



Mary Taylor, CPA
Auditor of State

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Members of City Council
City of Strongsville
Cuyahoga County
16099 Foltz 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, 2005, 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, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund and Fire Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Technical Bulletin 2004-2 resulting in a restatement of January 1, 2005 fund balances in the General, Fire Levy and Other Nonmajor Governmental Funds. The January 1, 2005 fund balances were also restated in the General Fund due to the elimination of Internal Service Funds, General Capital Improvement and the Route 82 Capital Improvement Funds due to a reclassification of short-term notes payable and in the Sanitary Sewer Proprietary Fund due to the understatement of long-term liabilities. In addition, the January 1, 2005 budget (non-GAAP) fund balances were restated in the General Fund due to an overstatement of encumbrances and Fire Levy Funds due to an understatement of encumbrances. The January 1, 2005 net assets were also restated due to accounting errors resulting from an understatement of non-depreciable capital assets and long-term liabilities.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in United States of America 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 provides is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. 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.

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

Mary Taylor, CPA
Auditor of State

April 13, 2007

**CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

As management of the City of Strongsville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. 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 2005 by \$202,252,933. Of this amount, \$14,648,123 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$8,150,659 and may be used to meet the government's on-going obligations. The unrestricted net assets of the City's business-type activities are \$6,497,464, with Invested with Capital Assets, Net of Related Debt accounting for \$47,389,915 or 87.9 percent of the total net assets.
- The City's total net assets increased \$15,270,538 or 8.2 percent in 2005. Net assets of the governmental activities increased \$15,766,607, which represents a 11.9 percent increase from 2004. Net assets of the business-type activities decreased \$496,069 or 0.9 percent from 2004.
- The general fund reported a fund balance of \$5,807,937 at the end of the current fiscal year. The unreserved fund balance for the general fund was \$5,461,370 or 19 percent of the total general fund expenditures (including transfers out). There was a \$929,722 increase in the total general fund balance for the year ended December 31, 2005.
- On a cash basis, the City's income tax collections increased by approximately \$4,200,000 or 19 percent during 2005.

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.

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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, public works, 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 15 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*.

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The City maintains 29 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, 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 17-20 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *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.

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.

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 statements 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 statement can be found on page 26 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 27-64.

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 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

The City of Strongsville as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. The following provides a summary of the City's net assets for 2005 compared to 2004.

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 Restated	2005	2004 Restated	2005	2004 Restated
Assets						
Current and Other Assets	\$41,374,585	\$35,169,594	\$ 8,197,761	\$ 8,819,589	\$49,572,346	\$43,989,183
Capital Assets	<u>159,277,115</u>	<u>146,113,408</u>	<u>55,122,046</u>	<u>56,522,590</u>	<u>214,399,161</u>	<u>202,635,998</u>
Total Assets	<u>200,651,700</u>	<u>181,283,002</u>	<u>63,319,807</u>	<u>65,342,179</u>	<u>263,971,507</u>	<u>246,625,181</u>
Liabilities						
Long-Term Liabilities	35,572,854	30,505,497	7,884,750	8,609,693	43,457,604	39,115,190
Other Liabilities	<u>16,713,292</u>	<u>18,178,558</u>	<u>1,547,678</u>	<u>2,349,038</u>	<u>18,260,970</u>	<u>20,527,596</u>
Total Liabilities	<u>52,286,146</u>	<u>48,684,055</u>	<u>9,432,428</u>	<u>10,958,731</u>	<u>61,718,574</u>	<u>59,642,786</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	126,225,599	116,826,605	47,389,915	54,827,590	173,615,514	171,654,195
Restricted	13,989,296	10,151,206	0	0	13,989,296	10,151,206
Unrestricted	<u>8,150,659</u>	<u>5,621,136</u>	<u>6,497,464</u>	<u>(444,142)</u>	<u>14,648,123</u>	<u>5,176,994</u>
Total Net Assets	<u>\$148,365,554</u>	<u>\$132,598,947</u>	<u>\$53,887,379</u>	<u>\$54,383,448</u>	<u>\$202,252,933</u>	<u>\$186,982,395</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total assets exceeded total liabilities by \$202,252,933 at the close of the most recent fiscal year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Unaudited)

The largest portion of the City's total net assets (86 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 is 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 \$14,648,123; the unrestricted net assets of the City's business-type activities, \$6,497,464 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 \$17,346,326 from 2004 to 2005, while the City's total liabilities increased by \$2,075,788. The increase in assets can be attributed to an increase in cash and cash equivalents, which is the result of an increase in bond issuance 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 bonds.

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.

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(Unaudited)

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004		2004		2004	
	2005	Restated	2005	Restated	2005	Restated
Revenues						
Program Revenues:						
Charges for Services	\$ 6,714,351	\$ 6,197,563	\$ 8,818,144	\$ 8,470,409	\$ 15,532,495	\$ 14,667,972
Operating Grants and Contributions	2,015,010	1,713,689	0	0	2,015,010	1,713,689
Capital Grants and Contributions	8,520,344	7,568,425	0	0	8,520,344	7,568,425
General Revenues:						
Property Taxes	8,756,401	7,450,022	0	0	8,756,401	7,450,022
Income Taxes	26,890,531	22,007,379	0	0	26,890,531	22,007,379
Other Taxes	1,678,083	500,223	0	0	1,678,083	500,223
Grants and Entitlements	2,442,618	3,224,703	0	0	2,442,618	3,224,703
Gain on Sale of Capital Assets	382,940	0	0	0	382,940	0
Investment Earnings	784,251	350,735	0	0	784,251	350,735
Other	11,175	55,497	0	0	11,175	55,497
Total Revenues	58,195,704	49,068,236	8,818,144	8,470,409	67,013,848	57,538,645
Program Expenses						
General Government	5,629,536	4,706,740	0	0	5,629,536	4,706,740
Security of Persons and Property	15,451,039	14,055,241	0	0	15,451,039	14,055,241
Public Health Services	791,859	1,531,421	0	0	791,859	1,531,421
Transportation	12,091,595	9,714,164	0	0	12,091,595	9,714,164
Community Environment	1,324,095	1,415,563	0	0	1,324,095	1,415,563
Public Works	1,339,811	3,960,528	0	0	1,339,811	3,960,528
Leisure Time Activities	4,193,433	4,361,827	0	0	4,193,433	4,361,827
Interest and Fiscal Charges	1,607,729	1,409,310	473,361	671,067	2,081,090	2,080,377
Sewer	0	0	8,840,852	9,666,843	8,840,852	9,666,843
Total Program Expenses	42,429,097	41,154,794	9,314,213	10,337,910	51,743,310	51,492,704
<i>Increase (Decrease) in Net Assets</i>	\$ 15,766,607	\$ 7,913,442	\$ (496,069)	\$ (1,867,501)	\$ 15,270,538	\$ 6,045,941

Governmental Activities

Governmental activities increased the City's net assets by \$15,766,607. 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 2005, 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 2005 was \$26,890,531. Of the \$58,195,704 in total revenues, income tax accounts for 46 percent of that total. Property taxes of \$8,756,401 account for 15 percent of total revenues; operating grants and capital grants and contributions, and general revenues from grants and entitlements account for 22 percent of total governmental revenues; and charges for services and other revenue make up the remaining 17 percent.

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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 2005, 36 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 \$496,069. This is due to increased contributions to the operations of the Sanitary Sewer Treatment Plants.

Financial Analysis of Governmental 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, 2005, the City's governmental funds reported ending fund balances of \$16,553,283, an increase of \$179,917 in comparison with the prior year. \$12,650,139 of the ending fund balance for 2005 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, 2005, unreserved fund balance of the general fund was \$5,461,370, while total fund balance was \$5,807,937. 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 2004 increased by \$929,722 during 2005. Key factors in this increase are as follows:

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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 due to an upturn in the economy.

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 \$4,878,215. General Fund expenditures (including transfers out) for the current year were \$28,799,130 with revenues and other financing sources of \$29,728,852, leaving a fund balance of \$5,807,937 and an unreserved balance of \$5,461,370 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 2005, 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 \$24,483,000. The final budgeted revenue amount (including other financing sources) was \$29,581,908. The increase was due to grant revenue. Original General Fund budgeted expenditures (including other financing uses) were \$23,480,310 and the final amended budgeted expenditures (including other financing uses) were \$28,860,210. Actual General Fund expenditures were \$27,008,521 or \$1,851,689 less than was budgeted because of prudent fiscal management.

CITY OF STRONGSVILLE, OHIO
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Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2005, amounts to \$214,399,161 (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, 2005, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2004		2004		2004	
	2005	Restated	2005	Restated	2005	Restated
Land	\$ 5,866,892	\$ 6,129,901	\$ 1,508,079	\$ 1,508,079	\$ 7,374,971	\$ 7,637,980
Construction in Progress	23,582,932	9,386,189	137,674	0	23,720,606	9,386,189
Total Non-Depreciable	<u>29,449,824</u>	<u>15,516,090</u>	<u>1,645,753</u>	<u>1,508,079</u>	<u>31,095,577</u>	<u>17,024,169</u>
Buildings	23,824,060	24,996,893	5,668,831	5,857,217	29,492,891	30,854,110
Improvements	539,052	599,449	75,402	262,882	614,454	862,331
Machinery and Equipment	744,859	500,725	147,056	130,559	891,915	631,284
Furniture and Fixtures	368,479	19,207	0	0	368,479	19,207
Vehicles	2,331,504	1,570,534	404,369	0	2,735,873	1,570,534
Infrastructure:						
Streets	49,844,738	51,452,808	0	0	49,844,738	51,452,808
Sidewalks	3,812,751	4,064,324	0	0	3,812,751	4,064,324
Water and Sewer Lines	44,337,201	43,185,731	0	0	44,337,201	43,185,731
Traffic Signals	4,024,647	4,207,647	0	0	4,024,647	4,207,647
Sanitary Sewer	0	0	47,180,635	48,763,853	47,180,635	48,763,853
Total Depreciable	<u>129,827,291</u>	<u>130,597,318</u>	<u>53,476,293</u>	<u>55,014,511</u>	<u>183,303,584</u>	<u>185,611,829</u>
Total Capital Assets	<u>\$159,277,115</u>	<u>\$146,113,408</u>	<u>\$55,122,046</u>	<u>\$56,522,590</u>	<u>\$214,399,161</u>	<u>\$202,635,998</u>

Major capital asset events during 2005 included the following:

- Total capital assets, net of accumulated depreciation, increased by \$11,763,163.
- Business-type activity capital assets decreased by \$1,400,544 (net of accumulated depreciation). The decrease was due to the aging of infrastructure.
- Governmental activity capital assets increased by \$13,163,707 (net of accumulated depreciation). This increase was primarily due to increases in construction-in-progress.

Debt

The general bond retirement debt service fund has a total fund balance of \$2,565,751. 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, 2005, the City had \$42,973,647 of notes, bonds and loans outstanding, with \$35,241,516 in governmental activities and \$7,732,131 in business-type activities, and are included herein.

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For the Year Ended December 31, 2005
(Unaudited)

Table 4 - Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2004		2004		2004	
	2005	Restated	2005	Restated	2005	Restated
Short Term Debt						
Notes Payable	\$ 2,190,000	\$ 0	\$ 0	\$ 0	\$ 2,190,000	\$ 0
Long Term Debt						
General Obligation Bonds	31,100,000	26,105,000	0	0	31,100,000	26,105,000
OPWC Loan	196,516	225,700	134,638	155,897	331,154	381,597
OWDA Loan	0	0	6,042,493	6,616,843	6,042,493	6,616,843
Special Assessment Bonds	1,755,000	1,875,000	0	0	1,755,000	1,875,000
Sanitary Sewer Bonds	0	0	1,555,000	1,695,000	1,555,000	1,695,000
Various Purpose						
Improvement Note	0	6,750,000	0	0	0	6,750,000
Total Outstanding Debt	<u>\$35,241,516</u>	<u>\$34,955,700</u>	<u>\$ 7,732,131</u>	<u>\$ 8,467,740</u>	<u>\$42,973,647</u>	<u>\$43,423,440</u>

- During June 2005, the City issued \$6,685,000 General Obligation Various Improvement Bonds for the purpose of improving streets as designated in plans approved or to be approved by City Council, where necessary, as set forth in such plans grading, draining, reconstructing pavement, curbs, catch basins and driveway aprons, resurfacing, installing curb ramps and catch basins, and otherwise improving the same and acquiring motorized vehicles and equipment, together with any necessary appurtenances thereto, for use by the Service Department.
- The OPWC Loan is being paid semi-annually from the debt service fund, which is funded primarily by property taxes collected by the County and distributed to the City.

In a continuing effort to be conscientious about how taxpayer dollars are spent, the City maintained throughout 2005 a Moody's Investors Service Aa1 rating. Strongsville remains one of the few cities 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, 2005, the City's total net debt amounted to 3.1 percent of the total assessed value of all property within the City. Unvoted net debt amounted to 2.63 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, 2005
(Unaudited)

Economic Factors

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 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 2005 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 2005 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources.

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 Parkway, Strongsville, Ohio 44149, telephone 440-580-3125.

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CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 17,571,104	\$ 5,248,639	\$ 22,819,743
Materials and Supplies Inventory	568,663	1,390	570,053
Accounts Receivable	315,897	3,391,411	3,707,308
Internal Balances	443,679	(443,679)	0
Intergovernmental Receivable	2,449,623	0	2,449,623
Prepaid Items	307,154	0	307,154
Taxes Receivable	16,678,659	0	16,678,659
Special Assessments Receivable	2,784,259	0	2,784,259
Unamortized Bond Issuance Costs	255,547	0	255,547
Nondepreciable Capital Assets	29,449,824	1,645,753	31,095,577
Depreciable Capital Assets, Net	<u>129,827,291</u>	<u>53,476,293</u>	<u>183,303,584</u>
Total Assets	<u>200,651,700</u>	<u>63,319,807</u>	<u>263,971,507</u>
Liabilities			
Accounts Payable	1,302,500	10,768	1,313,268
Accrued Wages	300,015	22,935	322,950
Contracts Payable	2,243,425	180,543	2,423,968
Intergovernmental Payable	1,609,412	1,333,432	2,942,844
Deposits Payable	96,439	0	96,439
Deferred Charges	62,462	0	62,462
Accrued Interest Payable	105,443	0	105,443
Deferred Revenue	8,803,596	0	8,803,596
Notes Payable	2,190,000	0	2,190,000
Long-Term Liabilities:			
Due within One Year	3,548,601	893,631	4,442,232
Due in More Than One Year	<u>32,024,253</u>	<u>6,991,119</u>	<u>39,015,372</u>
Total Liabilities	<u>52,286,146</u>	<u>9,432,428</u>	<u>61,718,574</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	126,225,599	47,389,915	173,615,514
Restricted for:			
Capital Projects	1,595,706	0	1,595,706
Debt Service	6,065,021	0	6,065,021
Other Purposes	6,328,569	0	6,328,569
Unrestricted	<u>8,150,659</u>	<u>6,497,464</u>	<u>14,648,123</u>
Total Net Assets	<u>\$ 148,365,554</u>	<u>\$ 53,887,379</u>	<u>\$ 202,252,933</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Security of Persons and Property	\$ 15,451,039	\$ 1,051,273	\$ 217,861	\$ 0	\$ (14,181,905)	\$ 0	\$ (14,181,905)
Public Health and Welfare	791,859	50,197	0	0	(741,662)	0	(741,662)
Leisure Time Activities	4,193,433	3,017,690	75,384	0	(1,100,359)	0	(1,100,359)
Community Environment	1,324,095	118,374	20,401	0	(1,185,320)	0	(1,185,320)
Public Works	1,339,811	0	7,780	170,069	(1,161,962)	0	(1,161,962)
Transportation	12,091,595	9,786	1,692,342	8,350,275	(2,039,192)	0	(2,039,192)
General Government	5,629,536	2,467,031	1,242	0	(3,161,263)	0	(3,161,263)
Interest and Fiscal Charges	1,607,729	0	0	0	(1,607,729)	0	(1,607,729)
Total Governmental Activities	42,429,097	6,714,351	2,015,010	8,520,344	(25,179,392)	0	(25,179,392)
Business-Type Activities:							
Sewer Capital Improvement	423,896	270,293	0	0	0	(153,603)	(153,603)
Sanitary Sewer Fund	8,890,317	8,547,851	0	0	0	(342,466)	(342,466)
Total Business-Type Activities	9,314,213	8,818,144	0	0	0	(496,069)	(496,069)
Total Primary Government	\$ 51,743,310	\$ 15,532,495	\$ 2,015,010	\$ 8,520,344	(25,179,392)	(496,069)	(25,675,461)
General Revenues:							
Property Taxes Levied for:							
General Purposes					570,936	0	570,936
Special Revenue					4,745,207	0	4,745,207
Debt Service					3,440,258	0	3,440,258
Income Taxes Levied for:							
General Purposes					24,447,153	0	24,447,153
Special Revenue					2,443,378	0	2,443,378
Other Taxes for:							
General Purposes					1,387,698	0	1,387,698
Special Revenue					290,385	0	290,385
Grants and Entitlements not Restricted to Specific Programs					2,442,618	0	2,442,618
Gain or Loss on Sale of Capital Assets					382,940	0	382,940
Investment Earnings					784,251	0	784,251
Miscellaneous Revenue					11,175	0	11,175
Total General Revenues					40,945,999	0	40,945,999
Change in Net Assets					15,766,607	(496,069)	15,270,538
Net Assets Beginning of Year, as Restated (Note 3)					132,598,947	54,383,448	186,982,395
Net Assets End of Year					\$ 148,365,554	\$ 53,887,379	\$ 202,252,933

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Fire Levy	Special Assessments		General Capital Improvement	Route 82 Capital Improvement	Other Governmental Funds	Total Governmental Funds
			General Bond Retirement	Bond Retirement				
Assets								
Equity in Pooled Cash and Cash Equivalents	\$ 3,611,705	\$ 537,360	\$ 1,866,525	\$ 461,576	\$ 3,922,817	\$ 469,950	\$ 6,701,171	\$ 17,571,104
Taxes Receivable	7,096,076	3,492,028	3,683,159	0	0	0	2,407,396	16,678,659
Accounts Receivable	60,911	0	0	0	123,624	0	131,362	315,897
Special Assessments Receivable	22,069	0	0	2,762,190	0	0	0	2,784,259
Intergovernmental Receivable	997,216	225,788	228,992	0	2,889	22,968	971,770	2,449,623
Due from Other Funds	25,000	0	443,679	0	0	0	0	468,679
Inventory	39,413	0	0	0	0	0	529,250	568,663
Prepaid Expenses	307,154	0	0	0	0	0	0	307,154
Unamortized Bond Issuance Costs	0	0	255,547	0	0	0	0	255,547
Total Assets	\$ 12,159,544	\$ 4,255,176	\$ 6,477,902	\$ 3,223,766	\$ 4,049,330	\$ 492,918	\$ 10,740,949	\$ 41,399,585
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	\$ 452,669	\$ 29,145	\$ 0	\$ 0	\$ 897	\$ 0	\$ 819,789	\$ 1,302,500
Contracts Payable	152,000	0	0	0	1,597,151	475,918	18,356	2,243,425
Deposits Payable	0	0	0	0	0	0	96,439	96,439
Salaries, Wages, and Benefits Payable	139,594	78,354	0	0	0	0	82,067	300,015
Intergovernmental Payable	1,508,836	20,646	0	0	0	0	79,930	1,609,412
Due to Other Funds	0	0	0	0	0	0	25,000	25,000
Deferred Revenue	4,098,508	3,717,816	3,912,151	2,762,190	2,889	0	2,585,957	17,079,511
General Obligation Notes Payable	0	0	0	0	1,435,000	0	755,000	2,190,000
Total Liabilities	\$ 6,351,607	\$ 3,845,961	\$ 3,912,151	\$ 2,762,190	\$ 3,035,937	\$ 475,918	\$ 4,462,538	\$ 24,846,302
Fund Balances								
Reserved for Inventory	39,413	0	0	0	0	0	529,250	568,663
Reserved for Prepaid Items	307,154	0	0	0	0	0	0	307,154
Reserved for Debt Service	0	0	2,565,751	461,576	0	0	0	3,027,327
Unreserved	5,461,370	409,215	0	0	1,013,393	17,000	5,749,161	12,650,139
Total Fund Balances (Deficits)	\$ 5,807,937	\$ 409,215	\$ 2,565,751	\$ 461,576	\$ 1,013,393	\$ 17,000	\$ 6,278,411	\$ 16,553,283
Total Liabilities and Fund Balances	\$ 12,159,544	\$ 4,255,176	\$ 6,477,902	\$ 3,223,766	\$ 4,049,330	\$ 492,918	\$ 10,740,949	\$ 41,399,585

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, 2005

Total Governmental Fund Balances		\$16,553,283
<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.		159,277,115
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 540,854	
Grants and Entitlements	1,545,533	
Income Tax	3,405,269	
Special Assessments	<u>2,784,259</u>	
Total		8,275,915
Deferred charges for bond premium reported in the net assets of governmental activities but not reported in the funds.		(62,462)
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	(31,100,000)	
OPWC Loan	(196,516)	
Special Assessment Bonds	(1,755,000)	
Compensated Absences	(2,398,268)	
Accrued Interest Payable	(105,443)	
Accrued Police Pension	(76,298)	
Retirement Incentive	<u>(46,772)</u>	
Total		<u>(35,678,297)</u>
Net Assets of Governmental Activities		<u>\$148,365,554</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	General Capital Improvement	Route 82 Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues								
Municipal Income Taxes	\$22,963,374	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,555,691	\$25,519,065
Property Taxes	579,193	3,312,139	3,488,330	0	0	0	1,500,428	8,880,090
Other Taxes	135,813	0	0	0	0	0	2,639	138,452
Intergovernmental Revenue	2,756,315	406,587	424,356	0	539,146	8,476,990	2,168,992	14,772,386
Special Assessments	0	0	0	120,000	0	0	0	120,000
Charges for Services	433,638	0	0	0	488,011	0	3,479,365	4,401,014
Fines, Licenses, and Permits	1,545,787	1,000	0	0	0	0	37,833	1,584,620
Interest Income	645,642	0	0	135,322	0	0	0	780,964
Miscellaneous	667,973	11,024	0	0	0	0	27,710	706,707
Total Revenues	<u>29,727,735</u>	<u>3,730,750</u>	<u>3,912,686</u>	<u>255,322</u>	<u>1,027,157</u>	<u>8,476,990</u>	<u>9,772,658</u>	<u>56,903,298</u>
Expenditures								
Current:								
General Government	6,051,552	0	0	0	0	0	0	6,051,552
Security of Persons and Property	7,406,355	5,552,958	0	0	0	0	2,221,491	15,180,804
Public Health and Welfare	1,024,850	0	0	0	0	0	372,085	1,396,935
Leisure Time Activities	529,002	0	0	0	0	0	3,708,231	4,237,233
Community Environment	1,318,533	0	0	0	0	0	0	1,318,533
Public Works	2,518,492	0	0	0	0	0	26,059	2,544,551
Transportation	61,944	0	0	0	1,496,853	0	7,861,734	9,420,531
Capital Outlay	749,392	0	0	0	2,633,262	10,246,707	756,794	14,386,155
Debt Service:								
Principal Retirement	0	0	8,441,281	120,000	7,704	0	21,481	8,590,466
Interest and Fiscal Charges	0	0	1,501,095	113,105	0	0	0	1,614,200
Total Expenditures	<u>19,660,120</u>	<u>5,552,958</u>	<u>9,942,376</u>	<u>233,105</u>	<u>4,137,819</u>	<u>10,246,707</u>	<u>14,967,875</u>	<u>64,740,960</u>
Excess of Revenues Over (Under) Expenditures	<u>10,067,615</u>	<u>(1,822,208)</u>	<u>(6,029,690)</u>	<u>22,217</u>	<u>(3,110,662)</u>	<u>(1,769,717)</u>	<u>(5,195,217)</u>	<u>(7,837,662)</u>
Other Financing Sources (Uses)								
Transfers In	0	2,003,100	0	0	850,000	200,000	6,265,305	9,318,405
Transfers Out	(9,139,010)	0	0	0	0	0	(179,395)	(9,318,405)
Sale of Fixed Assets	1,117	0	0	0	615,713	0	650,000	1,266,830
Proceeds from General Obligation Bonds	0	0	6,685,000	0	0	0	0	6,685,000
Premium on General Obligation Bonds	0	0	65,749	0	0	0	0	65,749
Total Other Financing Sources (Uses)	<u>(9,137,893)</u>	<u>2,003,100</u>	<u>6,750,749</u>	<u>0</u>	<u>1,465,713</u>	<u>200,000</u>	<u>6,735,910</u>	<u>8,017,579</u>
Net Change in Fund Balances	<u>929,722</u>	<u>180,892</u>	<u>721,059</u>	<u>22,217</u>	<u>(1,644,949)</u>	<u>(1,569,717)</u>	<u>1,540,693</u>	<u>179,917</u>
Fund Balances (Deficits) - Beginning of Year, as Restated	<u>4,878,215</u>	<u>228,323</u>	<u>1,844,692</u>	<u>439,359</u>	<u>2,658,342</u>	<u>1,586,717</u>	<u>4,737,718</u>	<u>16,373,366</u>
Fund Balances (Deficits) - End of Year	<u>\$ 5,807,937</u>	<u>\$ 409,215</u>	<u>\$ 2,565,751</u>	<u>\$ 461,576</u>	<u>\$ 1,013,393</u>	<u>\$ 17,000</u>	<u>\$ 6,278,411</u>	<u>\$ 16,553,283</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 179,917**

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

Governmental funds report capital outlays and transportation as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 13,163,707

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

Property Tax	(123,690)	
Grants and Entitlements	156,548	
Income Tax	1,371,467	
Special Assessments	<u>(497,072)</u>	
Total		907,253

The issuance of long-term debt provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term det and related items. 1,843,004

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 6,470

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(281,482)
----------------------	-----------

The net assets of the internal service fund, which was eliminated at December 31, 2004, were recorded in the governmental funds but not in the statement of activities. (52,262)

Change in Net Assets of Governmental Activities **\$15,766,607**

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Municipal Income Taxes	\$19,880,000	\$22,603,072	\$22,780,212	\$ 177,140
Property Taxes	590,000	574,689	579,193	4,504
Other Taxes	150,000	132,239	133,275	1,036
Intergovernmental Revenue	1,711,000	2,886,708	2,801,106	(85,602)
Charges for Services	273,400	447,990	434,705	(13,285)
Fines, Licenses, and Permits	1,455,100	1,593,027	1,545,787	(47,240)
Interest Income	205,000	665,373	645,642	(19,731)
Miscellaneous	188,500	648,810	660,871	12,061
Total Revenues	<u>24,453,000</u>	<u>29,551,908</u>	<u>29,580,791</u>	<u>28,883</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	7,800,000	7,888,900	6,695,996	1,192,904
Public Health and Welfare	999,000	1,071,000	1,033,807	37,193
Leisure Time Activities	335,000	604,600	529,062	75,538
Community Environment	1,290,500	1,373,900	1,328,377	45,523
Public Works	2,710,000	2,605,700	2,602,808	2,892
General Government	5,347,710	6,152,100	5,654,461	497,639
Total Expenditures	<u>18,482,210</u>	<u>19,696,200</u>	<u>17,844,511</u>	<u>1,851,689</u>
Excess of Revenues Over (Under) Expenditures	<u>5,970,790</u>	<u>9,855,708</u>	<u>11,736,280</u>	<u>1,880,572</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	30,000	30,000	1,117	(28,883)
Transfers Out	(4,998,100)	(9,139,010)	(9,139,010)	0
Advances Out	0	(25,000)	(25,000)	0
Total Other Financing Sources (Uses)	<u>(4,968,100)</u>	<u>(9,134,010)</u>	<u>(9,162,893)</u>	<u>(28,883)</u>
Net Change in Fund Balance	1,002,690	721,698	2,573,387	1,851,689
Fund Balance at Beginning of Year, as Restated	<u>1,038,318</u>	<u>1,038,318</u>	<u>1,038,318</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 2,041,008</u>	<u>\$ 1,760,016</u>	<u>\$ 3,611,705</u>	<u>\$ 1,851,689</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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 3,466,900	\$ 3,312,139	\$ 3,312,139	\$ 0
Intergovernmental Revenue	230,000	406,587	406,587	0
Fines, Licenses, and Permits	0	1,000	1,000	0
Miscellaneous	0	11,024	11,024	0
Total Revenues	<u>3,696,900</u>	<u>3,730,750</u>	<u>3,730,750</u>	<u>0</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	<u>5,700,000</u>	<u>5,769,900</u>	<u>5,574,525</u>	<u>195,375</u>
Total Expenditures	<u>5,700,000</u>	<u>5,769,900</u>	<u>5,574,525</u>	<u>195,375</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,003,100)</u>	<u>(2,039,150)</u>	<u>(1,843,775)</u>	<u>195,375</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	<u>2,003,100</u>	<u>2,003,100</u>	<u>2,003,100</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>2,003,100</u>	<u>2,003,100</u>	<u>2,003,100</u>	<u>0</u>
Net Change in Fund Balance	0	(36,050)	159,325	195,375
Fund Balance at Beginning of Year, as Restated	<u>378,035</u>	<u>378,035</u>	<u>378,035</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 378,035</u>	<u>\$ 341,985</u>	<u>\$ 537,360</u>	<u>\$ 195,375</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	Business-Type Activities		
	Major Sanitary Sewer Fund	Nonmajor Sewer Capital Improvements	Total
<u>ASSETS</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,417,176	\$ 2,831,463	\$ 5,248,639
Accounts Receivable	3,391,411	0	3,391,411
Inventory	1,390	0	1,390
Total Current Assets	<u>5,809,977</u>	<u>2,831,463</u>	<u>8,641,440</u>
<u>Noncurrent Assets</u>			
Land and Construction in Progress	1,645,753	0	1,645,753
Depreciable Capital Assets, Net	<u>53,476,293</u>	<u>0</u>	<u>53,476,293</u>
Total Noncurrent Assets	<u>55,122,046</u>	<u>0</u>	<u>55,122,046</u>
TOTAL ASSETS	<u>60,932,023</u>	<u>2,831,463</u>	<u>63,763,486</u>
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	10,768	0	10,768
Contracts Payable	0	180,543	180,543
Accrued Wages and Benefits	22,935	0	22,935
Due to Other Funds	443,679	0	443,679
Due to Other Governments	1,333,432	0	1,333,432
Compensated Absences Payable	113,508	0	113,508
General Obligation Bonds Payable	145,000	0	145,000
Ohio Water Development Authority Loans Payable	628,038	0	628,038
Ohio Public Works Commission Notes Payable	<u>7,085</u>	<u>0</u>	<u>7,085</u>
Total Current Liabilities	<u>2,704,445</u>	<u>180,543</u>	<u>2,884,988</u>
<u>Noncurrent Liabilities</u>			
Compensated Absences Payable	39,111	0	39,111
General Obligation Bonds Payable	1,410,000	0	1,410,000
Ohio Water Development Authority Loans Payable	5,414,455	0	5,414,455
Ohio Public Works Commission Notes Payable	<u>127,553</u>	<u>0</u>	<u>127,553</u>
Total Noncurrent Liabilities	<u>6,991,119</u>	<u>0</u>	<u>6,991,119</u>
TOTAL LIABILITIES	<u>9,695,564</u>	<u>180,543</u>	<u>9,876,107</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	47,389,915	0	47,389,915
Unrestricted	<u>3,846,544</u>	<u>2,650,920</u>	<u>6,497,464</u>
TOTAL NET ASSETS	<u>\$51,236,459</u>	<u>\$ 2,650,920</u>	<u>\$53,887,379</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, 2005

	Business-Type Activities		
	Major Sanitary Sewer Fund	Nonmajor Sewer Capital Improvements	Total
<u>Operating Revenues</u>			
Charges for Services	\$ 8,547,311	\$ 269,243	\$ 8,816,554
Miscellaneous	540	1,050	1,590
Total Operating Revenues	<u>8,547,851</u>	<u>270,293</u>	<u>8,818,144</u>
<u>Operating Expenses</u>			
Materials and Supplies	83,466	0	83,466
Wages and Benefits	1,719,635	0	1,719,635
Utilities	1,843	0	1,843
Contractual Services	4,173,846	423,896	4,597,742
Maintenance	89,664	0	89,664
Depreciation	2,324,841	0	2,324,841
Other Expenses	23,661	0	23,661
Total Operating Expenses	<u>8,416,956</u>	<u>423,896</u>	<u>8,840,852</u>
Income (Loss) from Operations	<u>130,895</u>	<u>(153,603)</u>	<u>(22,708)</u>
<u>Non-Operating Expenses</u>			
Interest and Fiscal Charges	<u>(473,361)</u>	<u>0</u>	<u>(473,361)</u>
Total Non-Operating Expenses	<u>(473,361)</u>	<u>0</u>	<u>(473,361)</u>
Income (Loss) Before Transfers	<u>(342,466)</u>	<u>(153,603)</u>	<u>(496,069)</u>
<u>Transfers</u>			
Transfers In	986,528	2,000,000	2,986,528
Transfers Out	<u>(2,000,000)</u>	<u>(986,528)</u>	<u>(2,986,528)</u>
Total Transfers	<u>(1,013,472)</u>	<u>1,013,472</u>	<u>0</u>
Change in Net Assets	<u>(1,355,938)</u>	<u>859,869</u>	<u>(496,069)</u>
Net Assets, Beginning of Year, as Restated (Note 3)	<u>52,592,397</u>	<u>1,791,051</u>	<u>54,383,448</u>
Net Assets, End of Year	<u><u>\$51,236,459</u></u>	<u><u>\$ 2,650,920</u></u>	<u><u>\$53,887,379</u></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, 2005

	<u>Business-Type Activities</u>		
	<u>Major Sanitary Sewer Fund</u>	<u>Nonmajor Sewer Capital Improvements</u>	<u>Total</u>
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$ 8,286,556	\$ 270,293	\$ 8,556,849
Cash Paid to Employees	(1,744,919)	0	(1,744,919)
Cash Paid to Suppliers for Goods and Services	<u>(5,080,526)</u>	<u>(170,526)</u>	<u>(5,251,052)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,461,111</u>	<u>99,767</u>	<u>1,560,878</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in from Other Funds	986,528	2,000,000	2,986,528
Transfer Out to Other Funds	<u>(2,000,000)</u>	<u>(986,528)</u>	<u>(2,986,528)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,013,472)</u>	<u>1,013,472</u>	<u>0</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Purchases of Capital Assets	(786,623)	0	(786,623)
Acquisition and Construction of Capital Assets	(137,674)	0	(137,674)
Principal Paid on Long-Term Debt	(735,609)	0	(735,609)
Interest Paid on Long-Term Debt	<u>(473,361)</u>	<u>0</u>	<u>(473,361)</u>
Net Cash Provided by (Used) for Capital and Related Financing Activities	<u>(2,133,267)</u>	<u>0</u>	<u>(2,133,267)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,685,628)	1,113,239	(572,389)
Cash and Cash Equivalents, Beginning of Year	<u>4,102,804</u>	<u>1,718,224</u>	<u>5,821,028</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,417,176</u>	<u>\$ 2,831,463</u>	<u>\$ 5,248,639</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities</u>			
Operating Income (Loss)	\$ 130,895	\$ (153,603)	\$ (22,708)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:			
Depreciation	2,324,841	0	2,324,841
(Increase) Decrease in Assets:			
Accounts Receivable	(261,295)	0	(261,295)
Inventory	(1,390)	0	(1,390)
Prepaid Expenses	0	89,682	89,682
Increase (Decrease) in Liabilities:			
Accounts Payable	10,768	(40)	10,728
Contracts Payable	(2,269,529)	163,728	(2,105,801)
Accrued Wages and Benefits	4,008	0	4,008
Compensated Absences Payable	10,666	0	10,666
Due to Other Funds	222,442	0	222,442
Intergovernmental Payable	<u>1,289,705</u>	<u>0</u>	<u>1,289,705</u>
Total Adjustments	<u>1,330,216</u>	<u>253,370</u>	<u>1,583,586</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,461,111</u>	<u>\$ 99,767</u>	<u>\$ 1,560,878</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

	<u>Agency Funds</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,582,094
Cash in Segregated Funds	<u>56,010</u>
Total Assets	<u>\$ 1,638,104</u>
<u>Liabilities</u>	
Deposits Held and Due to Others	<u>\$ 1,638,104</u>
Total Liabilities	<u>\$ 1,638,104</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 which is a jointly governed organization as described in Note 17.

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, 2005
(CONTINUED)

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 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. 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, 2005
(CONTINUED)

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.
- *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 property tax 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.

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

B. **Fund Accounting** (Continued)

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 were eliminated in 2005.

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 no 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, 2005
(CONTINUED)

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.

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 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 60 days of year end.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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 6). 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, 2005, but which were levied to finance year 2006 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, 2005
(CONTINUED)

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 2005, 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 2005 amounted to \$645,642, which includes \$540,541 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, 2005, 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, 2005
(CONTINUED)

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, 2005, 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 \$5,000. 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, 2005
(CONTINUED)

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

I. **Capital Assets** (Continued)

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities 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 when 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, 2005
(CONTINUED)

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 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, 2005
(CONTINUED)

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 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 2005.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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 2005.

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. The City had no outstanding encumbrances at December 31, 2005.

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, 2005
(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: **RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Change in Accounting Principle**

For fiscal year 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing, multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the city; however, additional note disclosure can be found in Note 5. The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 3: RESTATEMENT OF PRIOR YEAR FUND EQUITY

B. Restatement of Budget (Non-GAAP) Fund Balance

The fund balance of the General Fund was adjusted in the prior year by \$225,476 due to an overstatement of encumbrances. The fund balance of the Fire Levy Fund was adjusted in the prior year by \$300 due to an understatement of encumbrances.

	<u>Governmental Activities</u>	
	<u>General Fund</u>	<u>Fire Levy Fund</u>
Fund Balances, December 31, 2004	\$ 812,842	\$ 378,335
Overstatement (Understatement) of Encumbrances	225,476	(300)
Fund Balances, December 31, 2004, as Restated	<u>\$ 1,038,318</u>	<u>\$ 378,035</u>

C. Restatement of Fund Balance

Accrued pensions and workers' compensation liabilities were understated in the prior year by \$774,002 in the governmental funds due to the implementation of Technical Bulletin No. 2004-2. This resulted in the fund balances of the General, Fire Levy, and Non-Major Governmental funds to be adjusted by \$150,822, \$81,240, and \$541,940, respectively. The fund balance of the Sewer Fund was adjusted in the prior year by \$435,113 due to an error in accounting for long-term liabilities. Notes payable, originally recorded as short-term liabilities, were properly reclassified as long-term liabilities due to the City's intent to replace this financing with long-term bonded debt. This resulted in the fund balances of the General Capital Improvement, Route 82 Capital Improvement, and Other Nonmajor Governmental funds to be adjusted by \$3,400,000, \$2,500,000, and \$850,000, respectively.

	<u>Governmental Activities</u>					<u>Business- Type Activities</u>
	<u>General</u>	<u>Fire Levy</u>	<u>General Capital Improvement</u>	<u>Route 82 Capital Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Sanitary Sewer Fund</u>
Fund Balances, December 31, 2004	\$ 5,029,037	\$ 309,563	\$ (741,658)	\$ (913,283)	\$ 4,429,658	\$53,027,510
Implementation of GASB Technical Bulletin 2004-2	(150,822)	(81,240)	0	0	(541,940)	0
Reclassification of Short- Term Notes Payable	0	0	3,400,000	2,500,000	850,000	0
Understatement of Long- Term Liabilities	0	0	0	0	0	(435,113)
Fund Balances, December 31, 2004, as Restated	<u>\$ 4,878,215</u>	<u>\$ 228,323</u>	<u>\$ 2,658,342</u>	<u>\$ 1,586,717</u>	<u>\$ 4,737,718</u>	<u>\$52,592,397</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 3: RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)

C. Restatement of Fund Balance (Continued)

The internal service funds were eliminated at December 31, 2004, and the net assets of the internal service funds of \$52,262 were recorded in the general fund. Since the net assets of the internal service funds are recorded in the governmental funds but not in the Statement of Activities, it is shown as a reconciling item on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

D. Restatement of Net Assets

Net assets for governmental activities were adjusted in the prior year by \$1,081,103 due to an understatement of nondepreciable capital assets as a result of prior year accounting errors. Net assets for business-type activities were adjusted in the prior year by \$435,113 due to an understatement of long-term liabilities resulting from a prior year accounting error.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Net Assets, December 31, 2004	\$131,517,844	\$54,818,561
Understatement of Long-Term Liabilities	0	(435,113)
Understatement of Nondepreciable Capital Assets	<u>1,081,103</u>	<u>0</u>
Net Assets, December 31, 2004, as Restated	<u>\$ 132,598,947</u>	<u>\$ 54,383,448</u>

Notes payable for governmental activities of \$6,750,000, originally recorded as short-term liabilities, were reclassified in the prior year to long-term liabilities due to the City's intent to replace this financing with long-term bonded debt. There was no effect on net assets as a result.

NOTE 4: 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 fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis). Budgetary basis transfers differ from GAAP basis transfers due to payment of notes from the General Bond Retirement Fund (Debt Service) and on a GAAP basis paid from the General Capital Improvement Fund (Capital Projects) and Fire Department Vehicle Fund (Special Revenue).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Changes in Fund Balance		
General and Major Special Revenue Funds		
	General	Fire Levy
GAAP Basis	\$ 929,722	\$ 180,892
Net Adjustment for Revenue Accruals	(147,171)	0
Net Adjustment for Expenditure Accruals	1,790,836	(21,567)
Budget Basis	\$2,573,387	\$ 159,325

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury notes, bills, bonds, or 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasury Asset Reserve of Ohio (STAROhio).

The City may also invest any monies not required to be used for a period of 6 months or more in the following:

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within 5 years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. Cash on Hand

At December 31, 2005, the City had \$3,700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits

At December 31, 2005, the carrying amount of the City's deposits was \$9,089,167 (including \$369,663 in certificates of deposit and \$56,010 in cash in segregated accounts of the court). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2005, \$700,000 of the City's bank balance of \$9,889,084 was covered by Federal Depository Insurance and \$9,189,084 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve Bank in the name of the City.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. Fair value is determined by quoted market priced and acceptable other pricing methodologies. As of December 31, 2005, the City had the following investments and maturities:

Investment Type	Balance at Fair Value	Investment Maturities (in Years)	
		< 1	1-2
Money Market Mutual Fund	\$ 14,762,980	\$14,762,980	\$ 0
Repurchase Agreement	602,000	602,000	0
Totals	\$ 15,364,980	\$15,364,980	\$ 0

D. Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within 5 years from the date of purchase, and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

E. Credit Risk

The credit risk of the City's investments is shown in the table below. The City has no investment policy that would further limit its investment choices other than the limitations imposed by the Ohio Revised Code.

F. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

G. Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2005:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Percentage of Total</u>	<u>Credit Rating (*)</u>
Money Market Mutual Fund	\$ 14,762,980	96 %	AAAm
Repurchase Agreement	602,000	4 %	A-1
Totals	<u>\$ 15,364,980</u>	<u>100 %</u>	

* Credit rating was obtain from Standard & Poor's for all investments.

H. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments reported on the statement of net assets as of December 31, 2005.

Cash and Investments per Footnote

Carrying Amount of Deposits	\$ 9,089,167
Investments	15,364,980
Cash on Hand	<u>3,700</u>
Total Cash and Investments per Footnote	<u>\$ 24,457,847</u>

Cash and Investments per Statement of Net Assets

Governmental Activities	\$ 17,571,104
Business-Type Activities	5,248,639
Agency Funds	<u>1,638,104</u>
Total Cash and Investments per Statement of Net Assets	<u>\$ 24,457,847</u>

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2005, 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, 2005
(CONTINUED)

NOTE 6: **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 and 23 percent of true value for inventory.

The assessed value upon which the 2005 tax receipts were based on was \$1,413,489,541. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2005 was \$10.60 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, 2005
(CONTINUED)

NOTE 6: **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 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.

Special assessments expected to be collected, amount to \$2,762,190 in the special assessment bond retirement fund. At December 31, 2005, the amount of delinquent special assessments was \$68,636.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

D. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Government Activities:	
Local Government	\$ 577,249
Estate Tax	232,359
Homestead and Rollback	524,420
Gasoline Tax	825,969
Public Utility Reimbursement	64,139
Grants	97,504
Other	<u>127,983</u>
Total Intergovernmental Receivables	<u>\$ 2,449,623</u>

NOTE 7: **INTERFUND TRANSACTIONS**

A. Interfund Transfers

As of December 31, 2005, interfund transfers were as follows:

<u>Transfer To</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	<u>Nonmajor Business-Type Funds</u>	<u>Total</u>
Fire Levy Fund	\$ 2,003,100	\$ 0	\$ 0	\$ 0	\$ 2,003,100
General Capital					
Improvement Fund	850,000	0	0	0	850,000
Route 82 Corridor Fund	200,000	0	0	0	200,000
Sewer Fund	0	0	0	986,528	986,528
Nonmajor Governmental Funds	6,085,910	179,395	0	0	6,265,305
Nonmajor Business-Type Funds	0	0	2,000,000	0	2,000,000
Total Transfers Out	<u>\$ 9,139,010</u>	<u>\$ 179,395</u>	<u>\$ 2,000,000</u>	<u>\$ 986,528</u>	<u>\$ 12,304,933</u>

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **INTERFUND TRANSACTIONS** (Continued)

B. Interfund Balances

At December 31, 2005, 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 \$443,679. The nature of the loan is subsidized debt payment from the General Bond Retirement fund to the Sanitary Sewer fund.

C. Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2005, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payable</u>
General Fund	\$ 25,000	\$ 0
Nonmajor Governmental Funds	<u>0</u>	<u>25,000</u>
Totals	<u>\$ 25,000</u>	<u>\$ 25,000</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2005 follows:

	Restated Balance 12/31/04	Additions	Disposals	Balance 12/31/05
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 6,129,901	\$ 0	\$ (263,009)	\$ 5,866,892
Construction in Progress	9,386,189	14,308,991	(112,248)	23,582,932
<i>Total Capital Assets Not Being Depreciated</i>	<u>15,516,090</u>	<u>14,308,991</u>	<u>(375,257)</u>	<u>29,449,824</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	29,881,214	25,891	(787,304)	29,119,801
Land Improvements	1,432,580	0	(64,500)	1,368,080
Machinery and Equipment	2,693,157	324,994	(5,088)	3,013,063
Furniture and Fixtures	95,618	355,683	0	451,301
Vehicles	10,160,266	1,354,195	0	11,514,461
Infrastructure:				
Water and Sewer Lines	69,680,327	2,545,015	0	72,225,342
Streets	111,927,388	2,753,388	0	114,680,776
Sidewalks	7,547,197	0	0	7,547,197
Traffic Signalization	4,575,000	0	0	4,575,000
<i>Total Capital Assets Being Depreciated</i>	<u>237,992,747</u>	<u>7,359,166</u>	<u>(856,892)</u>	<u>244,495,021</u>
Less Accumulated Depreciation:				
Buildings	(4,884,321)	(582,211)	170,791	(5,295,741)
Land Improvements	(833,131)	(62,234)	66,337	(829,028)
Machinery and Equipment	(2,192,432)	(75,772)	0	(2,268,204)
Furniture and Fixtures	(76,411)	(6,411)	0	(82,822)
Vehicles	(8,589,732)	(593,225)	0	(9,182,957)
Infrastructure:				
Water and Sewer Lines	(26,494,596)	(1,393,545)	0	(27,888,141)
Streets	(60,474,580)	(4,361,458)	0	(64,836,038)
Sidewalks	(3,482,873)	(251,573)	0	(3,734,446)
Traffic Signalization	(367,353)	(183,000)	0	(550,353)
<i>Total Accumulated Depreciation</i>	<u>(107,395,429)</u>	<u>(7,509,429)</u>	<u>237,128</u>	<u>(114,667,730)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>130,597,318</u>	<u>(150,263)</u>	<u>(619,764)</u>	<u>129,827,291</u>
Total Governmental Activities				
Capital Assets, Net	<u>\$146,113,408</u>	<u>\$ 14,158,728</u>	<u>\$ (995,021)</u>	<u>\$159,277,115</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$ 50,588
Public Health and Welfare Services	387,462
Leisure Time Activities	577,611
Public Works	1,394,737
Transportation	5,060,275
General Government	38,756
Total Depreciation Expense	<u>\$ 7,509,429</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 8: CAPITAL ASSETS (Continued)

A summary of changes in capital assets during 2005 follows:

	Balance 12/31/04	Additions	Disposals	Balance 12/31/05
<u>Business-Type Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,508,079	\$ 0	\$ 0	\$ 1,508,079
Construction in Progress	0	137,674	0	137,674
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,508,079</u>	<u>137,674</u>	<u>0</u>	<u>1,645,753</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	38,495	0	8,347,889
Furniture and Fixtures	32,748	0	0	32,748
Vehicles	154,175	425,103	0	579,278
Infrastructure:				
Sanitary Sewer	<u>95,327,301</u>	<u>323,025</u>	<u>0</u>	<u>95,650,326</u>
<i>Total Capital Assets Being Depreciated</i>	<u>117,000,634</u>	<u>786,623</u>	<u>0</u>	<u>117,787,257</u>
Less Accumulated Depreciation:				
Buildings	(3,566,584)	(188,386)	0	(3,754,970)
Land Improvements	(3,490,333)	(187,480)	0	(3,677,813)
Machinery and Equipment	(8,178,835)	(21,998)	0	(8,200,833)
Furniture and Equipment	(32,748)	0	0	(32,748)
Vehicles	(154,175)	(20,734)	0	(174,909)
Infrastructure:				
Sanitary Sewer	<u>(46,563,448)</u>	<u>(1,906,243)</u>	<u>0</u>	<u>(48,469,691)</u>
<i>Total Accumulated Depreciation</i>	<u>(61,986,123)</u>	<u>(2,324,841)</u>	<u>0</u>	<u>(64,310,964)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>55,014,511</u>	<u>(1,538,218)</u>	<u>0</u>	<u>53,476,293</u>
Total Business-Type Capital Assets, Net	<u>\$ 56,522,590</u>	<u>\$ (1,400,544)</u>	<u>\$ 0</u>	<u>\$ 55,122,046</u>

NOTE 9: 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, 2005
(CONTINUED)

NOTE 9: 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 2005, 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	\$ 62,689,919	\$ 1,000	
	- Ancillary Equipment	150,000	1,000	
	- Earthquake Damage	5,000,000	25,000	
	- Flood Damage	500,000	25,000	
	- Inland Marine	4,895,455	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	
	- Damage to Premises	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 Medical 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		
		Electronic Data Processing Systems	538,093	10,000
		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, 2005
(CONTINUED)

NOTE 9: **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 10: **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, 2005
(CONTINUED)

NOTE 10: **PENSION PLAN** (Continued)

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

For the year ended December 31, 2005, 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 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2005 member contribution rates were 8.5 percent for members in classifications other than law enforcement and public safety. The 2005 employer contribution rate for local government employers was 9.55 percent of covered payroll. The City's required contributions to OPERS for the years ending December 31, 2005, 2004, and 2003, were \$862,026, \$811,374, and \$757,550, respectively; 92.03 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

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 \$531,913 and \$672,578 for the year ended December 31, 2005, \$491,929 and \$600,934 for the year ended December 31, 2004, and \$500,901 and \$603,811 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 92.4 percent and 92.6 percent, respectively, have been contributed for 2005.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 11: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll, (16.7 percent for public safety and law enforcement); 4 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' 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 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next 8 years and 4 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.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$361,058. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2004 was \$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, 2005
(CONTINUED)

NOTE 11: **POSTEMPLOYMENT 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 increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution 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 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's annual contributions for 2005 that were used to fund postemployment health care benefits were \$350,836 for police and \$320,768 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 was \$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.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 12: NOTES PAYABLE

Note activity for the year ended December 31, 2005, consisted of the following:

	Balance January 1, 2005	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2005
Total Notes Payable	<u>\$ 0</u>	<u>\$ 2,190,000</u>	<u>\$ 0</u>	<u>\$ 2,190,000</u>

The City issued the various purpose improvement note, series 2005, on December 8, 2005, at an interest rate of 3.75 percent per year for the purposes of acquiring vehicles and equipment together with any necessary appurtenances for use by the service department, for acquiring and installing 911 equipment and an emergency back-up electric generator together with any necessary appurtenances, and for improving the City's information technology system by acquiring and installing computers, software, and accessories.

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 funds that 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, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City during 2005 were as follows:

	Restated Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Amounts Due in One Year
Governmental Activities:					
<i>General Obligation Bonds</i>					
Variable Rate (4.0% in 1997 to 5.95% in 2021), \$3,760,000 1996 Various Purpose Improvement Bonds refunding due through 2021	\$ 915,000	\$ 0	\$ (445,000)	\$ 470,000	\$ 470,000
Variable Rate (4.0% in 1994 to 6.0% in 2014), \$1,395,000 1994 Various Purpose Improvement Bonds due through 2014	280,000	0	(35,000)	245,000	35,000
Variable Rate (4.05% in 2000 to 5.05% in 2014), \$5,955,000 1997 Street Improvement Bonds due through 2014	2,110,000	0	(395,000)	1,715,000	410,000
Variable Rate (3% in 2002 to 3.5% in 2006), \$7,190,000 Library Improvement Bonds due through 2020	6,190,000	0	(285,000)	5,905,000	290,000
Variable Rate (3% in 2002 to 4% in 2007), 2002 \$1,775,000 Fire Station Bonds due through 2021	1,745,000	0	(15,000)	1,730,000	20,000
Variable Rate (3% in 2002 to 5% in 2021), \$13,910,000 refunded 1992 and 1996 Various Purpose Improvement Bonds due through 2021	13,075,000	0	(420,000)	12,655,000	430,000
Variable Rate (3% in 2002 to 4% in 2007), \$870,000 Fire Truck Acquisition Bonds due through 2011	730,000	0	(65,000)	665,000	90,000
Variable Rate (3% in 2002 to 4% in 2007), \$650,000 Communications Equipment Acquisition Bonds due through 2016	620,000	0	(20,000)	600,000	20,000
Variable Rate (3% in 2002 to 4% in 2007), \$455,000 Service Center Expansion Bond due through 2021	440,000	0	(10,000)	430,000	10,000
Variable Rate (3% in 2005 to 5% in 2015), \$6,685,000 2005 Various Improvement Bond, due through 2025	<u>0</u>	<u>6,685,000</u>	<u>0</u>	<u>6,685,000</u>	<u>255,000</u>
<i>Total General Obligation Bonds</i>	<u>26,105,000</u>	<u>6,685,000</u>	<u>(1,690,000)</u>	<u>31,100,000</u>	<u>2,030,000</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

	Restated Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Amounts Due in One Year
Governmental Activities: (Continued)					
<i>OPWC Loan</i>					
Ohio Public Works Commission - 0% 1995, \$218,938 Note due through 2015	120,416	0	(16,420)	103,996	5,476
Ohio Public Works Commission - 0% 1996, \$90,900 Note due through 2016	52,267	0	(6,818)	45,449	2,273
Ohio Public Works Commission- 0% 1998, \$67,476 Note due through 2017	43,860	0	(5,061)	38,799	1,687
Ohio Public Works Commission 0% 1999, \$11,817 Note due through 2020	9,157	0	(885)	8,272	296
<i>Total OPWC Loan</i>	<u>225,700</u>	<u>0</u>	<u>(29,184)</u>	<u>196,516</u>	<u>9,732</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	730,000	0	(55,000)	675,000	60,000
Various Purpose Improvement Bonds - 1996, \$1,255,000, 5.7% due through 2016	895,000	0	(55,000)	840,000	55,000
Various Purpose Improvement Bonds - 1998, \$305,000, (4.55% in 1998 to 5.50% in 2018) due through 2018	250,000	0	(10,000)	240,000	15,000
<i>Total Special Assessment Bonds</i>	<u>1,875,000</u>	<u>0</u>	<u>(120,000)</u>	<u>1,755,000</u>	<u>130,000</u>
<i>Other Liabilities</i>					
Various Purpose Improvement Notes - 2004, \$6,750,000 (2% due through 2005)	6,750,000	0	(6,750,000)	0	0
Compensated Absences	2,175,445	1,432,605	(1,209,782)	2,398,268	1,330,760
Police and Fire Pension Liability 1968, \$91,312 due through 2035	77,580	0	(1,282)	76,298	1,337
Retirement Incentive	46,772	0	0	46,772	46,772
<i>Total Other Liabilities</i>	<u>9,049,797</u>	<u>1,432,605</u>	<u>(7,961,064)</u>	<u>2,521,338</u>	<u>1,378,869</u>
Total Governmental Activities	<u>\$ 37,255,497</u>	<u>\$ 8,117,605</u>	<u>\$ (9,800,248)</u>	<u>\$35,572,854</u>	<u>\$ 3,548,601</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

	Restated Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Amounts Due in One Year
Business-Type Activities:					
<i>Enterprise Fund Debt - Sewer</i>					
Ohio Water Development Authority, 10.54% \$7,315,971 1984 Loan due through 2011	\$ 3,600,010	\$ 0	\$ (460,230)	\$ 3,139,780	\$ 508,740
Ohio Water Development Authority, 4.77% \$948,523 2002 Loan due through 2002	872,288	0	(33,061)	839,227	34,633
Ohio Water Development Authority, 4.4% 2003 Loan due through 2023	2,144,545	0	(81,059)	2,063,486	84,665
Ohio Public Works Commission - 0% \$283,455 1995 Note due through 2015	155,897	0	(21,259)	134,638	7,085
Variable Rate (4.05% in 2000 to 5.05% in 2014), 1997 \$2,130,000 Sanitary Sewer Various Purpose Improvement due through 2014	<u>1,695,000</u>	<u>0</u>	<u>(140,000)</u>	<u>1,555,000</u>	<u>145,000</u>
<i>Total Enterprise Fund Debt - Sewer</i>	<u>8,467,740</u>	<u>0</u>	<u>(735,609)</u>	<u>7,732,131</u>	<u>780,123</u>
<i>Other Liabilities:</i>					
Compensated Absences	141,953	116,255	(105,589)	152,619	113,508
Total Business-Type Activities	<u>8,609,693</u>	<u>116,255</u>	<u>(841,198)</u>	<u>7,884,750</u>	<u>893,631</u>
Total Long-Term Liabilities	<u>\$ 45,865,190</u>	<u>\$ 8,233,860</u>	<u>(\$10,641,446)</u>	<u>\$43,457,604</u>	<u>\$ 4,442,232</u>

OWDA loans will be paid from sewer user charges and OPWC loans will be paid with property taxes and other governmental revenues. General obligation bonds will be paid from the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The various purpose improvement notes will be paid from the debt service fund. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Prior Years' Defeasance Debt

In prior years, the City has defeased general obligation bonds of \$13,910,000 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of December 31, 2005, the amount of defeased debt outstanding but removed from governmental activities amounted to \$12,080,000.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Principal and Interest Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

Due In	Governmental					
	General Obligation Bonds		Special Assessment Bonds		Police & Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,030,000	\$ 1,426,745	\$ 130,000	\$ 106,298	\$ 1,337	\$ 3,229
2007	2,080,000	1,343,355	140,000	98,895	1,394	3,171
2008	1,955,000	1,261,248	145,000	90,423	1,454	3,111
2009	2,135,000	1,183,217	150,000	81,485	1,517	3,049
2010	1,645,000	1,096,495	155,000	72,105	1,582	2,984
2011-2015	8,805,000	4,427,839	865,000	199,590	8,990	13,840
2016-2020	9,315,000	2,200,325	170,000	13,925	11,093	11,736
2021-2025	3,135,000	308,450	0	0	13,688	9,139
2026-2030	0	0	0	0	16,891	5,935
2031-2035	0	0	0	0	18,352	1,987
	<u>\$31,100,000</u>	<u>\$ 13,247,674</u>	<u>\$ 1,755,000</u>	<u>\$ 662,721</u>	<u>\$ 76,298</u>	<u>\$ 58,181</u>

Due In	Governmental			
	OPWC		Totals	
	Principal	Interest	Principal	Interest
2006	\$ 9,732	\$ 0	\$ 2,171,069	\$ 1,536,272
2007	19,457	0	2,240,851	1,445,421
2008	19,457	0	2,120,911	1,354,782
2009	19,457	0	2,305,974	1,267,751
2010	19,457	0	1,821,039	1,171,584
2011-2015	97,285	0	9,776,275	4,641,269
2016-2020	11,671	0	9,507,764	2,225,986
2021-2025	0	0	3,148,688	317,589
2026-2030	0	0	16,891	5,935
2031-2035	0	0	18,352	1,987
	<u>\$ 196,516</u>	<u>\$ 0</u>	<u>\$ 33,127,814</u>	<u>\$ 13,968,576</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Principal and Interest Requirements (Continued)

Due In	Business-Type					
	General Obligation Bonds		OWDA		OPWC	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 145,000	\$ 76,213	\$ 628,038	\$ 464,674	\$ 7,085	\$ 0
2007	155,000	69,687	687,071	405,638	14,173	0
2008	165,000	62,635	752,003	340,708	14,173	0
2009	170,000	55,045	823,440	269,170	14,173	0
2010	165,000	46,460	902,366	190,346	14,173	0
2011-2015	755,000	98,223	815,417	449,774	70,861	0
2016-2020	0	0	1,018,063	247,129	0	0
2021-2023	0	0	416,095	33,338	0	0
	<u>\$ 1,555,000</u>	<u>\$ 408,263</u>	<u>\$ 6,042,493</u>	<u>\$ 2,400,777</u>	<u>\$134,638</u>	<u>\$ 0</u>

Due In	Business-Type	
	Total	
	Principal	Interest
2006	\$ 780,123	\$ 540,887
2007	856,244	475,325
2008	931,176	403,343
2009	1,007,613	324,215
2010	1,081,539	236,806
2011-2015	1,641,278	547,997
2016-2020	1,018,063	247,129
2021-2023	416,095	33,338
	<u>\$ 7,732,131</u>	<u>\$ 2,809,040</u>

NOTE 14: CONDUIT DEBT

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

Type	On Behalf of	Original Issuance	Year Issued	Balance at 12/31/05
Industrial Revenue Bonds	Nutro Corporation	\$ 1,350,000	1994	\$ 500,000
Industrial Revenue Bonds	Nutro Corporation	1,750,000	2000	1,360,000
Total		<u>\$ 3,100,000</u>		<u>\$ 1,860,000</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, 2005
(CONTINUED)

NOTE 15: CONSTRUCTION COMMITMENTS

As of December 31, 2005, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Rt. 82 Widening	\$ 1,079,006
2005 Storm and Sanitary Sewer Decanting Station	13,826
Albion, Hunt, and Westwood Rehab	19,481
2005 Paving Program	77,127
Foltz Parkway Extension	41,496
Prospect Road Culvert #8	12,130
Pearl Road Widening	35,340
Total	<u>62,660</u> <u>\$ 1,341,066</u>

NOTE 16: 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 17: 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.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Southwest General Health Center (Continued)

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 2005, the City of Strongsville contributed \$372,085 to the Health Center.

NOTE 18: **SUBSEQUENT EVENTS**

On September 14, 2006, the City issued an official statement describing general obligations bonds being sold in the amount of \$11,740,000. 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, 2005**

Federal Grantor Pass Through Grantor Program Title	CFDA #	Pass Through Entity Identifying #	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through the Ohio Department of Transportation			
Highway Planning and Construction	20.205	CUY – SR - 82	\$2,444,634
Highway Planning and Construction	20.205	CUY – SR - 42	<u>64,297</u>
Total U.S. Department of Transportation			<u>2,508,931</u>
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION			
Pass through the Ohio Department of Public Safety			
State and Community Highway Safety	20.600	OVI 18-00-00-0561	<u>20,944</u>
Total National Highway Traffic Safety Administration			<u>20,944</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Programs			
State Homeland Security Grant	16.710		26,446
COPS Universal Hiring Grant	16.592		16,446
Pass through the Ohio Office of the Attorney General			
Drug Abuse Resistance Education (DARE)	16.580	N/A	<u>30,182</u>
Total U.S. Department of Justice			<u>73,074</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass through the Cuyahoga County Department of Development			
Community Development Block Grant	14.218	CE0400241-011	<u>18,985</u>
Total U.S. Department of Housing and Urban Development			<u>18,985</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass through the Ohio Department of Public Safety			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-02917	21,195
Pass through the Cuyahoga County Department of Justice			
Urban Area Security Initiative	97.008	CEO500917-01	30,680
Citizens Corps Grant Program	97.053	CEO500346-01	<u>10,010</u>
Total Pass through the Cuyahoga County Department of Justice			<u>40,690</u>
Total U.S. Department of Homeland Security			<u>61,885</u>
Total Federal Award Expenditures			<u>\$2,683,819</u>

The Notes to the Schedule of Federal Awards Expenditures are an integral part of this statement.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

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



Mary Taylor, CPA

Auditor of State

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

Members of City Council
City of Strongsville
Cuyahoga County
16099 Foltz 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 13, 2007, where we noted the City implemented Technical Bulletin 2004-2 resulting in a restatement of January 1, 2005 fund balances in the General, Fire Levy and Other Nonmajor Governmental Funds. The January 1, 2005 fund balances were also restated in the General Fund due to the elimination of Internal Service Funds, General Capital Improvement and the Route 82 Capital Improvement Funds due to a reclassification of short-term notes payable and in the Sanitary Sewer Proprietary Fund due to the understatement of long-term liabilities. In addition, the January 1, 2005 budget (non-GAAP) fund balances were restated in the General Fund due to an overstatement of encumbrances and Fire Levy Funds due to an understatement of encumbrances. The January 1, 2005 net assets were also restated due to accounting errors resulting from an understatement of non-depreciable capital assets and long-term liabilities.

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 to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated April 13, 2007, 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 2005-001 through 2005-003. In a separate letter to the City's management dated April 13, 2007, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 13, 2007



Mary Taylor, CPA

Auditor of State

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 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, 2005. 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 its 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, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005.

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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
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www.auditor.state.oh.us

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 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 13, 2007

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005**

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)?	No
<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):	Highway Planning and Construction Grant – 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**

FINDING NUMBER	2005-001
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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.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER	2005-001
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BUDGETING FOR OHIO DEPARTMENT OF TRANSPORTATION PROJECTS (Continued)

The City participates in the Route 82 Corridor Project through the Ohio Department of Transportation and received state and federal grants totaling \$6,832,459 in 2005. 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 this activity. 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 appropriate funds.

OFFICIAL'S RESPONSE:

Due to time constraints, the City was unable to address this finding in 2005. During 2006 however, the City subsequently established procedures to monitor grant receipts and disbursements on a monthly basis. The City amended its Certificate of Estimated Resources and Appropriation Ordinance several times in 2006 to include all federal and state grant receipts and disbursements.

FINDING NUMBER	2005-002
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DEFICIT FUND BALANCES

Ohio Rev. Code Section 5705.10(H) 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 month-end:

Fund/Month Ending	Deficit Balance	Fund/Month Ending	Deficit Balance
Fund 203 Police Pension		Fund 214 Multi-Purpose Complex	
3/31/05	(\$168,277.08)	8/31/05	(\$276,541.72)
4/30/05	(\$235,738.05)	9/30/05	(\$306,798.48)
6/30/05	(\$376,640.65)	11/30/05	(\$157,715.55)
7/31/05	(\$321,775.27)		
8/31/05	(\$365,426.89)	Fund 221 Universal Hiring Grant	
9/30/05	(\$975,794.48)	11/30/05	(\$14,696.66)
10/31/05	(\$461,337.80)		
11/30/05	(\$529,837.62)		
Fund 204 S.C.M. & R.		Fund 661 Municipal Garage	
10/31/05	(\$1,208,451.16)	3/31/05	(\$413,237.56)
11/30/05	(\$1,661,882.03)	4/30/05	(\$551,099.14)
Fund 206 Motor Vehicle		6/30/05	(\$793,805.65)
9/30/05	(\$2,274.61)	7/31/05	(\$908,958.12)
10/31/05	(\$114,520.90)	8/31/05	(\$1,047,700.94)
11/30/05	(\$97,253.40)		

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER	2005-002
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DEFICIT FUND BALANCES (Continued)

	Fund 208 Fire Levy		Fund 662 Bldg. Maintenance & Operation
6/30/05	(\$690,104.45)	3/31/05	(\$215,683.09)
8/31/05	(\$249,435.82)	4/30/05	(\$290,505.69)
9/30/05	(\$692,159.54)	6/30/05	(\$552,094.69)
10/31/05	(\$702,179.04)	7/31/05	(\$653,380.43)
11/30/05	(\$1,159,014.37)	8/31/05	(\$770,803.49)
 Fund 209 Fire Pension			
3/31/05	(\$235,839.22)	8/31/05	(\$447,990.44)
4/30/05	(\$306,708.87)	9/30/05	(\$520,064.06)
6/30/05	(\$460,668.46)	10/31/05	(\$556,230.19)
7/31/05	(\$400,233.19)	11/30/05	(\$657,095.67)

These deficits were eliminated by December 31, 2005.

Our review of the August 31, 2005 Year-To-Date Budget Report noted interfund transfers in the amount of \$4,998,100 authorized by Council on March 23, 2005 had not been made. If these transfers had been made in a timely manner, some of the deficit fund balances may have been avoided. This weakness indicates a lack of budgetary monitoring by Council. 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.

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.

OFFICIAL'S RESPONSE:

The deficit fund balances occurred in funds that had transfers budgeted but were not made until the end of the year. As noted in the Auditor of State's findings, all deficits were eliminated by December 31, 2005.

In 2006 however, the Supervisor of Budget and Management did review all fund balances monthly and, when funds became available, necessary transfers were made to eliminate negative fund balances.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER	2005-003
-----------------------	-----------------

EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS

Ohio Rev. Code Sections 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 December 31, 2005:

Fund	Appropriations	Expenditures plus Encumbrances	Variance
General – Council/Other	\$31,300	\$38,126	(\$6,826)
General – Legal/Personal Services	\$332,300	\$371,783	(\$39,483)
General – E.J.L Service Center Bldg. Maintenance/Other	\$428,000	\$578,782	(\$150,782)
Recycling	\$23,000	\$26,059	(\$3,059)
Sanitary Sewer Capital Improvement	\$742,602	\$1,281,707	(\$539,105)

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.

OFFICIAL’S RESPONSE:

Due to time constraints, the City was unable to address this finding in 2005. In 2006 however, the Supervisor of Budget and Management was responsible for monitoring budgets, expenditures, and encumbrances on a weekly basis to ensure compliance.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Approval of timesheets/timecards	Yes	N/A
2004-002	Budgeting for Ohio Department of Transportation projects	No	Finding repeated as 2005-001
2004-003	Expenditures plus encumbrances in excess of appropriations	No	Finding repeated as 2005-003
2004-004	Transfers	No	Finding combined with 2005-002
2004-005	Deficit fund balances	No	Finding repeated as 2005-002



Mary Taylor, CPA
Auditor of State

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
MAY 29, 2007**