004**

	<u>Business-Type Activities</u>			<u>Governmental</u>
	<u>Major</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities</u>
	<u>Sanitary</u>	<u>Sewer Capital</u>		<u>Internal</u>
	<u>Sewer Fund</u>	<u>Improvements</u>		<u>Service Funds</u>
				<u>Municipal</u>
				<u>Garage</u>
				<u>and Building</u>
				<u>Maintenance</u>
<b><u>ASSETS</u></b>				
<b><u>Current Assets</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,102,804	\$ 1,718,224	\$ 5,821,028	\$ 2,417
Accounts Receivable	3,130,116	0	3,130,116	0
Inventory	0	0	0	163,175
Prepaid Expenses	<u>0</u>	<u>89,682</u>	<u>89,682</u>	<u>0</u>
<b>Total Current Assets</b>	<u>7,232,920</u>	<u>1,807,906</u>	<u>9,040,826</u>	<u>165,592</u>
<b><u>Noncurrent Assets</u></b>				
Land and Construction in Progress	1,508,079	0	1,508,079	0
Depreciable Capital Assets, Net	<u>55,014,511</u>	<u>0</u>	<u>55,014,511</u>	<u>0</u>
<b>Total Noncurrent Assets</b>	<u>56,522,590</u>	<u>0</u>	<u>56,522,590</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u>63,755,510</u>	<u>1,807,906</u>	<u>65,563,416</u>	<u>165,592</u>
<b><u>LIABILITIES</u></b>				
<b><u>Current Liabilities</u></b>				
Accounts Payable	0	40	40	16,613
Contracts Payable	2,269,529	16,815	2,286,344	12,016
Accrued Wages and Benefits	18,927	0	18,927	8,460
Due to Other Funds	221,237	0	221,237	0
Due to Other Governments	43,727	0	43,727	17,584
Compensated Absences Payable	105,589	0	105,589	58,657
General Obligation Notes Payable	140,000	0	140,000	0
Ohio Water Development Authority Loans Payable	574,350	0	574,350	0
Ohio Public Works Commission Notes Payable	<u>14,173</u>	<u>0</u>	<u>14,173</u>	<u>0</u>
<b>Total Current Liabilities</b>	<u>3,387,532</u>	<u>16,855</u>	<u>3,404,387</u>	<u>113,330</u>
<b><u>Noncurrent Liabilities</u></b>				
Compensated Absences Payable	36,364	0	36,364	0
General Obligation Notes Payable	1,555,000	0	1,555,000	0
Ohio Water Development Authority Loans Payable	5,607,380	0	5,607,380	0
Ohio Public Works Commission Notes Payable	<u>141,724</u>	<u>0</u>	<u>141,724</u>	<u>0</u>
<b>Total Noncurrent Liabilities</b>	<u>7,340,468</u>	<u>0</u>	<u>7,340,468</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>10,728,000</u>	<u>16,855</u>	<u>10,744,855</u>	<u>113,330</u>
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, Net of Related Debt	48,489,963	0	48,489,963	0
Unrestricted	<u>4,537,547</u>	<u>1,791,051</u>	<u>6,328,598</u>	<u>52,262</u>
<b>TOTAL NET ASSETS</b>	<u>\$53,027,510</u>	<u>\$ 1,791,051</u>	<u>\$54,818,561</u>	<u>\$ 52,262</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, 2004**

	Business-Type Activities			Governmental Activities
	Major Sanitary Sewer Fund	Nonmajor Sewer Capital Improvements	Total	Internal Service Funds Municipal Garage and Building Maintenance
<b>Operating Revenues</b>				
Charges for Services	\$ 8,090,848	\$ 379,511	\$ 8,470,359	\$ 2,205,119
Miscellaneous	50	0	50	0
<b>Total Operating Revenues</b>	<u>8,090,898</u>	<u>379,511</u>	<u>8,470,409</u>	<u>2,205,119</u>
<b>Operating Expenses</b>				
Materials and Supplies	64,714	0	64,714	49,712
Wages and Benefits	1,362,413	0	1,362,413	557,864
Utilities	1,469	0	1,469	780,004
Contractual Services	4,726,951	154,410	4,881,361	680,139
Insurance Claims	0	0	0	823
Maintenance	553,674	0	553,674	124,213
Depreciation	2,310,974	0	2,310,974	0
Other Expenses	57,125	0	57,125	9,524
<b>Total Operating Expenses</b>	<u>9,077,320</u>	<u>154,410</u>	<u>9,231,730</u>	<u>2,202,279</u>
Income (Loss) from Operations	<u>(986,422)</u>	<u>225,101</u>	<u>(761,321)</u>	<u>2,840</u>
<b>Non-Operating Expenses</b>				
Interest and Fiscal Charges	<u>(671,067)</u>	<u>0</u>	<u>(671,067)</u>	<u>0</u>
<b>Total Non-Operating Expenses</b>	<u>(671,067)</u>	<u>0</u>	<u>(671,067)</u>	<u>0</u>
Income (Loss) Before Transfers	<u>(1,657,489)</u>	<u>225,101</u>	<u>(1,432,388)</u>	<u>2,840</u>
<b>Transfers</b>				
Transfers In	0	1,083,126	1,083,126	3,000
Transfers Out	<u>(1,083,126)</u>	<u>0</u>	<u>(1,083,126)</u>	<u>0</u>
<b>Total Transfers</b>	<u>(1,083,126)</u>	<u>1,083,126</u>	<u>0</u>	<u>3,000</u>
Change in Net Assets	<u>(2,740,615)</u>	<u>1,308,227</u>	<u>(1,432,388)</u>	<u>5,840</u>
Net Assets, Beginning of Year, as Restated (Note 3)	<u>55,768,125</u>	<u>482,824</u>	<u>56,250,949</u>	<u>46,422</u>
<b>Net Assets, End of Year</b>	<u>\$ 53,027,510</u>	<u>\$ 1,791,051</u>	<u>\$ 54,818,561</u>	<u>\$ 52,262</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities			Governmental
	Major	Nonmajor	Total	Activities
	Sanitary Sewer Fund	Sewer Capital Improvements		Internal Service Funds Municipal Garage and Building Maintenance
<b><u>Cash Flows from Operating Activities</u></b>				
Cash Received from Customers	\$ 8,105,992	\$ 379,511	\$ 8,485,503	\$ 2,205,119
Cash Paid to Employees	(1,450,558)	0	(1,450,558)	(574,181)
Cash Paid to Suppliers for Goods and Services	<u>(5,468,226)</u>	<u>(262,419)</u>	<u>(5,730,645)</u>	<u>(1,631,521)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>1,187,208</u>	<u>117,092</u>	<u>1,304,300</u>	<u>(583)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Transfers in from Other Funds	0	1,083,126	1,083,126	3,000
Transfer Out to Other Funds	(1,083,126)	0	(1,083,126)	0
Advance from Other Funds	<u>221,237</u>	<u>0</u>	<u>221,237</u>	<u>0</u>
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>(861,889)</u>	<u>1,083,126</u>	<u>221,237</u>	<u>3,000</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Principal Paid on Long-Term Debt	(667,044)	0	(667,044)	0
Interest Paid on Long Term Debt	<u>(671,067)</u>	<u>0</u>	<u>(671,067)</u>	<u>0</u>
<b>Net Cash Provided by (Used) for Capital and Related Financing Activities</b>	<u>(1,338,111)</u>	<u>0</u>	<u>(1,338,111)</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,012,792)	1,200,218	187,426	2,417
Cash and Cash Equivalents, Beginning of Year	<u>5,115,596</u>	<u>518,006</u>	<u>5,633,602</u>	<u>0</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,102,804</u>	<u>\$ 1,718,224</u>	<u>\$ 5,821,028</u>	<u>\$ 2,417</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities</u></b>				
Operating Income (Loss)	\$ (986,422)	\$ 225,101	\$ (761,321)	\$ 2,840
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:				
Depreciation	2,310,974	0	2,310,974	0
(Increase) Decrease in Assets:				
Accounts Receivable	15,094	0	15,094	0
Inventory	0	0	0	(15,735)
Prepaid Expenses	0	(89,682)	(89,682)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	0	40	40	16,613
Contracts Payable	(64,293)	(18,367)	(82,660)	12,016
Accrued Wages and Benefits	(36,475)	0	(36,475)	(14,053)
Retirement Incentive Payable	(30,533)	0	(30,533)	(18,304)
Compensated Absences Payable	(23,296)	0	(23,296)	13,893
Intergovernmental Payable	<u>2,159</u>	<u>0</u>	<u>2,159</u>	<u>2,147</u>
Total Adjustments	<u>2,173,630</u>	<u>(108,009)</u>	<u>2,065,621</u>	<u>(3,423)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 1,187,208</u>	<u>\$ 117,092</u>	<u>\$ 1,304,300</u>	<u>\$ (583)</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2004**

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<b><u>Assets</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$ 96,439	\$ 1,367,933
Cash in Segregated Accounts	<u>0</u>	<u>50,102</u>
<b>Total Assets</b>	<b><u>\$ 96,439</u></b>	<b><u>\$ 1,418,035</u></b>
 <b><u>Liabilities</u></b>		
Deposits Held and Due to Others	\$ 0	\$ 1,418,035
<b>Total Liabilities</b>	<u>0</u>	<u>\$ 1,418,035</u>
 <b><u>Net Assets</u></b>		
Unreserved	<u>96,439</u>	
<b>Total Net Assets</b>	<b><u>\$ 96,439</u></b>	

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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	<u>Private Purpose Trusts</u>
<b><u>Additions</u></b>	
Charges for Services	\$ 1,905
<b><u>Deductions</u></b>	
Change in Net Assets	<u>0</u>
Net Assets - January 1, 2004	<u>94,534</u>
<b>Net Assets - December 31, 2004</b>	<b><u>\$ 96,439</u></b>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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**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, and functions for which the City is financially accountable.

Also, the City is associated with Southwest General Health Center and the Southwest Council of Governments, which are jointly governed organizations as described in Note 18.

**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.



**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

**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.

**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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**B. Fund Accounting** (Continued)

**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.
- *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.
- *General Capital Improvement Fund* - This fund accounts for various capital projects and equipment financed by intergovernmental receipts, charges for services and note proceeds.
- *Route 82 Capital Improvement Fund* - This fund accounts for the Route 82 Widening Project that is being financed by Federal and State funds and local matching funds.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

B. **Fund Accounting** (Continued)

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. The City's nonmajor enterprise fund is the Sewer Capital Improvement Fund which accounts for sewer construction projects.

*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.

**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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

C. **Measurement Focus** (Continued)

**Fund Financial Statements** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (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.

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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

D. **Basis of Accounting** (Continued)

**Revenues - Exchange and Nonexchange Transactions** (Continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license 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, 2004, but which were levied to finance year 2005 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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**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 2004, 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.

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 2004 amounted to \$204,394, which includes \$183,149 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 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, 2004, 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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

G. **Inventory** (Continued)

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 when consumed. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies held for consumption.

H. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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, water mains, 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, 2004**  
**(CONTINUED)**

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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.

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 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.



**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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.

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

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**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.

**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 2004.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**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 2004.

***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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

U. **Budgetary Data** (Continued)

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 PRINCIPLE AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Change in Accounting Principle**

For 2004, the City implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The implementation of GASB Statement No. 39 did not have an effect on the financial statements of the City.

B. **Restatement of Fund Balance**

Cash was overstated in the prior year by \$16,630 and the long-term liabilities were understated in the prior year by \$2,698,244 due to accounting errors.

	Governmental Activities	Business-Type Activities
	Internal Service Fund	Sanitary Sewer Fund
Fund Balances, December 31, 2003	\$ 63,052	\$ 58,466,369
Overstatement of Cash	(16,630)	0
Understatement of Long-Term Liabilities	0	(2,698,244)
Adjusted Fund Balances, December 31, 2003	\$ 46,422	\$ 55,768,125

C. **Restatement of Net Assets**

Net assets for governmental activities were restated in the prior year due to an overstatement of cash resulting from an accounting error. Net assets for business-type activities were restated in the prior year by \$2,698,244 due to an understatement of long-term liabilities resulting from an accounting error.

	Governmental Activities	Business-Type Activities
Net Assets, December 31, 2003	\$ 124,702,135	\$ 58,949,193
Overstatement of Cash of Internal Service Fund	(16,630)	0
Understatement of Long-Term Liabilities	0	(2,698,244)
Adjusted Net Assets, December 31, 2003	\$ 124,685,505	\$ 56,250,949

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**Fund Deficit**

Fund balance/retained earnings at December 31, 2004, included the following individual fund deficits:

<u>Capital Projects Fund</u>	
General Capital Improvement	\$ 741,658
Route 82 Corridor	913,283
<u>Internal Service</u>	
Building Maintenance and Operation Fund	17,830

The fund deficits in 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 expenses 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:

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).

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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	\$ 1,627,609	\$ 574,586	\$ 574,420
Net Adjustment for Revenue Accruals	(801,459)	(250,528)	100
Net Adjustment for Expenditure Accruals	(222,323)	163,043	(228,799)
Encumbrances	<u>(209,718)</u>	<u>(17,626)</u>	<u>0</u>
Budget Basis	<u>\$ 394,109</u>	<u>\$ 469,475</u>	<u>\$ 345,721</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:

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:

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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;
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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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.)

**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 \$1,883,908 with \$3,700 of cash on hand and the bank balance was \$3,499,178. Of the bank balance, \$650,271 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.



**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**B. Investments**

Investments as of December 31, 2004, are summarized below.

<u>Category</u>	<u>Carrying Value</u>	<u>Fair Value</u>
3            Repurchase Agreement	\$ 17,371,580	\$ 17,371,580
Totals	<u>\$ 17,371,580</u>	<u>\$ 17,371,580</u>

The repurchase agreement is carried at cost.

**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:

	<u>Cash &amp; Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 19,259,188	\$ 0
Investments:		
Repurchase Agreement	<u>(17,371,580)</u>	<u>17,371,580</u>
GASB Statement No. 3	* <u>\$ 1,887,608</u>	<u>\$ 17,371,580</u>

\*Includes Cash on Hand

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).

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2004, 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, 2004**  
**(CONTINUED)**

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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 reevaluated 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 35 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 2004 tax receipts were based on was \$1,408,090,337. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2004 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, 2004**  
**(CONTINUED)**

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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 75 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, 2004**  
**(CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

Special assessments expected to be collected, amount to \$3,281,331 in the special assessment bond retirement fund. At December 31, 2004, the amount of delinquent special assessments was \$61,762.

D. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Government Activities:	
Local Government	\$ 576,799
Estate Tax	413,948
Homestead and Rollback	392,993
Gasoline Tax	744,392
Public Utility Reimbursement	64,139
Grants	505,586
Other	12,294
Total Governmental Activities	<u>\$2,710,151</u>

NOTE 8: **INTERFUND TRANSACTIONS**

A. **Interfund Transfers**

As of December 31, 2004, interfund transfers were as follows:

<u>Transfer To</u>	<u>Transfer From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Sanitary Sewer Fund</u>	
Street Construction, Maintenance, and Repair Fund	\$ 1,400,000	\$ 0	\$ 1,400,000
Fire Levy Fund	3,145,000	0	3,145,000
General Capital Improvement Fund	125,000	0	125,000
Nonmajor Governmental Funds	2,307,000	0	2,307,000
Sewer Capital Improvement Fund	0	1,083,126	1,083,126
Internal Service Fund	3,000	0	3,000
	<u>\$ 6,980,000</u>	<u>\$ 1,083,126</u>	<u>\$ 8,063,126</u>

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

B. **Interfund Balances**

At December 31, 2004, there is a long-term interfund receivable/payable existing between the General Bond Retirement fund and the Sanitary Sewer enterprise fund in the amount of \$221,237. The nature of the loan is subsidized debt payment from the General Bond Retirement fund to the Sanitary Sewer fund.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2004 follows:

	<u>Balance</u> 12/31/03	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/04
<b><u>Governmental Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 6,129,901	\$ 0	\$ 0	\$ 6,129,901
Construction in Progress	<u>2,930,151</u>	<u>7,674,935</u>	<u>(2,300,000)</u>	<u>8,305,086</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>9,060,052</u>	<u>7,674,935</u>	<u>(2,300,000)</u>	<u>14,434,987</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	29,881,214	0	0	29,881,214
Land Improvements	1,422,080	10,500	0	1,432,580
Machinery and Equipment	2,582,834	151,853	(41,530)	2,693,157
Furniture and Fixtures	92,618	3,000	0	95,618
Vehicles	9,906,342	253,924	0	10,160,266
Infrastructure:				
Storm Drainage	69,680,327	0	0	69,680,327
Streets	111,927,388	0	0	111,927,388
Sidewalks	7,547,197	0	0	7,547,197
Traffic Signalization	<u>2,275,000</u>	<u>2,300,000</u>	<u>0</u>	<u>4,575,000</u>
<i>Total Capital Assets Being Depreciated</i>	<u>235,315,000</u>	<u>2,719,277</u>	<u>(41,530)</u>	<u>237,992,747</u>
Less Accumulated Depreciation:				
Buildings	(4,483,813)	(400,508)	0	(4,884,321)
Land Improvements	(714,904)	(118,227)	0	(833,131)
Machinery and Equipment	(1,937,837)	(296,125)	41,530	(2,192,432)
Furniture and Fixtures	(59,846)	(16,565)	0	(76,411)
Vehicles	(7,851,027)	(738,705)	0	(8,589,732)
Infrastructure:				
Storm Sewers	(25,100,913)	(1,393,683)	0	(26,494,596)
Streets	(55,997,484)	(4,477,096)	0	(60,474,580)
Sidewalks	(3,231,300)	(251,573)	0	(3,482,873)
Traffic Signalization	<u>(229,723)</u>	<u>(137,630)</u>	<u>0</u>	<u>(367,353)</u>
<i>Total Accumulated Depreciation</i>	<u>(99,606,847)</u>	<u>(7,830,112)</u>	<u>41,530</u>	<u>(107,395,429)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>135,708,153</u>	<u>(5,110,835)</u>	<u>0</u>	<u>130,597,318</u>
<b>Total Governmental Activities Capital Assets, Net</b>	<u>\$ 144,768,205</u>	<u>\$ 2,564,100</u>	<u>\$ (2,300,000)</u>	<u>\$ 145,032,305</u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$ 279,054
Public Health and Welfare Services	353,296
Leisure Time Activities	502,344
Community Development	36,426
Basic Utility	1,352,213
Transportation	4,708,762
General Government	598,017
<b>Total Depreciation Expense</b>	<u>\$ 7,830,112</u>

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

A summary of changes in capital assets during 2004 follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/04</u>
<b>Business-Type Activities</b>				
<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	9,423,801	0	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:				
Sanitary Sewer	<u>95,327,301</u>	<u>0</u>	<u>0</u>	<u>95,327,301</u>
<i>Total Capital Assets Being Depreciated</i>	<u>117,000,634</u>	<u>0</u>	<u>0</u>	<u>117,000,634</u>
Less Accumulated Depreciation:				
Buildings	(3,378,108)	(188,476)	0	(3,566,584)
Land Improvements	(3,302,748)	(187,585)	0	(3,490,333)
Machinery and Equipment	(8,150,690)	(28,145)	0	(8,178,835)
Furniture and Equipment	(32,748)	0	0	(32,748)
Vehicles	(154,175)	0	0	(154,175)
Infrastructure:				
Sanitary Sewer	<u>(44,656,680)</u>	<u>(1,906,768)</u>	<u>0</u>	<u>(46,563,448)</u>
<i>Total Accumulated Depreciation</i>	<u>(59,675,149)</u>	<u>(2,310,974)</u>	<u>0</u>	<u>(61,986,123)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>57,325,485</u>	<u>(2,310,974)</u>	<u>0</u>	<u>55,014,511</u>
<b>Total Business-Type Capital Assets, Net</b>	<u>\$ 58,833,564</u>	<u>\$ (2,310,974)</u>	<u>\$ 0</u>	<u>\$ 56,522,590</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, 2004**  
**(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 2004, 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	\$ 63,337,412	\$ 1,000
	- Ancillary Equipment	200,000	1,000
	- Earthquake Damage	5,000,000	25,000
	- Flood Damage	500,000	25,000
	- Inland Marine	4,773,455	1,000
	Crime - Theft, Disappearance, and Destruction	25,000	250
	Crime - Employee Dishonesty	50,000	250
	General Liability	1,000,000/3,000,000	0
	- Fire Damage	50,000	0
	- Medical Expense	10,000	0
	Stop Gap	1,000,000/1,000,000	0
	Employee Benefits Liability	1,000,000/3,000,000	1,000
	Cemetery Professional Liability	Included	Included
	Government Medial Liability	Included	Included
	Law Enforcement Liability	1,000,000/1,000,000	5,000
	Public Officials Liability	1,000,000/1,000,000	10,000
	Max Sewer Liability Limit	2,500	0
		Per claimant	
	Business Auto Coverage		
	- Auto Liability	1,000,000	250/1,000
			Specified Vehicles
	- 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	1,000
			except 2,500
			sewer/water
			treatment plants

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, 2004**  
**(CONTINUED)**

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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.

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 or 800-222-7377.



**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

For the year ended December 31, 2004, 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. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2004 member contribution rates were 8.5 percent for members in classifications other than law enforcement and public safety. The 2004 employer contribution rate for local government employers was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ending December 31, 2004, 2003, and 2002, were \$811,374, \$757,550, and \$780,479, respectively; 91.97 percent has been contributed for 2004 and 100 percent for 2003 and 2002.

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.

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 \$491,929 and \$600,934 for the year ended December 31, 2004, \$500,901 and \$603,811 for the year ended December 31, 2003, and \$486,837 and \$595,182 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 74 percent and 73 percent, respectively, have been contributed for 2004.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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**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 with either the Traditional or Combined plans. 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 portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0 percent of covered payroll. In 2003 and 2002, the employer contribution rate for post-employment health care was 5.0 percent.

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, 2004, 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 premiums were assumed to increase between 1.00 and 6.00 percent annually for the next 8 years and 4.00 percent annually after 8 years.

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

At December 31, 2004, the number of active contributing participants was 376,109. The City's annual contributions for 2004 used to fund post-employment benefits were \$339,843. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefits recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeded the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 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 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**B. Ohio Police and Fire Pension Fund** (Continued)

The City's annual contributions for 2004 that were used to fund post-employment benefits were \$324,463 for police and \$286,599 for fire. OP&F's total health care expenses for the year ended December 31, 2004, were \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

NOTE 13: **NOTES PAYABLE**

Note activity for the year ended December 31, 2004, consisted of the following:

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Dec. 31, <u>2004</u>
Various Purpose Improvement Note, Series 2004	\$ 0	\$ 6,750,000	\$ 0	\$ 6,750,000
Various Purpose Improvement Notes, Series 2002	2,100,000	0	(2,100,000)	0
Fire Truck Notes	<u>850,000</u>	<u>850,000</u>	<u>(1,700,000)</u>	<u>0</u>
Total Notes Payable	<u>\$ 2,950,000</u>	<u>\$ 7,600,000</u>	<u>\$(3,800,000)</u>	<u>\$ 6,750,000</u>

The City issued the various purpose improvement note, series 2004, on June 30, 2004 at an interest rate of 2.0 percent 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 11, 2004 at an interest rate of 1.40 percent per year for the purpose of acquiring an aerial platform fire truck. The bond anticipation note was retired with the proceeds from the various purpose improvement note issued on June 30, 2004.

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, 2004**  
**(CONTINUED)**

**NOTE 14: LONG-TERM OBLIGATIONS**

Changes in the long-term obligations of the City during 2004 were as follows:

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2004</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
<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	\$ 1,340,000	\$ 0	\$ (425,000)	\$ 915,000	\$ 445,000
Variable Rate (4.0% in 1994 to 6.0% in 2014), \$1,395,000 1994 Various Purpose Improvement Bonds due through 2014	365,000	0	(85,000)	280,000	35,000
Variable Rate (4.05% in 2000 to 5.05% in 2014), \$5,955,000 1997 Street Improvement Bonds due through 2014	2,500,000	0	(390,000)	2,110,000	395,000
Variable Rate (3% in 2002 to 3.5% in 2006), \$7,190,000 Library Improvement Bonds due through 2020	6,465,000	0	(275,000)	6,190,000	285,000
Variable Rate (3% in 2002 to 4% in in 2007), 2002 \$1,775,000 Fire Station Bonds due through 2021	1,760,000	0	(15,000)	1,745,000	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	13,470,000	0	(395,000)	13,075,000	420,000
Variable Rate (3% in 2002 to 4% in 2007), \$870,000 Fire Truck Acquisition Bonds due through 2011	800,000	0	(70,000)	730,000	65,000
Variable Rate (3% in 2002 to 4% in in 2007), \$650,000 Communications Equipment Acquisition Bonds due through 2016	635,000	0	(15,000)	620,000	20,000
Variable Rate (3% in 2002 to 4% in 2007), \$455,000 Service Center Expansion Bond due through 2021	<u>445,000</u>	<u>0</u>	<u>(5,000)</u>	<u>440,000</u>	<u>10,000</u>
<i>Total General Obligation Bonds</i>	<u>27,780,000</u>	<u>0</u>	<u>(1,675,000)</u>	<u>26,105,000</u>	<u>1,690,000</u>

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2004</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities: (Continued)</b>					
<i>OPWC Loan</i>					
Ohio Public Works Commission - 0% 1995, \$218,938 Note due through 2015	131,363	0	(10,947)	120,416	10,947
Ohio Public Works Commission - 0% 1996, \$90,900 Note due through 2016	56,812	0	(4,545)	52,267	4,545
Ohio Public Works Commission- 0% 1998, \$67,476 Note due through 2017	47,231	0	(3,371)	43,860	3,374
Ohio Public Works Commission 0% 1999, \$11,817 Note due through 2020	<u>9,748</u>	<u>0</u>	<u>(591)</u>	<u>9,157</u>	<u>591</u>
<i>Total OPWC Loan</i>	<u>245,154</u>	<u>0</u>	<u>(19,454)</u>	<u>225,700</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	785,000	0	(55,000)	730,000	55,000
Various Purpose Improvement Bonds - 1996, \$1,255,000, 5.7% due through 2016	945,000	0	(50,000)	895,000	55,000
Various Purpose Improvement Bonds - 1998, \$305,000, (4.55% in 1998 to 5.50% in 2018) due through 2018	<u>260,000</u>	<u>0</u>	<u>(10,000)</u>	<u>250,000</u>	<u>10,000</u>
<i>Total Special Assessment Bonds</i>	<u>1,990,000</u>	<u>0</u>	<u>(115,000)</u>	<u>1,875,000</u>	<u>120,000</u>
<i>Other Liabilities</i>					
Compensated Absences	2,046,060	1,281,558	(1,152,173)	2,175,445	1,209,782
Police and Fire Pension Liability 1968, \$91,312 due through 2035	78,809	0	(1,229)	77,580	1,282
Retirement Incentive	<u>314,455</u>	<u>0</u>	<u>(267,683)</u>	<u>46,772</u>	<u>46,772</u>
<i>Total Other Liabilities</i>	<u>2,439,324</u>	<u>1,281,558</u>	<u>(1,421,085)</u>	<u>2,299,797</u>	<u>1,257,836</u>
<b>Total Governmental Activities</b>	<u><u>\$32,454,478</u></u>	<u><u>\$1,281,558</u></u>	<u><u>\$(3,230,539)</u></u>	<u><u>\$30,505,497</u></u>	<u><u>\$3,087,293</u></u>

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Amounts Due in One Year
<b>Business-Type Activities:</b>					
<i>Enterprise Fund Debt - Sewer</i>					
Ohio Water Development Authority, 10.54% \$7,315,971 1984 Loan due through 2011	\$ 4,016,357	\$ 0	\$ (416,347)	\$ 3,600,010	\$ 460,230
Ohio Water Development Authority, 4.77% \$948,523 2002 Loan due through 2002	911,205	0	(38,917)	872,288	33,061
Ohio Water Development Authority, 4.4% 2003 Loan due through 2023	1,787,039	0	(77,607)	1,709,432	81,059
Ohio Public Works Commission - 0% \$283,455 1995 Note due through 2015	170,070	0	(14,173)	155,897	14,173
Variable Rate (4.05% in 2000 to 5.05% in 2014), 1997 \$2,130,000 Sanitary Sewer Various Purpose Improvement General Obligation Bonds due through 2014	<u>1,815,000</u>	<u>0</u>	<u>(120,000)</u>	<u>1,695,000</u>	<u>140,000</u>
<i>Total Enterprise Fund Debt - Sewer</i>	<u>8,699,671</u>	<u>0</u>	<u>(667,044)</u>	<u>8,032,627</u>	<u>728,523</u>
<i>Other Liabilities:</i>					
Compensated Absences	165,249	78,232	(101,528)	141,953	105,589
Retirement Incentive	<u>30,533</u>	<u>0</u>	<u>(30,533)</u>	<u>0</u>	<u>0</u>
<i>Total Other Liabilities</i>	<u>195,782</u>	<u>78,232</u>	<u>(132,061)</u>	<u>141,953</u>	<u>105,589</u>
<b>Total Business-Type Activities</b>	<u>8,895,453</u>	<u>78,232</u>	<u>(799,105)</u>	<u>8,174,580</u>	<u>834,112</u>
<b>Total Long-Term Liabilities</b>	<u>\$41,349,931</u>	<u>\$ 1,359,790</u>	<u>\$(4,029,644)</u>	<u>\$38,680,077</u>	<u>\$3,921,405</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.

The City entered into a loan agreement with the Ohio Water Development Authority on January 30, 2003. Total loan amount is for \$2,369,397 of which the City has drawn \$2,259,707. As this loan is still open, it is not included in the principal and interest requirements of Note 14.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**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, 2004, the amount of defeased debt outstanding but removed from governmental activities amounted to \$12,370,000.

**Principal and Interest Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

Due In	Governmental					
	General Obligation Bonds		Special Assessment Bonds		Police & Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
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	1,735,000	931,268	150,000	81,485	1,517	3,049
2010-2014	6,550,000	3,751,405	905,000	255,190	8,620	14,210
2015-2019	7,760,000	2,025,250	285,000	30,430	10,636	12,193
2020-2024	3,100,000	223,200	0	0	13,124	9,703
2025-2029	0	0	0	0	16,196	6,631
2030-2034	0	0	0	0	19,986	2,841
2035	0	0	0	0	2,034	43
	<u>\$ 26,105,000</u>	<u>\$ 11,379,937</u>	<u>\$ 1,875,000</u>	<u>\$ 775,826</u>	<u>\$ 77,580</u>	<u>\$ 61,465</u>

Due In	Governmental			
	OPWC		Totals	
	Principal	Interest	Principal	Interest
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	19,457	0	1,905,974	1,015,802
2010-2014	97,285	0	7,560,905	4,020,805
2015-2019	30,840	0	8,086,476	2,067,873
2020-2024	290	0	3,113,414	232,903
2025-2029	0	0	16,196	6,631
2030-2034	0	0	19,986	2,841
2035	0	0	2,034	43
	<u>\$ 225,700</u>	<u>\$ 0</u>	<u>\$ 28,283,280</u>	<u>\$ 12,217,228</u>



**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**Principal and Interest Requirements** (Continued)

Due In	General Obligation Bonds		Business-Type			
	Principal	Interest	OWDA		OPWC	
			Principal	Interest	Principal	Interest
2005	\$ 140,000	\$ 82,442	\$ 554,760	\$ 494,601	\$ 14,173	0
2006	145,000	76,213	607,575	441,787	14,173	0
2007	155,000	69,687	665,699	383,662	14,173	0
2008	165,000	62,635	729,680	319,682	14,173	0
2009	170,000	55,045	800,124	249,237	14,173	0
2010-2014	920,000	144,684	1,406,821	481,303	70,863	0
2015-2019	0	0	808,410	240,040	14,169	0
2020-2023	0	0	608,661	51,579	0	0
	<u>\$ 1,695,000</u>	<u>\$ 490,706</u>	<u>\$ 6,181,730</u>	<u>\$ 2,661,891</u>	<u>\$155,897</u>	<u>\$ 0</u>

Due In	Business-Type	
	Total	
	Principal	Interest
2005	\$ 708,933	\$ 577,043
2006	766,748	518,000
2007	834,872	453,349
2008	908,853	382,317
2009	984,297	304,282
2010-2014	2,397,684	625,987
2015-2019	822,579	240,040
2020-2023	608,661	51,579
	<u>\$ 8,032,627</u>	<u>\$ 3,152,597</u>

NOTE 15: **CONDUIT DEBT**

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

Type	On Behalf of	Original Issuance	Year Issued	Balance at 12/31/04
Industrial Revenue Bonds	Nutro Corporation	\$ 1,350,000	1994	\$ 610,000
Industrial Revenue Bonds	Nutro Corporation	1,750,000	2000	1,465,000
Total		<u>\$ 3,100,000</u>		<u>\$ 2,075,000</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.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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**NOTE 16: CONSTRUCTION COMMITMENTS**

As of December 31, 2004, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Rt. 82 Corridor Improvement	\$ 9,247,027
Metroparks Chalet	22,342
Prospect/West Wood Traffic Signal	21,000
Albion Road Culvert No. 9	32,985
Total	<u>\$ 9,323,354</u>

**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, 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 2004, the City of Strongsville contributed \$452,836 to the Health Center.

**CITY OF STRONGSVILLE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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NOTE 18: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

**Southwest Council of Governments**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management.

NOTE 19: **SUBSEQUENT EVENTS**

On June 21, 2005, the City entered into an official statement describing general obligation bonds being sold in the amount of \$6,685,000. Principal and interest, unless paid by other sources, are to be paid from the proceeds of the City's levy of ad valorem property taxes, which taxes are within the ten-mill limitation imposed by Ohio law.

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**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Entity Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through the Ohio Department of Transportation Highway Planning and Construction Grant	20.205	ECDD 02-337 CUY-SR-82	<u>\$ 3,066,584</u>
<b>Total U.S. Department of Transportation</b>			<b><u>3,066,584</u></b>
<u>U.S. Department of Justice</u>			
Direct Programs			
COPS Homeland Security	16.710	N/A	21,816
Bulletproof Vest Program	16.607	N/A	<u>8,792</u>
Total Direct Programs			<u>30,608</u>
Passed through the Ohio Office of the Attorney General Drug Abuse Resistance Education	16.580	N/A	<u>32,656</u>
<b>Total U.S. Department of Justice</b>			<b><u>63,264</u></b>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Cuyahoga County Department of Development Community Development Block Grant	14.218	CE0400241-011	<u>18,499</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>18,499</u></b>
<u>U.S. Department of Homeland Security</u>			
Passed Through the Ohio Department of Public Safety Public Assistance Grants	97.036	3187-EM-035-75098	<u>575</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>575</u></b>
<b>Total Federal Awards Expenditures</b>			<b><u><u>\$ 3,148,922</u></u></b>

The accompanying notes are an integral part of this schedule.

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes the activity of the City of Strongsville's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**CFDA** – Catalog of Federal Domestic Assistance

**N/A** – Not Applicable



**Auditor of State  
Betty Montgomery**

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

Members of City Council  
City of Strongsville  
Cuyahoga County  
16099 Foltz Industrial Parkway  
Strongsville, Ohio 44149

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 13, 2006 in which the City restated the fund balance of the Internal Service Fund, the Sanitary Sewer Fund, and the Net Assets of the Governmental Activities and Business-Type Activities as of December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine 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 a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated March 13, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-002 through 2004-005. In a separate letter to the City's management dated March 13, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 13, 2006





## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of City Council  
City of Strongsville  
Cuyahoga County  
16099 Foltz Industrial Parkway  
Strongsville, Ohio 44149

#### **Compliance**

We have audited the compliance of the City of Strongsville, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City'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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Strongsville complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004.

#### **Internal Control Over Compliance**

The City's management 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's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

March 13, 2006

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2004**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Federal Aid Highway Program – CFDA# 20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

<b>FINDING NUMBER</b>	<b>2004-001</b>
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**APPROVAL OF TIMESHEETS/TIMECARDS**

Payroll procedures require that hours worked and sick and vacation time used be documented on a timesheet or timecard and be approved by department supervisor. We noted 34 instances out of 60 where there was no signed approval of timesheets or timecards by a department supervisor. Without proper authorization of employee hours worked or sick and vacation time used, errors may occur that would not be identified by the City in a timely manner. Knowledge that employee hours are reviewed by their supervisor will also encourage employees to accurately complete their payroll.

We recommend each department supervisor review and indicate such review was completed by initialing or signing the timesheets or timecards. The review process will ensure employee hours claimed are accurate and complete prior to submitting them to the payroll department.

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2004  
(Continued)**

<b>FINDING NUMBER</b>	<b>2004-001</b>
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**APPROVAL OF TIMESHEETS/TIMECARDS (Continued)**

**CLIENT RESPONSE:**

The City has implemented procedures to ensure that all timesheets/timecards are reviewed by departmental supervisors. Each departmental supervisor will be advised that employee timesheets/timecards not signed will be returned to the department for the appropriate signature.

<b>FINDING NUMBER</b>	<b>2004-002</b>
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**BUDGETING FOR OHIO DEPARTMENT OF TRANSPORTATION PROJECTS**

Ohio Rev. Code Section 5705.09 (F) requires, in part, a special fund be created for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. While the City created such a fund classification, budget requirements were not adhered to. Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. Ohio Rev. Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount included in the official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation for any purpose may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation.

The City participates in the Route 82 Corridor Project through the Ohio Department of Transportation and received state and federal grants totaling \$5,124,865 in 2004. While the City did create the required fund, the grant revenues were not included in the City's budget. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant should have been included. The City failed to certify the revenues to the County Budget Commission and failed to formally adopt appropriations for the expenditures paid on behalf of the City by the Ohio Department of Transportation. This resulted in the understatement of budgetary revenue and expenditure activity for the Route 82 project.

We recommend the City follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the City receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County Budget Commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the City's books.

**CLIENT RESPONSE:**

The City has established procedures to monitor grant receipts and disbursements on a monthly basis. This will enable the City to amend its Certificate of Estimated Resources and Appropriation Ordinance in a timely manner.

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2004  
(Continued)**

<b>FINDING NUMBER</b>	<b>2004-003</b>
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**EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. The following funds had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control on August 31, 2004:

<u>Fund/Object</u>	<u>Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
General Fund – Finance Department/ Other	\$89,900	\$101,995	(\$12,095)
General Fund – Board of Building Standards/Other	\$1,025	\$4,634	(\$3,609)
Tree Fund	\$66,722	\$69,699	(\$2,977)
Route 82 Corridor Fund	\$837,871	\$2,552,893	(\$1,715,022)

This weakness could allow expenditures plus encumbrances in the above funds to exceed the total of the available fund balance. Prior to making expenditures, we recommend the City compare appropriations to proposed expenditures plus encumbrances at the legal level of budgetary control, in all funds which are legally required to be budgeted, to ensure compliance with this requirement. Should the proposed expenditure exceed appropriations, the expenditure should be delayed until the appropriation can be amended by Council.

**CLIENT RESPONSE:**

The new Supervisor of Budget and Management will be responsible for monitoring budgets, expenditures, and encumbrances on a weekly basis to ensure compliance.

<b>FINDING NUMBER</b>	<b>2004-004</b>
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**TRANSFERS**

Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable interfund transfers. Ohio Rev. Code Section 5705.14 provides that interfund transfers shall only be made by resolution of the taxing authority. *See also* 1989 Op. Atty. Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority.

The Auditor of State interprets this to mean each transfer must be made by separate ordinance approved timely by City Council in relation to the date the transfer is actually made.

Our review of the August 31, 2004 Year-To-Date Budget Report noted transfers authorized by Council on March 15, 2004 had not been made. At year end, we noted transfers from the General Fund totaling \$246,000 that exceeded the amounts authorized to be transferred by Council. In addition, we found one fund transfer for \$125,000 that was not approved by Council. These weaknesses indicate a lack of budgetary monitoring by Council and could lead to budgetary violations.

We recommend all transfers be approved by an ordinance separate from the appropriations ordinance, with the actual transfer being made timely relative to the passage of the ordinance.

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2004  
(Continued)**

<b>FINDING NUMBER</b>	<b>2004-004</b>
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**TRANSFERS (Continued)**

**CLIENT RESPONSE:**

The City respectfully does not concur with the Transfer and Deficit Fund Balance [See Finding 2004-005] findings, which it considers to be related. The deficit fund balances occurred in funds that had transfers budgeted but were not made until the end of the year. The City maintains that its practice does not violate Ohio Revised Code Section 5705.10 in this situation. The Auditor of State's interpretation that transfers should be made immediately upon passage of any appropriation ordinance is very rigid and without specific support in the statute. Moreover, it does not take into consideration timing differences between receipts and disbursements that occur throughout the year. The City's interpretation is that transfers can be made anytime during the year when the funds become available to transfer. There is no specific mandate or language to the contrary in ORC 5705.10. As noted in the Auditor of State's findings, all deficits were eliminated by December 31, 2004.

To remedy this situation, the Supervisor of Budget and Management, a newly created position, will review all fund balances monthly and make all transfers necessary to eliminate any negative fund balances.

<b>FINDING NUMBER</b>	<b>2004-005</b>
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**DEFICIT FUND BALANCES**

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. The City had deficit cash fund balances in the following funds at the end of the specified months:

<u>Fund/Month Ending</u>	<u>Deficit</u>	<u>Fund/Month Ending</u>	<u>Deficit</u>
<b><u>Fund 203 Police Pension Fund</u></b>		<b><u>Fund 210 Recreation Levy Fund</u></b>	
7/31/04	\$90,622	7/31/04	\$221,106
6/30/04	\$218,862	6/30/04	\$163,484
4/30/04	\$62,814	4/30/04	\$17,725
3/31/04	\$60,531	3/31/04	\$20,930
		2/29/04	\$25,065
<b><u>Fund 204 Street Construction Maintenance &amp; Repair Fund</u></b>		<b><u>Fund 213 Recycle Fund</u></b>	
7/31/04	\$468,445	2/29/04	\$481
6/30/04	\$349,124		
4/30/04	\$397,379	<b><u>Fund 214 Multi-Purpose Complex Fund</u></b>	
3/31/04	\$294,212	7/31/04	\$162,578
2/29/04	\$233,350	6/30/04	\$65,550
		4/30/04	\$39,679
<b><u>Fund 208 Fire Levy Fund</u></b>		3/31/04	\$78,856
7/31/04	\$1,415,421	2/29/04	\$60,765
6/30/04	\$1,383,239		
4/30/04	\$1,013,536	<b><u>Fund 446 Route 82 Corridor</u></b>	
3/31/04	\$591,739	4/30/04	\$664,471
2/29/04	\$234,472	3/31/04	\$424,838
1/31/04	\$271,223	2/29/04	\$183,701
		1/31/04	\$57,180

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2004  
(Continued)**

<b>FINDING NUMBER</b>	<b>2004-005</b>
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**DEFICIT FUND BALANCES (Continued)**

<u><b>Fund 209 Fire Pension Fund</b></u>		<u><b>Fund 664 Claims Reserve Fund</b></u>	
7/31/04	\$109,992	7/31/04	\$823
6/30/04	\$238,232	6/30/04	\$823
4/30/04	\$59,083	4/30/04	\$823
3/31/04	\$59,083	3/31/04	\$373
		2/29/04	\$373
<u><b>Fund 661 Municipal Garage Fund</b></u>		<u><b>Fund 662 Bldg. Maintenance &amp; Operation Fund</b></u>	
2/29/04	\$164,119	2/29/04	\$145,243
1/31/04	\$56,165	1/31/04	\$50,176

These deficits were eliminated by December 31, 2004.

Deficit cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code.

**CLIENT RESPONSE:**

See client response to finding number 2004-004.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None.**

**CITY OF STRONGSVILLE  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2004**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
1-1	Fixed asset software program has no internal edit checks build into the program to prevent duplication of items entered.	Yes	Finding corrected through the purchase of new software.
1-2	City does not have adequate grant reporting procedures to prevent errors from being detected in a timely manner.	No	Finding reissued as 2004-002 and as a management letter comment.





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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  
JUNE 29, 2006**