



**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Strongsville
Cuyahoga County
16099 Foltz Parkway
Strongsville, Ohio 44149

To the City Council:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and the Street Construction, Maintenance and Repair and Fire Levy major special revenue funds 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 restated the December 31, 2005 fund balance of the General Bond Retirement Fund due to an overstatement of unamortized bond issuance costs. The City also restated the December 31, 2005 fund balances of the Street Construction, Maintenance and Repair Fund, and the Other Nonmajor Governmental Funds due to a reclassification of short-term liabilities to long-term liabilities. In addition, the City restated the December 31, 2005 net assets of the Governmental and Business-Type Activities due to understatements of depreciable capital assets and overstatements of non-depreciable capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 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 accounting principles generally accepted in the 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 is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

December 13, 2007

**CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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, 2006. 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 2006 by \$215,749,981. Of this amount, \$17,812,305 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$11,785,162 and may be used to meet the government's on-going obligations. The unrestricted net assets of the City's business-type activities are \$6,027,143, with Invested with Capital Assets, Net of Related Debt accounting for \$46,347,516 or 88.5 percent of the total business-type activities' net assets.
- The City's total net assets increased \$12,482,332 or 6.1 percent in 2006. Net assets of the governmental activities increased \$14,111,937, which represents a 9.5 percent increase from 2005. Net assets of the business-type activities decreased \$1,629,605 or 3.0 percent from 2005.
- The general fund reported a fund balance of \$9,979,188 at the end of the current fiscal year. The unreserved fund balance for the general fund was \$9,633,392 or 34.2 percent of the total general fund expenditures (including transfers out). There was a \$4,171,251 increase in the total general fund balance for the year ended December 31, 2006.
- On a cash basis, the City's income tax collections increased by approximately \$1,975,128 or 8.7 percent during 2006.

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*.

CITY OF STRONGSVILLE, OHIO
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The City maintains 28 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, street construction, maintenance and repair fund, fire station 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 22 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 an enterprise fund 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.

The basic proprietary fund financial statements can be found on pages 24-26 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 27 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and can be found on pages 29-65.

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 2006?" 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 2006 compared to 2005.

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
Assets						
Current and Other Assets	\$ 50,805,732	\$ 41,374,585	\$ 7,472,894	\$ 8,197,761	\$ 58,278,626	\$ 49,572,346
Capital Assets	<u>170,191,242</u>	<u>160,174,946</u>	<u>53,305,441</u>	<u>55,238,931</u>	<u>223,496,683</u>	<u>215,413,877</u>
Total Assets	<u>220,996,974</u>	<u>201,549,531</u>	<u>60,778,335</u>	<u>63,436,692</u>	<u>281,775,309</u>	<u>264,986,223</u>
Liabilities						
Long-Term Liabilities	45,131,011	37,762,854	7,100,858	7,884,750	52,231,869	45,647,604
Other Liabilities	<u>12,490,641</u>	<u>14,523,292</u>	<u>1,302,818</u>	<u>1,547,678</u>	<u>13,793,459</u>	<u>16,070,970</u>
Total Liabilities	<u>57,621,652</u>	<u>52,286,146</u>	<u>8,403,676</u>	<u>9,432,428</u>	<u>66,025,328</u>	<u>61,718,574</u>
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	127,579,183	127,123,430	46,347,516	47,506,800	173,926,699	174,630,230
Restricted	24,010,977	13,989,296	0	0	24,010,977	13,989,296
Unrestricted	<u>11,785,162</u>	<u>8,150,659</u>	<u>6,027,143</u>	<u>6,497,464</u>	<u>17,812,305</u>	<u>14,648,123</u>
Total Net Assets	<u>\$163,375,322</u>	<u>\$149,263,385</u>	<u>\$52,374,659</u>	<u>\$54,004,264</u>	<u>\$215,749,981</u>	<u>\$203,267,649</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 \$215,749,981 at the close of the most recent fiscal year.

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(Unaudited)

The largest portion of the City's total net assets (80 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 \$17,812,305; the unrestricted net assets of the City's business-type activities, \$6,027,143 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 \$16,789,086 from 2005 to 2006, while the City's total liabilities increased by \$4,306,754. 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	
	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
Revenues						
Program Revenues:						
Charges for Services	\$ 7,675,589	\$ 6,714,351	\$ 8,947,352	\$ 8,818,144	\$ 16,622,941	\$ 15,532,495
Operating Grants and Contributions	2,468,744	2,015,010	0	0	2,468,744	2,015,010
Capital Grants and Contributions	1,183,781	8,520,344	0	0	1,183,781	8,520,344
General Revenues:						
Property Taxes	8,969,095	8,756,401	0	0	8,969,095	8,756,401
Income Taxes	27,408,774	26,890,531	0	0	27,408,774	26,890,531
Other Taxes	1,735,735	1,678,083	0	0	1,735,735	1,678,083
Grants and Entitlements	1,743,170	2,442,618	0	0	1,743,170	2,442,618
Gain on Sale of Capital Assets	0	382,940	0	0	0	382,940
Investment Earnings	1,488,166	784,251	0	0	1,488,166	784,251
Other	100,798	11,175	0	0	100,798	11,175
Total Revenues	52,773,852	58,195,704	8,947,352	8,818,144	61,721,204	67,013,848
Program Expenses						
General Government	6,733,553	5,629,536	0	0	6,733,553	5,629,536
Security of Persons and Property	15,574,728	15,451,039	0	0	15,574,728	15,451,039
Public Health Services	1,159,001	791,859	0	0	1,159,001	791,859
Transportation	4,964,705	11,193,764	0	0	4,964,705	11,193,764
Community Environment	1,185,523	1,324,095	0	0	1,185,523	1,324,095
Public Works	2,534,684	1,339,811	0	0	2,534,684	1,339,811
Leisure Time Activities	4,692,170	4,193,433	0	0	4,692,170	4,193,433
Interest and Fiscal Charges	1,817,551	1,607,729	413,679	473,361	2,231,230	2,081,090
Sewer	0	0	10,163,278	8,723,967	10,163,278	8,723,967
Total Program Expenses	38,661,915	41,531,266	10,576,957	9,197,328	49,238,872	50,728,594
<i>Increase (Decrease) in Net Assets</i>	\$ 14,111,937	\$ 16,664,438	\$ (1,629,605)	\$ (379,184)	\$ 12,482,332	\$ 16,285,254

Governmental Activities

Governmental activities increased the City's net assets by \$14,111,937 due to total revenues of \$52,773,852 exceeding total program expenses of \$38,661,915. 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 2006, 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 2006 was \$27,408,774. Of the \$52,773,852 in total revenues, income tax accounts for 52 percent of that total. Property taxes of \$8,969,095 account for 17 percent of total revenues; operating grants and capital grants and contributions, and general revenues from grants and entitlements account for 10 percent of total governmental revenues; and charges for services and other revenue make up the remaining 21 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 transportation. During 2006, 13 percent of program expenses related to transportation, which include road repairs and snow removal.

Business-Type Activities

The business-type activities of the City, which pertain to the City's sewer operations, decreased the City's net assets by \$1,629,605. This is due to increased contributions to the operations of the Sanitary Sewer Treatment plants and purchase of new equipment.

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, 2006, the City's governmental funds reported ending fund balances of \$30,610,600, an increase of \$12,122,864 in comparison with the prior year. \$26,818,223 of the ending fund balance for 2006 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 to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At December 31, 2006, unreserved fund balance of the general fund was \$9,633,392, while total fund balance was \$9,979,188. 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 2005 increased by \$4,171,251 during 2006. Key factors in this increase are as follows:

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

GENERAL FUND

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$5,807,937. General Fund expenditures (including transfers out) for the current year were \$28,173,498 with revenues and other financing sources of \$32,344,749, leaving a fund balance of \$9,979,188 and an unreserved balance of \$9,633,392 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 2006, 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 \$28,426,053. The final budgeted revenue amount (including other financing sources) was \$33,348,203. This increase was primarily due to an increase in municipal income taxes, interest income, and grant revenue. Original General Fund budgeted expenditures (including other financing uses) were \$28,001,900 and the final amended budgeted expenditures (including other financing uses) were \$31,551,900. Actual General Fund expenditures were \$30,180,181 or \$1,371,719 less than was budgeted due to prudent fiscal management.

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Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2006, amounts to \$223,496,683 (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, 2006, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
Land	\$ 5,855,912	\$ 5,855,912	\$ 1,508,079	\$ 1,508,079	\$ 7,363,991	\$ 7,363,991
Construction in Progress	<u>1,818,647</u>	<u>23,445,258</u>	<u>0</u>	<u>137,674</u>	<u>1,818,647</u>	<u>23,582,932</u>
Total Non-Depreciable	<u>7,674,559</u>	<u>29,301,170</u>	<u>1,508,079</u>	<u>1,645,753</u>	<u>9,182,638</u>	<u>30,946,923</u>
Buildings	24,397,294	24,585,593	5,475,257	5,673,108	29,872,551	30,258,701
Improvements	779,812	839,845	0	0	779,812	839,845
Machinery and Equipment	1,011,085	538,208	82,581	98,987	1,093,666	637,195
Furniture and Fixtures	546,762	445,831	0	0	546,762	445,831
Vehicles	2,494,666	2,197,569	884,152	736,180	3,378,818	2,933,749
Infrastructure:						
Streets	80,325,163	49,707,218	0	0	80,325,163	49,707,218
Storm Sewers	45,437,210	44,723,054	0	0	45,437,210	44,723,054
Sidewalks	3,658,581	3,812,061	0	0	3,658,581	3,812,061
Traffic Signals	3,866,110	4,024,397	0	0	3,866,110	4,024,397
Sanitary Sewer	<u>0</u>	<u>0</u>	<u>45,355,372</u>	<u>47,084,903</u>	<u>45,355,372</u>	<u>47,084,903</u>
Total Depreciable	<u>162,516,683</u>	<u>130,873,776</u>	<u>51,797,362</u>	<u>53,593,178</u>	<u>214,314,045</u>	<u>184,466,954</u>
Total Capital Assets	<u>\$170,191,242</u>	<u>\$160,174,946</u>	<u>\$53,305,441</u>	<u>\$55,238,931</u>	<u>\$223,496,683</u>	<u>\$215,413,877</u>

Major capital asset events during 2006 included the following:

- Total capital assets, net of accumulated depreciation, increased by \$8,082,806.
- Business-type activity capital assets decreased by \$1,933,490 (net of accumulated depreciation). The decrease was due to the aging of infrastructure.
- Governmental activity capital assets increased by \$10,016,296 (net of accumulated depreciation). This increase was primarily due to the completion of the Route 82 construction project.

Debt

The general bond retirement debt service fund has a total fund balance of \$2,521,692. The general bond retirement fund is funded primarily with real estate tax revenue at the level necessary to meet debt service requirements. At December 31, 2006, the City had \$49,569,984 of notes, bonds and loans outstanding, with \$42,612,059 in governmental activities and \$6,957,925 in business-type activities, and are included herein.

CITY OF STRONGSVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2006
(Unaudited)

Table 4 - Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2005		2005		2005	
	2006	Restated	2006	Restated	2006	Restated
Long Term Debt						
General Obligation Bonds	40,810,000	31,100,000	0	0	40,810,000	31,100,000
OPWC Loan	177,059	196,516	120,465	134,638	297,524	331,154
OWDA Loan	0	0	5,427,460	6,042,493	5,427,460	6,042,493
Special Assessment Bonds	1,625,000	1,755,000	0	0	1,625,000	1,755,000
Sanitary Sewer Bonds	0	0	1,410,000	1,555,000	1,410,000	1,555,000
Various Purpose						
Improvement Note	0	2,190,000	0	0	0	2,190,000
Total Outstanding Debt	<u>\$42,612,059</u>	<u>\$35,241,516</u>	<u>\$ 6,957,925</u>	<u>\$ 7,732,131</u>	<u>\$49,569,984</u>	<u>\$42,973,647</u>

- During September 2006, the City issued \$11,740,000 General Obligation Various Improvement Bonds for the purpose of constructing, equipping, furnishing, improving the site of, and otherwise improving a new fire station (the Fire Station Project); renovating, equipping, furnishing, and otherwise improving the existing municipal service center complex (Municipal Service Center Project); renovating, equipping, furnishing, and otherwise improving the existing Police/City Hall Complex (Police/City Hall Complex Project); and acquiring motorized vehicles and equipment together with any necessary appurtenances thereto, for use by the Service Department, improving the City's information technology system by acquiring and installing computers, software and accessories, and fiber-optic equipment and software for a data voice and video network, including a new phone system and voice mail, all together with any necessary appurtenances thereto, and improving the City's public safety system by acquiring and installing 911 equipment and an emergency back-up electric generator, all together with any necessary appurtenance thereto (the 2005 Projects).

In a continuing effort to be conscientious about how taxpayer dollars are spent, the City maintained throughout 2006 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, 2006, the City's total net debt amounted to 3 percent of the total assessed value of all property within the City. Unvoted net debt amounted to 2.60 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, 2006
(Unaudited)

Economic Factors

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 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 2006 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 2006 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.

Basic Financial Statements

CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 26,869,981	\$ 4,646,036	\$ 31,516,017
Materials and Supplies Inventory	497,653	1,900	499,553
Accounts Receivable	247,025	3,489,850	3,736,875
Internal Balances	664,892	(664,892)	0
Intergovernmental Receivable	2,396,656	0	2,396,656
Prepaid Items	316,724	0	316,724
Taxes Receivable	16,793,971	0	16,793,971
Special Assessments Receivable	2,579,710	0	2,579,710
Unamortized Bond Issuance Costs	439,120	0	439,120
Nondepreciable Capital Assets	7,674,559	1,508,079	9,182,638
Depreciable Capital Assets, Net	<u>162,516,683</u>	<u>51,797,362</u>	<u>214,314,045</u>
Total Assets	<u>220,996,974</u>	<u>60,778,335</u>	<u>281,775,309</u>
Liabilities			
Accounts Payable	782,136	132,661	914,797
Accrued Wages	375,841	29,609	405,450
Contracts Payable	1,103,125	0	1,103,125
Intergovernmental Payable	822,926	1,140,548	1,963,474
Deposits Payable	99,736	0	99,736
Deferred Bond Premium	296,338	0	296,338
Accrued Interest Payable	162,998	0	162,998
Deferred Revenue	8,847,541	0	8,847,541
Long-Term Liabilities:			
Due within One Year	3,740,449	969,631	4,710,080
Due in More Than One Year	<u>41,390,562</u>	<u>6,131,227</u>	<u>47,521,789</u>
Total Liabilities	<u>57,621,652</u>	<u>8,403,676</u>	<u>66,025,328</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	127,579,183	46,347,516	173,926,699
Restricted for:			
Capital Projects	9,100,023	0	9,100,023
Debt Service	5,992,654	0	5,992,654
Other Purposes	8,918,300	0	8,918,300
Unrestricted	<u>11,785,162</u>	<u>6,027,143</u>	<u>17,812,305</u>
Total Net Assets	<u>\$ 163,375,322</u>	<u>\$ 52,374,659</u>	<u>\$ 215,749,981</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
<i>Governmental Activities:</i>							
Security of Persons and Property	\$ 15,574,728	\$ 759,474	\$ 526,860	\$ 0	\$ (14,288,394)	\$ 0	\$ (14,288,394)
Public Health and Welfare	1,159,001	83,896	0	0	(1,075,105)	0	(1,075,105)
Leisure Time Activities	4,692,170	2,836,202	50,811	0	(1,805,157)	0	(1,805,157)
Community Environment	1,185,523	181,432	0	0	(1,004,091)	0	(1,004,091)
Public Works	2,534,684	30,198	0	980,643	(1,523,843)	0	(1,523,843)
Transportation	4,964,705	268,943	1,886,351	203,138	(2,606,273)	0	(2,606,273)
General Government	6,733,553	3,515,444	4,722	0	(3,213,387)	0	(3,213,387)
Interest and Fiscal Charges	1,817,551	0	0	0	(1,817,551)	0	(1,817,551)
<i>Total Governmental Activities</i>	<u>38,661,915</u>	<u>7,675,589</u>	<u>2,468,744</u>	<u>1,183,781</u>	<u>(27,333,801)</u>	<u>0</u>	<u>(27,333,801)</u>
<i>Business-Type Activities:</i>							
Sanitary Sewer Fund	10,576,957	8,947,352	0	0	0	(1,629,605)	(1,629,605)
<i>Total Business-Type Activities</i>	<u>10,576,957</u>	<u>8,947,352</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,629,605)</u>	<u>(1,629,605)</u>
Total Primary Government	<u>\$ 49,238,872</u>	<u>\$ 16,622,941</u>	<u>\$ 2,468,744</u>	<u>\$ 1,183,781</u>	<u>(27,333,801)</u>	<u>(1,629,605)</u>	<u>(28,963,406)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					560,017	0	560,017
Special Revenue					4,849,411	0	4,849,411
Debt Service					3,559,667	0	3,559,667
Income Taxes Levied for:							
General Purposes					24,161,083	0	24,161,083
Special Revenue					3,247,691	0	3,247,691
Other Taxes for:							
General Purposes					1,423,291	0	1,423,291
Special Revenue					312,444	0	312,444
Grants and Entitlements not Restricted to Specific Programs					1,743,170	0	1,743,170
Investment Earnings					1,488,166	0	1,488,166
Miscellaneous Revenue					100,798	0	100,798
Total General Revenues					<u>41,445,738</u>	<u>0</u>	<u>41,445,738</u>
Change in Net Assets					14,111,937	(1,629,605)	12,482,332
Net Assets Beginning of Year, as Restated (Note 3)					<u>149,263,385</u>	<u>54,004,264</u>	<u>203,267,649</u>
Net Assets End of Year					<u>\$ 163,375,322</u>	<u>\$ 52,374,659</u>	<u>\$ 215,749,981</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Street Construction, Maintenance, and Repair	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	Fire Station Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets								
Equity in Pooled Cash and Cash Equivalents	\$ 6,779,727	\$ 3,020,513	\$ 489,239	\$ 1,856,800	\$ 456,308	\$ 6,729,622	\$ 7,537,772	\$ 26,869,981
Taxes Receivable	6,711,464	1,264,611	3,389,919	4,023,564	0	0	1,404,413	16,793,971
Accounts Receivable	43,981	10,304	0	0	0	0	192,740	247,025
Special Assessments Receivable	41,285	0	0	0	2,538,425	0	0	2,579,710
Intergovernmental Receivable	903,127	843,381	200,158	245,660	0	0	204,330	2,396,656
Due from Other Funds	0	0	0	664,892	0	0	0	664,892
Inventory	29,072	465,920	0	0	0	0	2,661	497,653
Prepaid Items	316,724	0	0	0	0	0	0	316,724
Total Assets	<u>\$ 14,825,380</u>	<u>\$ 5,604,729</u>	<u>\$ 4,079,316</u>	<u>\$ 6,790,916</u>	<u>\$ 2,994,733</u>	<u>\$ 6,729,622</u>	<u>\$ 9,341,916</u>	<u>\$50,366,612</u>
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	\$ 339,125	\$ 221,185	\$ 16,788	\$ 0	\$ 0	\$ 0	\$ 205,038	\$ 782,136
Contracts Payable	0	0	0	0	0	313,749	789,376	1,103,125
Deposits Payable	0	0	0	0	0	0	99,736	99,736
Salaries, Wages, and Benefits Payable	171,479	61,452	98,807	0	0	0	44,103	375,841
Intergovernmental Payable	784,841	8,501	23,716	0	0	0	5,868	822,926
Deferred Revenue	3,550,747	1,092,967	3,590,077	4,269,224	2,538,425	0	1,530,808	16,572,248
Total Liabilities	<u>4,846,192</u>	<u>1,384,105</u>	<u>3,729,388</u>	<u>4,269,224</u>	<u>2,538,425</u>	<u>313,749</u>	<u>2,674,929</u>	<u>19,756,012</u>
Fund Balances								
Reserved for Inventory	29,072	465,920	0	0	0	0	2,661	497,653
Reserved for Prepaid Items	316,724	0	0	0	0	0	0	316,724
Reserved for Debt Service	0	0	0	2,521,692	456,308	0	0	2,978,000
Unreserved	9,633,392	3,754,704	349,928	0	0	6,415,873	6,664,326	26,818,223
Total Fund Balances (Deficits)	<u>9,979,188</u>	<u>4,220,624</u>	<u>349,928</u>	<u>2,521,692</u>	<u>456,308</u>	<u>6,415,873</u>	<u>6,666,987</u>	<u>30,610,600</u>
Total Liabilities and Fund Balances	<u>\$ 14,825,380</u>	<u>\$ 5,604,729</u>	<u>\$ 4,079,316</u>	<u>\$ 6,790,916</u>	<u>\$ 2,994,733</u>	<u>\$ 6,729,622</u>	<u>\$ 9,341,916</u>	<u>\$ 50,366,612</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total Governmental Fund Balances		\$30,610,600
<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.		170,191,242
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 507,539	
Grants and Entitlements	1,667,129	
Income Tax	2,970,329	
Special Assessments	<u>2,579,710</u>	
Total		7,724,707
Deferred charges for bond premium and unamortized bond issuance costs reported in the net assets of governmental activities but not reported in the funds.		
Deferred Charges for Bond Premium	(296,338)	
Unamortized Bond Issuance Costs	<u>439,120</u>	
Total		142,782
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	(40,810,000)	
OPWC Loan	(177,059)	
Special Assessment Bonds	(1,625,000)	
Compensated Absences	(2,518,952)	
Accrued Interest Payable	<u>(162,998)</u>	
Total		<u>(45,294,009)</u>
Net Assets of Governmental Activities		<u>\$163,375,322</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, 2006

	General	Street Construction, Maintenance, and Repair	Fire Levy	General Bond Retirement	Special Assessments Bond Retirement	Fire Station Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues								
Municipal Income Taxes	\$ 24,990,328	\$ 3,117,315	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$28,107,643
Property Taxes	563,035	0	3,364,689	3,560,918	0	0	1,513,767	9,002,409
Other Taxes	1,030,922	0	0	0	0	0	312,444	1,343,366
Intergovernmental Revenue	1,179,055	1,675,029	332,253	350,892	0	0	1,968,360	5,505,589
Special Assessments	0	0	0	0	130,000	0	0	130,000
Charges for Services	550,971	30,870	1,483	0	0	8,200	4,157,587	4,749,111
Fines, Licenses, and Permits	1,824,145	0	1,635	0	0	0	56,669	1,882,449
Interest Income	1,377,765	0	0	0	101,029	0	0	1,478,794
Miscellaneous	805,305	150,504	12,358	0	0	0	124,937	1,093,104
Total Revenues	<u>32,321,526</u>	<u>4,973,718</u>	<u>3,712,418</u>	<u>3,911,810</u>	<u>231,029</u>	<u>8,200</u>	<u>8,133,764</u>	<u>53,292,465</u>
Expenditures								
Current:								
General Government	6,584,496	0	0	0	0	0	7,000	6,591,496
Security of Persons and Property	7,620,286	0	5,636,705	0	0	0	2,504,978	15,761,969
Public Health and Welfare	256,699	0	0	0	0	0	460,130	716,829
Leisure Time Activities	420,011	0	0	0	0	0	4,050,858	4,470,869
Community Environment	1,327,423	0	0	0	0	0	1,305	1,328,728
Public Works	2,528,424	0	0	0	0	0	6,260	2,534,684
Transportation	0	6,648,519	0	0	0	0	2,344,229	8,992,748
Capital Outlay	696,159	808,114	0	0	0	1,595,158	3,289,994	6,389,425
Debt Service:								
Principal Retirement	0	0	0	4,297,082	130,000	0	19,457	4,446,539
Interest and Fiscal Charges	0	0	0	1,631,827	106,297	0	0	1,738,124
Total Expenditures	<u>19,433,498</u>	<u>7,456,633</u>	<u>5,636,705</u>	<u>5,928,909</u>	<u>236,297</u>	<u>1,595,158</u>	<u>12,684,211</u>	<u>52,971,411</u>
Excess of Revenues Over (Under) Expenditures	<u>12,888,028</u>	<u>(2,482,915)</u>	<u>(1,924,287)</u>	<u>(2,017,099)</u>	<u>(5,268)</u>	<u>(1,586,958)</u>	<u>(4,550,447)</u>	<u>321,054</u>
Other Financing Sources (Uses)								
Transfers In	0	3,410,000	1,900,000	0	0	0	3,465,000	8,775,000
Transfers Out	(8,740,000)	0	(35,000)	0	0	0	0	(8,775,000)
Sale of Fixed Assets	23,223	0	0	0	0	0	0	23,223
Proceeds from General Obligation Bonds	0	0	0	2,228,587	0	7,961,413	1,550,000	11,740,000
Bond Issuance Costs	0	0	0	0	0	(204,661)	0	(204,661)
Premium on General Obligation Bonds	0	0	0	0	0	243,248	0	243,248
Total Other Financing Sources (Uses)	<u>(8,716,777)</u>	<u>3,410,000</u>	<u>1,865,000</u>	<u>2,228,587</u>	<u>0</u>	<u>8,000,000</u>	<u>5,015,000</u>	<u>11,801,810</u>
Net Change in Fund Balances	4,171,251	927,085	(59,287)	211,488	(5,268)	6,413,042	464,553	12,122,864
Fund Balances (Deficits) - Beginning of Year, as Restated	<u>5,807,937</u>	<u>3,293,539</u>	<u>409,215</u>	<u>2,310,204</u>	<u>461,576</u>	<u>2,831</u>	<u>6,202,434</u>	<u>18,487,736</u>
Fund Balances - End of Year	<u>\$ 9,979,188</u>	<u>\$ 4,220,624</u>	<u>\$ 349,928</u>	<u>\$ 2,521,692</u>	<u>\$ 456,308</u>	<u>\$ 6,415,873</u>	<u>\$ 6,666,987</u>	<u>\$30,610,600</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, 2006

Net Change in Fund Balances - Total Governmental Funds \$12,122,864

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. 10,016,296

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

Property Tax	(33,315)	
Grants and Entitlements	121,596	
Income Tax	(434,940)	
Special Assessments	<u>(204,549)</u>	
Total		(551,208)

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, governmental 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 debt and related items. (7,297,776)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (57,555)

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	<u>(120,684)</u>
----------------------	------------------

Change in Net Assets of Governmental Activities \$14,111,937

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Municipal Income Taxes	\$22,920,000	\$24,755,340	\$24,755,340	\$ 0
Property Taxes	559,698	563,035	563,035	0
Other Taxes	641,000	961,418	961,418	0
Intergovernmental Revenue	1,355,853	1,446,080	1,446,080	0
Charges for Services	236,802	568,838	568,838	0
Fines, Licenses, and Permits	1,459,700	1,789,553	1,789,553	0
Interest Income	650,000	1,377,765	1,377,765	0
Miscellaneous	<u>258,000</u>	<u>1,037,951</u>	<u>1,037,951</u>	<u>0</u>
Total Revenues	<u>28,081,053</u>	<u>32,499,980</u>	<u>32,499,980</u>	<u>0</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	7,914,900	7,914,900	7,809,610	105,290
Public Health and Welfare	296,000	296,000	264,438	31,562
Leisure Time Activities	500,400	500,400	407,225	93,175
Community Environment	1,394,400	1,444,400	1,326,181	118,219
Public Works	2,906,000	2,906,000	2,438,586	467,414
General Government	7,379,700	7,471,200	7,347,531	123,669
Capital Outlay	<u>1,220,500</u>	<u>1,279,000</u>	<u>1,046,610</u>	<u>232,390</u>
Total Expenditures	<u>21,611,900</u>	<u>21,811,900</u>	<u>20,640,181</u>	<u>1,171,719</u>
Excess of Revenues Over (Under) Expenditures	<u>6,469,153</u>	<u>10,688,080</u>	<u>11,859,799</u>	<u>1,171,719</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	20,000	23,223	23,223	0
Transfers Out	(6,390,000)	(8,940,000)	(8,740,000)	200,000
Advances In	325,000	825,000	825,000	0
Advances Out	<u>0</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(6,045,000)</u>	<u>(8,891,777)</u>	<u>(8,691,777)</u>	<u>200,000</u>
Net Change in Fund Balance	424,153	1,796,303	3,168,022	1,371,719
Fund Balance at Beginning of Year	<u>3,611,705</u>	<u>3,611,705</u>	<u>3,611,705</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 4,035,858</u>	<u>\$ 5,408,008</u>	<u>\$ 6,779,727</u>	<u>\$ 1,371,719</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Municipal Income Taxes	\$ 2,400,000	\$ 2,787,020	\$ 2,787,020	\$ 0
Intergovernmental Revenue	1,520,000	1,686,761	1,686,761	0
Charges for Services	43,351	30,870	30,870	0
Miscellaneous	0	142,500	142,500	0
Total Revenues	<u>3,963,351</u>	<u>4,647,151</u>	<u>4,647,151</u>	<u>0</u>
<u>Expenditures</u>				
Current:				
Transportation	7,962,500	7,962,500	7,259,100	703,400
Capital Outlay	85,000	85,000	628,548	(543,548)
Total Expenditures	<u>8,047,500</u>	<u>8,047,500</u>	<u>7,887,648</u>	<u>159,852</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,084,149)</u>	<u>(3,400,349)</u>	<u>(3,240,497)</u>	<u>(159,852)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	1,910,000	3,410,000	3,410,000	0
Total Other Financing Sources (Uses)	<u>1,910,000</u>	<u>3,410,000</u>	<u>3,410,000</u>	<u>0</u>
Net Change in Fund Balance	(2,174,149)	9,651	169,503	159,852
Fund Balance at Beginning of Year	<u>2,851,010</u>	<u>2,851,010</u>	<u>2,851,010</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 676,861</u>	<u>\$ 2,860,661</u>	<u>\$ 3,020,513</u>	<u>\$ 159,852</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 3,301,900	\$ 3,301,900	\$ 3,364,689	\$ 62,789
Intergovernmental Revenue	385,000	307,298	332,253	24,955
Charges for Services	1,100	1,100	1,483	383
Fines, Licenses, and Permits	1,000	1,000	1,635	635
Miscellaneous	<u>0</u>	<u>0</u>	<u>12,358</u>	<u>12,358</u>
Total Revenues	<u>3,689,000</u>	<u>3,611,298</u>	<u>3,712,418</u>	<u>101,120</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	6,131,700	6,132,800	5,577,113	555,687
Capital Outlay	<u>69,500</u>	<u>69,500</u>	<u>48,426</u>	<u>21,074</u>
Total Expenditures	<u>6,201,200</u>	<u>6,202,300</u>	<u>5,625,539</u>	<u>576,761</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,512,200)</u>	<u>(2,591,002)</u>	<u>(1,913,121)</u>	<u>677,881</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	2,100,000	2,100,000	1,900,000	(200,000)
Transfers Out	<u>0</u>	<u>(35,500)</u>	<u>(35,000)</u>	<u>500</u>
Total Other Financing Sources (Uses)	<u>2,100,000</u>	<u>2,064,500</u>	<u>1,865,000</u>	<u>(199,500)</u>
Net Change in Fund Balance	(412,200)	(526,502)	(48,121)	478,381
Fund Balance at Beginning of Year	<u>537,360</u>	<u>537,360</u>	<u>537,360</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 125,160</u>	<u>\$ 10,858</u>	<u>\$ 489,239</u>	<u>\$ 478,381</u>

See accompanying notes to the basic financial statements.

**CITY OF STRONGSVILLE, OHIO
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	<u>Business-Type Activities Sanitary Sewer Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,646,036
Accounts Receivable	3,489,850
Inventory	<u>1,900</u>
Total Current Assets	<u>8,137,786</u>
<u>Noncurrent Assets</u>	
Land and Construction in Progress	1,508,079
Depreciable Capital Assets, Net	<u>51,797,362</u>
Total Noncurrent Assets	<u>53,305,441</u>
TOTAL ASSETS	<u>61,443,227</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	132,661
Accrued Wages and Benefits	29,609
Due to Other Funds	664,892
Due to Other Governments	1,140,548
Compensated Absences Payable	117,481
General Obligation Bonds Payable	155,000
Ohio Water Development Authority Loans Payable	682,977
Ohio Public Works Commission Notes Payable	<u>14,173</u>
Total Current Liabilities	<u>2,937,341</u>
<u>Noncurrent Liabilities</u>	
Compensated Absences Payable	25,452
General Obligation Bonds Payable	1,255,000
Ohio Water Development Authority Loans Payable	4,744,483
Ohio Public Works Commission Notes Payable	<u>106,292</u>
Total Noncurrent Liabilities	<u>6,131,227</u>
TOTAL LIABILITIES	<u>9,068,568</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	46,347,516
Unrestricted	<u>6,027,143</u>
TOTAL NET ASSETS	<u>\$ 52,374,659</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, 2006

	Business-Type Activities <u>Sanitary Sewer Fund</u>
<u>Operating Revenues</u>	
Charges for Services	\$ 8,947,352
Total Operating Revenues	<u>8,947,352</u>
 <u>Operating Expenses</u>	
Materials and Supplies	135,026
Wages and Benefits	1,783,148
Utilities	1,661
Contractual Services	5,850,087
Maintenance	121,168
Depreciation	2,256,872
Other Expenses	<u>15,316</u>
Total Operating Expenses	<u>10,163,278</u>
Income (Loss) from Operations	<u>(1,215,926)</u>
 <u>Non-Operating Expenses</u>	
Interest and Fiscal Charges	<u>(413,679)</u>
Total Non-Operating Expenses	<u>(413,679)</u>
 Change in Net Assets	 (1,629,605)
 Net Assets, Beginning of Year, as Restated (Note 3)	 <u>54,004,264</u>
 Net Assets, End of Year	 <u>\$ 52,374,659</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, 2006**

	<u>Business-Type Activities Sanitary Sewer Fund</u>
<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	\$ 8,724,221
Cash Paid to Employees	(1,795,347)
Cash Paid to Suppliers for Goods and Services	<u>(6,006,551)</u>
Net Cash Provided (Used) by Operating Activities	<u>922,323</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchases of Capital Assets	(530,435)
Principal Paid on Long-Term Debt	(629,206)
Interest Paid on Long-Term Debt	<u>(365,285)</u>
Net Cash Provided by (Used) for Capital and Related Financing Activities	<u>(1,524,926)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(602,603)
Cash and Cash Equivalents, Beginning of Year	<u>5,248,639</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,646,036</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities</u>	
Operating Income (Loss)	\$ (1,215,926)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:	
Depreciation	2,256,872
(Increase) Decrease in Assets:	
Accounts Receivable	(98,439)
Inventory	(510)
Increase (Decrease) in Liabilities:	
Accounts Payable	121,893
Contracts Payable	(180,543)
Accrued Wages and Benefits	6,674
Compensated Absences Payable	3,973
Due to Other Funds	221,213
Intergovernmental Payable	<u>(192,884)</u>
Total Adjustments	<u>2,138,249</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 922,323</u>

See accompanying notes to the basic financial statements.

CITY OF STRONGSVILLE, OHIO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,206,818
Cash in Segregated Accounts	<u>48,496</u>
Total Assets	<u>\$ 1,255,314</u>
<u>Liabilities</u>	
Deposits Held and Due to Others	<u>\$ 1,255,314</u>
Total Liabilities	<u>\$ 1,255,314</u>

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 16.

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, 2006
(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 for 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-type 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, 2006
(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.
- *Street Construction, Maintenance, and Repair (SCMR) Fund* - This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.
- *Fire Levy Fund* - This fund is used to account for accumulated property taxes levied for the payment of salaries and related expenditures for the safety force.
- *General Bond Retirement Fund* - The general bond retirement fund accounts for the accumulation of resources used for the payment of principal and interest and fiscal charges on general obligation debt.
- *Special Assessment Bond Retirement Fund* - This fund accounts for resources used for the retirement of debt issued to finance public improvements deemed to benefit the properties against which special assessments are levied.
- *Fire Station Capital Improvement Fund* - This fund accounts for the resources used to construct, equip, and furnish a new fire station.

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, 2006
(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 sewer construction projects and sanitary sewer services provided to the residential and commercial users of the City. The City's nonmajor enterprise fund, the Sewer Capital Improvement Fund was eliminated in 2006 and its net assets were transferred to the Sanitary Sewer fund.

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 has no internal service funds.

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, mayors' court 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, 2006
(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, 2006
(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, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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 2006, the portfolio of the City was limited to a money market mutual fund, U.S. Agency notes, and 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 2006 amounted to \$1,377,765, which includes \$1,030,133 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, 2006, 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, 2006
(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, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

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, 2006
(CONTINUED)

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

I. **Capital Assets** (Continued)

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Land Improvements	15-20 years	15-20 years
Buildings and Improvements	50 years	50 years
Furniture and Fixtures	7-10 years	7-10 years
Machinery and Equipment	5-20 years	5-20 years
Vehicles	3-6 years	3-6 years
Infrastructure	25-50 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, 2006
(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 government-wide statement of net assets reports \$24,010,977 of restricted net assets, none of which is restricted by enabling legislation. 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, 2006
(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 2006.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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 within 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 2006.

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, 2006.

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, 2006
(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 2006, the City implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the City.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB Statement No 47 did not have an effect on the financial statements of the City.

B. **Restatement of Fund Balance**

Unamortized bond issuance costs were improperly recorded in the General Bond Retirement fund in the prior year resulting in assets being overstated. This required the General Bond Retirement fund balance to be adjusted by \$255,547. Notes payable, which were recorded as short-term fund liabilities in the prior year, 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 Street Construction, Maintenance, and Repair Fund and Other Nonmajor Governmental Funds to be adjusted by \$755,000 and \$1,435,000, respectively.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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

B. Restatement of Fund Balance (Continued)

	Governmental Funds		
	Street Construction, Maintenance, and <u>Repair Fund</u>	General Bond Retirement <u>Fund</u>	Other Nonmajor Governmental <u>Funds</u>
Fund Balances, December 31, 2005	\$ 2,538,539	\$ 2,565,751	\$ 4,750,434
Overstatement of Unamortized Bond Issuance Costs	0	(255,547)	0
Reclassification of Short-Term Notes Payable	<u>755,000</u>	<u>0</u>	<u>1,435,000</u>
Fund Balances, December 31, 2005, as Restated	<u>\$ 3,293,539</u>	<u>\$ 2,310,204</u>	<u>\$ 6,185,434</u>

C. Restatement of Net Assets

Net assets of governmental activities were adjusted in the prior year by \$897,831 due to a \$148,654 overstatement of nondepreciable capital assets and a \$1,046,485 understatement of depreciable capital assets that resulted from the City's reclassification of capital assets. Net assets for business-type activities were adjusted in the prior year by \$116,885 due to an understatement of depreciable capital assets that also resulted from the City's reclassification of capital assets.

	Governmental Activities	Business- Type Activities
Net Assets, December 31, 2005	\$148,365,554	\$ 53,887,379
Overstatement of Nondepreciable Capital Assets	(148,654)	0
Understatement of Depreciable Capital Assets	<u>1,046,485</u>	<u>116,885</u>
Net Assets, December 31, 2005, as Restated	<u>\$149,263,385</u>	<u>\$ 54,004,264</u>

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, 2006
(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).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Changes in Fund Balance			
General and Major Special Revenue Funds			
	General	SCMR	Fire Levy
GAAP Basis	\$ 4,171,251	\$ 927,085	\$ (59,287)
Net Adjustment for Revenue Accruals	1,003,454	(326,567)	0
Net Adjustment for Expenditure Accruals	<u>(2,006,683)</u>	<u>(431,015)</u>	<u>11,166</u>
Budget Basis	<u>\$ 3,168,022</u>	<u>\$ 169,503</u>	<u>\$ (48,121)</u>

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, 2006
(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, 2006
(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, 2006, 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, 2006, the carrying amount of the City's deposits was \$8,141,170 (including \$388,128 in certificates of deposit and \$48,496 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, 2006, \$400,000 of the City's bank balance of \$9,796,264 was covered by Federal Depository Insurance and \$9,396,264 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 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, 2006
(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 prices and acceptable other pricing methodologies. As of December 31, 2006, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>< 1</u>	<u>1-2</u>
U.S. Agency Notes	\$ 9,957,207	\$ 9,957,207	0
Repurchase Agreement	14,664,000	14,664,000	0
Money Market Mutual Fund	5,254	5,254	0
Totals	\$ 24,626,461	\$24,626,461	\$ 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, 2006
(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, 2006:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Percentage of Total</u>	<u>Credit Rating (*)</u>
U.S. Agency Notes	\$ 9,957,207	40.43%	AAA
Repurchase Agreement	14,664,000	59.55%	A-1
Money Market Mutual Fund	<u>5,254</u>	<u>.02%</u>	AAAm
Totals	<u>\$ 24,626,461</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, 2006.

Cash and Investments per Footnote

Carrying Amount of Deposits	\$ 8,141,170
Investments	24,626,461
Cash on Hand	<u>3,700</u>
Total Cash and Investments per Footnote	<u>\$ 32,771,331</u>

Cash and Investments per Statement of Net Assets

Governmental Activities	\$ 26,869,981
Business-Type Activities	4,646,036
Agency Funds	<u>1,255,314</u>
Total Cash and Investments per Statement of Net Assets	<u>\$ 32,771,331</u>

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2006, 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, 2006
(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 2006. 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 being phased out - the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009.

The assessed value upon which the 2006 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, 2006 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, 2006
(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 \$2,538,425 in the special assessment bond retirement fund. At December 31, 2006, the amount of delinquent special assessments was \$89,082.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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	\$ 556,262
Estate Tax	62,123
Homestead and Rollback	550,591
Gasoline Tax	911,763
Public Utility Reimbursement	64,139
Grants	97,800
Other	153,978
Total Intergovernmental Receivables	<u>\$ 2,396,656</u>

NOTE 7: **INTERFUND TRANSACTIONS**

A. Interfund Transfers

As of December 31, 2006, interfund transfers were as follows:

<u>Transfer To</u>	<u>Transfer From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Fire Levy Fund</u>	
Fire Levy Fund	\$ 1,900,000	\$ 0	\$ 1,900,000
Street Construction, Maintenance, and Repair Fund	3,410,000	0	3,410,000
Nonmajor Governmental Funds	3,430,000	35,000	3,465,000
Total Interfund Transfers	<u>\$ 8,740,000</u>	<u>\$ 35,000</u>	<u>\$ 8,775,000</u>

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

B. Interfund Balances

At December 31, 2006, a long-term interfund receivable/payable existed between the General Bond Retirement fund and the Sanitary Sewer enterprise fund in the amount of \$664,892. 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

No interfund receivable or payable balances exist at December 31, 2006.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2006 follows:

	Restated Balance <u>12/31/2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2006</u>
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 5,855,912	\$ 0	\$ 0	\$ 5,855,912
Construction in Progress	<u>23,445,258</u>	<u>16,486,661</u>	<u>(38,113,272)</u>	<u>1,818,647</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>29,301,170</u>	<u>16,486,661</u>	<u>(38,113,272)</u>	<u>7,674,559</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	30,089,556	416,404	(45,000)	30,460,960
Land Improvements	1,630,076	0	0	1,630,076
Machinery and Equipment	1,576,630	672,417	(52,572)	2,196,475
Furniture and Fixtures	573,228	171,950	0	745,178
Vehicles	11,026,803	1,047,295	(1,714,968)	10,359,130
Infrastructure:				
Streets	114,680,776	35,778,777	0	150,459,553
Storm Sewers	72,484,910	2,207,098	0	74,692,008
Sidewalks	7,547,197	102,180	0	7,649,377
Traffic Signalization	<u>4,575,000</u>	<u>25,217</u>	<u>0</u>	<u>4,600,217</u>
<i>Total Capital Assets Being Depreciated</i>	<u>244,184,176</u>	<u>40,421,338</u>	<u>(1,812,540)</u>	<u>282,792,974</u>
Less Accumulated Depreciation:				
Buildings	(5,503,963)	(584,548)	24,845	(6,063,666)
Land Improvements	(790,231)	(60,033)	0	(850,264)
Machinery and Equipment	(1,038,422)	(185,761)	38,793	(1,185,390)
Furniture and Fixtures	(127,397)	(71,019)	0	(198,416)
Vehicles	(8,829,234)	(750,198)	1,714,968	(7,864,464)
Infrastructure:				
Streets	(64,973,558)	(5,160,832)	0	(70,134,390)
Storm Sewers	(27,761,856)	(1,492,942)	0	(29,254,798)
Sidewalks	(3,735,136)	(255,660)	0	(3,990,796)
Traffic Signalization	<u>(550,603)</u>	<u>(183,504)</u>	<u>0</u>	<u>(734,107)</u>
Total Accumulated Depreciation	<u>(113,310,400)</u>	<u>(8,744,497)</u>	<u>1,778,606</u>	<u>(120,276,291)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>130,873,776</u>	<u>31,676,841</u>	<u>(33,934)</u>	<u>162,516,683</u>
Total Governmental Activities Capital Assets, Net	<u>\$160,174,946</u>	<u>\$ 48,163,502</u>	<u>\$(38,147,206)</u>	<u>\$170,191,242</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$ 157,782
Public Health and Welfare Services	510,061
Leisure Time Activities	283,813
Transportation	7,367,281
General Government	407,712
Community Environment	17,848
Total Depreciation Expense	<u>\$ 8,744,497</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 8: **CAPITAL ASSETS** (Continued)

	Restated Balance 12/31/2005	Additions	Disposals	Balance 12/31/2006
Business-Type Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,508,079	\$ 0	\$ 0	\$ 1,508,079
Construction in Progress	137,674	42,151	(179,825)	0
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,645,753</u>	<u>42,151</u>	<u>(179,825)</u>	<u>1,508,079</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	9,892,551	0	0	9,892,551
Land Improvements	3,790,315	0	0	3,790,315
Machinery and Equipment	7,901,331	9,925	(18,500)	7,892,756
Furniture and Fixtures	19,748	0	0	19,748
Vehicles	1,419,330	298,534	(278,953)	1,438,911
Infrastructure:				
Sanitary Sewer	<u>95,372,538</u>	<u>179,825</u>	<u>0</u>	<u>95,552,363</u>
<i>Total Capital Assets Being Depreciated</i>	<u>118,395,813</u>	<u>488,284</u>	<u>(297,453)</u>	<u>118,586,644</u>
Less Accumulated Depreciation:				
Buildings	(4,219,443)	(197,851)	0	(4,417,294)
Land Improvements	(3,790,315)	0	0	(3,790,315)
Machinery and Equipment	(7,802,344)	(17,086)	9,255	(7,810,175)
Furniture and Equipment	(19,748)	0	0	(19,748)
Vehicles	(683,150)	(132,579)	260,970	(554,759)
Infrastructure:				
Sanitary Sewer	<u>(48,287,635)</u>	<u>(1,909,356)</u>	<u>0</u>	<u>(50,196,991)</u>
<i>Total Accumulated Depreciation</i>	<u>(64,802,635)</u>	<u>(2,256,872)</u>	<u>270,225</u>	<u>(66,789,282)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>53,593,178</u>	<u>(1,768,588)</u>	<u>(27,228)</u>	<u>51,797,362</u>
Total Business-Type Capital Assets, Net	<u>\$ 55,238,931</u>	<u>\$ (1,726,437)</u>	<u>\$ (207,053)</u>	<u>\$ 53,305,441</u>

NOTE 9: **RISK MANAGEMENT**

A. **Commercial Insurance**

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

A. **Commercial Insurance** (Continued)

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Limits</u>	<u>Deductible</u>
HCC Insurance	Commercial Property Coverage	\$ 59,849,967	\$ 1,000
	- Ancillary Equipment	150,000	1,000
	- Earthquake Damage	5,000,000	25,000
	- Flood Damage	500,000	25,000
	- Inland Marine	5,098,944	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	621,132	1,000
	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 HCC Holdings, Inc. Insurance Group 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, 2006
(CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

A. **Commercial Insurance** (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.

B. **Workers' Compensation Retrospective Rating Plan**

As of December 31, 2006, the City completed its first year of participating with the Ohio Bureau of Workers' Compensation (Bureau) Retrospective Rating Plan. The self insurance program requires the City to pay only administrative and minimum premium charges to the Bureau and, in turn, the City reimburses the Bureau for all claim costs incurred during the policy period for up to ten years. At the tenth year, the Bureau actuarially determines the expected future cost of any ten-year-old claim that is still active, and bills the City. The Bureau then assumes all future liability for the claim. Active management of each claim, from inception, offers the City the opportunity to reduce the cost of each claim. The maximum individual claim cost is \$250,000 and the maximum aggregate claim cost is \$1,432,688. For 2006, the retrospective rating minimum premium due from the City is \$186,292, a considerable savings from the experience rated premium of \$642,386.

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;

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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

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

- 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 OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the Traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2006 employer contribution rate for local government employers was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The City's required contributions to OPERS for the years ending December 31, 2006, 2005, and 2004, were \$868,008, \$862,026, and \$811,374, respectively; 88.15 percent has been contributed for 2006 and 100 percent for 2005 and 2004.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.50 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters, respectively, were \$514,404 and \$678,628 for the year ended December 31, 2006, \$531,913 and \$672,578 for the year ended December 31, 2005, and \$491,929 and \$600,934 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 88.85 percent and 70.93 percent, respectively, have been contributed for 2006.

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 2006 local government employer contribution rate was 13.70 percent of covered payroll, (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll 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, 2005, include a rate of return on investments of 6.50 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 costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4 percent annually after nine years.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 11: **POSTEMPLOYMENT BENEFITS** (Continued)

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

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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual City contributions for 2006 which were used to fund postemployment benefits were \$424,569. 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, 2005 (the latest information available), was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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 and January 1, 2007, 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 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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 11: **POSTEMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$378,863 for police and \$327,946 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 was 13,922 for police and 10,537 for firefighters.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 12: LONG-TERM OBLIGATIONS

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

	Restated Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	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	\$ 470,000	\$ 0	\$ (470,000)	\$ 0	\$ 0
Variable Rate (4.0% in 1994 to 6.0% in 2014), \$1,395,000 1994 Various Purpose Improvement Bonds due through 2014	245,000	0	(35,000)	210,000	40,000
Variable Rate (4.05% in 2000 to 5.05% in 2014), \$5,955,000 1997 Street Improvement Bonds due through 2014	1,715,000	0	(410,000)	1,305,000	425,000
Variable Rate (3% in 2002 to 3.5% in 2006), \$7,190,000 Library Improvement Bonds due through 2020	5,905,000	0	(290,000)	5,615,000	300,000
Variable Rate (3% in 2002 to 4% in 2007), 2002 \$1,775,000 Fire Station Bonds due through 2021	1,730,000	0	(20,000)	1,710,000	15,000
Variable Rate (3% in 2002 to 5% in 2021), \$13,910,000 refunded 1992 and 1996 Various Purpose Improvement Bonds due through 2021	12,655,000	0	(430,000)	12,225,000	925,000
Variable Rate (3% in 2002 to 4% in 2007), \$870,000 Fire Truck Acquisition Bonds due through 2011	665,000	0	(90,000)	575,000	80,000
Variable Rate (3% in 2002 to 4% in 2007), \$650,000 Communications Equipment Acquisition Bonds due through 2016	600,000	0	(20,000)	580,000	20,000
Variable Rate (3% in 2002 to 4% in 2007), \$455,000 Service Center Expansion Bond due through 2021	430,000	0	(10,000)	420,000	10,000
Variable Rate (3% in 2005 to 5% in 2015), \$6,685,000 2005 Various Purpose Improvement Bond, due through 2025	6,685,000	0	(255,000)	6,430,000	265,000
Variable Rate (3.75% in 2006 to 4% in 2015), \$11,740,000 2006 Various Purpose Improvement Bonds, due through 2026	<u>0</u>	<u>11,740,000</u>	<u>0</u>	<u>11,740,000</u>	<u>290,000</u>
<i>Total General Obligation Bonds</i>	<u>31,100,000</u>	<u>11,740,000</u>	<u>(2,030,000)</u>	<u>40,810,000</u>	<u>2,370,000</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

	Restated Balance January 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2006</u>	Amounts Due in <u>One Year</u>
Governmental Activities: (Continued)					
<i><u>OPWC Loan</u></i>					
Ohio Public Works Commission - 0% 1995, \$218,938 Note due through 2015	103,996	0	(10,947)	93,049	10,947
Ohio Public Works Commission - 0% 1996, \$90,900 Note due through 2016	45,449	0	(4,545)	40,904	4,545
Ohio Public Works Commission- 0% 1998, \$67,476 Note due through 2017	38,799	0	(3,374)	35,425	3,374
Ohio Public Works Commission 0% 1999, \$11,817 Note due through 2020	<u>8,272</u>	<u>0</u>	<u>(591)</u>	<u>7,681</u>	<u>591</u>
<i>Total OPWC Loan</i>	<u>196,516</u>	<u>0</u>	<u>(19,457)</u>	<u>177,059</u>	<u>19,457</u>
<i><u>Special Assessment Bonds</u></i>					
Various Purpose Improvement Bonds - 1994, \$1,170,000 (4.0% in 1994 to 6.0% in 2014) due through 2014	675,000	0	(60,000)	615,000	65,000
Various Purpose Improvement Bonds - 1996, \$1,255,000, 5.7% due through 2016	840,000	0	(55,000)	785,000	60,000
Various Purpose Improvement Bonds - 1998, \$305,000, (4.55% in 1998 to 5.50% in 2018) due through 2018	<u>240,000</u>	<u>0</u>	<u>(15,000)</u>	<u>225,000</u>	<u>15,000</u>
<i>Total Special Assessment Bonds</i>	<u>1,755,000</u>	<u>0</u>	<u>(130,000)</u>	<u>1,625,000</u>	<u>140,000</u>
<i><u>Other Liabilities</u></i>					
Various Purpose Improvement Notes - 2005, \$2,190,000 (3.75% due through 2006)	2,190,000	0	(2,190,000)	0	0
Compensated Absences	2,398,268	1,451,444	(1,330,760)	2,518,952	1,210,992
Police and Fire Pension Liability 1968, \$91,312 due through 2035	76,298	0	(76,298)	0	0
Retirement Incentive	<u>46,772</u>	<u>0</u>	<u>(46,772)</u>	<u>0</u>	<u>0</u>
<i>Total Other Liabilities</i>	<u>4,711,338</u>	<u>1,451,444</u>	<u>(3,643,830)</u>	<u>2,518,952</u>	<u>1,210,992</u>
Total Governmental Activities	<u>\$ 37,762,854</u>	<u>\$13,191,444</u>	<u>\$ (5,823,287)</u>	<u>\$45,131,011</u>	<u>\$ 3,740,449</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

	Restated Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	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	\$ 3,139,780	\$ 0	\$ (508,739)	\$ 2,631,041	\$ 562,360
Ohio Water Development Authority, 4.77% \$948,523 2002 Loan due through 2002	839,227	0	(34,633)	804,594	36,280
Ohio Water Development Authority, 4.4% 2003 Loan due through 2023	2,063,486	0	(71,661)	1,991,825	84,337
Ohio Public Works Commission - 0% \$283,455 1995 Note due through 2015	134,638	0	(14,173)	120,465	14,173
Variable Rate (4.05% in 2000 to 5.05% in 2014), 1997 \$2,130,000 Sanitary Sewer Various Purpose Improvement due through 2014	<u>1,555,000</u>	<u>0</u>	<u>(145,000)</u>	<u>1,410,000</u>	<u>155,000</u>
<i>Total Enterprise Fund Debt - Sewer</i>	<u>7,732,131</u>	<u>0</u>	<u>(774,206)</u>	<u>6,957,925</u>	<u>852,150</u>
<i>Other Liabilities:</i>					
Compensated Absences	152,619	103,822	(113,508)	142,933	117,481
Total Business-Type Activities	<u>7,884,750</u>	<u>103,822</u>	<u>(887,714)</u>	<u>7,100,858</u>	<u>969,631</u>
Total Long-Term Liabilities	<u>\$ 45,647,604</u>	<u>\$13,295,266</u>	<u>\$(6,711,001)</u>	<u>\$52,231,869</u>	<u>\$ 4,710,080</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 general bond retirement 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 received in the general bond retirement fund. 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, 2006, the amount of defeased debt outstanding but removed from governmental activities amounted to \$11,770,000.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements

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

<u>Due In</u>	<u>Governmental</u>					
	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>OPWC</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,370,000	\$ 1,857,067	\$ 140,000	\$ 98,895	\$ 19,457	\$ 0
2008	2,330,000	1,764,086	145,000	90,423	19,457	0
2009	2,435,000	1,671,994	150,000	81,485	19,457	0
2010	2,055,000	1,574,021	155,000	72,105	19,457	0
2011	2,070,000	1,496,760	170,000	62,390	19,457	0
2012-2016	10,860,000	6,097,820	815,000	147,000	76,317	0
2017-2021	12,055,000	3,311,611	50,000	4,125	3,457	0
2022-2026	6,635,000	966,722	0	0	0	0
	<u>\$40,810,000</u>	<u>\$ 18,740,081</u>	<u>\$ 1,625,000</u>	<u>\$ 556,423</u>	<u>\$ 177,059</u>	<u>\$ 0</u>

<u>Due In</u>	<u>Governmental</u>	
	<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,529,457	\$ 1,955,962
2008	2,494,457	1,854,509
2009	2,604,457	1,753,479
2010	2,229,457	1,646,126
2011	2,259,457	1,559,150
2012-2016	11,751,317	6,244,820
2017-2021	12,108,457	3,315,736
2022-2026	6,635,000	966,722
	<u>\$ 42,612,059</u>	<u>\$ 19,296,504</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements (Continued)

Due To	Business-Type					
	General Obligation Bonds		OWDA		OPWC	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 155,000	\$ 69,687	\$ 682,977	\$ 401,429	\$ 14,173	\$ 0
2008	165,000	62,635	747,727	336,680	14,173	0
2009	170,000	55,045	818,974	265,432	14,173	0
2010	165,000	46,460	897,701	186,708	14,173	0
2011	170,000	38,128	144,065	100,670	14,173	0
2012-2016	585,000	60,095	824,615	399,060	49,600	0
2017-2021	0	0	1,029,709	193,966	0	0
2022-2023	0	0	281,692	11,735	0	0
	<u>\$ 1,410,000</u>	<u>\$ 332,050</u>	<u>\$ 5,427,460</u>	<u>\$1,895,680</u>	<u>\$120,465</u>	<u>\$ 0</u>

Due In	Business-Type	
	Total	
	Principal	Interest
2007	\$ 852,150	\$ 471,116
2008	926,900	399,315
2009	1,003,147	320,477
2010	1,076,874	233,168
2011	328,238	138,798
2012-2016	1,459,215	459,155
2017-2023	1,029,709	193,966
2022-2023	281,692	11,735
	<u>\$ 6,957,925</u>	<u>\$ 2,227,730</u>

NOTE 13: **CONDUIT DEBT**

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

Type	On Behalf of	Original Issuance	Year Issued	Balance at 12/31/06
Industrial Revenue Bonds	Nutro Corporation	\$ 1,350,000	1994	\$ 385,000
Industrial Revenue Bonds	Nutro Corporation	1,750,000	2000	1,255,000
Total		<u>\$ 3,100,000</u>		<u>\$ 1,640,000</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, 2006
(CONTINUED)

NOTE 14: CONSTRUCTION COMMITMENTS

As of December 31, 2006, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Fire Station #5	\$ 6,718,590
Albion Road Pump Station	103,095
2006 Paving Program	245,770
2006 Sewer Program	<u>362,090</u>
Total	<u>\$ 7,429,545</u>

NOTE 15: 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 16: 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, 2006
(CONTINUED)

NOTE 16: **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 2006, the City of Strongsville contributed \$460,130 to the Health Center.

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CITY OF STRONGSVILLE
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS EXPENDITURES
 FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor Pass Through Grantor Program Title	CFDA #	Pass Through Entity Identifying #	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Pass through the Ohio Department of Transportation			
Highway Planning and Construction	20.205	CUY - SR - 82	\$313,918
<u>National Highway Traffic Safety Administration</u>			
Pass through the Ohio Department of Public Safety			
State and Community Highway Safety	20.600	OVI 18-00-00-0561	18,283
<u>U.S. Department of Justice</u>			
Direct Programs			
Public Safety Partnership & Community Policy Grants	16.710	2003OMWX0095	4,879
Local Law Enforcement Block Grant	16.592	2003UMWX0089	156,866
Bullet Proof Vest Partnership Program	16.607	N/A	2,387
Pass through the Ohio Office of the Attorney General			
Edward Byrne Memorial State & Local Law Enforcement Assistance Discretionary Grants Program	16.580	N/A	31,086
Total U.S. Department of Justice			195,218
<u>U.S. Department of Housing and Urban Development</u>			
Pass through the Cuyahoga County Department of Development			
Community Development Block Grant	14.218	CE0400241-011	9,950
<u>U.S. Department of Homeland Security</u>			
Pass through the Ohio Department of Public Safety			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-02917	261,259
Pass through the Cuyahoga County Department of Justice			
Urban Areas Security Initiative	97.008	CEO500917-01	10,710
Total U.S. Depart of Homeland Security			271,969
Total Federal Awards Expenditures			\$809,338

The accompanying notes are an integral part of this schedule.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City'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*

City of Strongsville
Cuyahoga County
16099 Foltz Parkway
Strongsville, Ohio 44149

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Strongsville, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2007, wherein we noted the City restated the December 31, 2005 fund balances of the General Bond Retirement Fund due to an overstatement of unamortized bond issuance costs, as well as, the Street Construction, Maintenance and Repair Fund, and Other Nonmajor Governmental Funds due to a reclassification of short-term liabilities to long term liabilities. We also noted the City restated December 31, 2005 net assets of the Governmental and Business-Type Activities due to understatements of depreciable capital assets and overstatements of non-depreciable capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the City's management in a separate letter dated December 13, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated December 13, 2007.

We intend this report solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 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

City of Strongsville
Cuyahoga County
16099 Foltz Parkway
Strongsville, Ohio 44149

To the City Council:

Compliance

We have audited the compliance of the City of Strongsville (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 applies to its major federal program for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements. In a separate letter to the City's management dated December 13, 2007, we reported another matter related to federal noncompliance not requiring inclusion in this report.

In our opinion, the City of Strongsville complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more than inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Mary Taylor, CPA
Auditor of State

December 13, 2007

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control 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)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control 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):	Assistance to Firefighters Grant – CFDA 97.044
<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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CITY OF STRONGSVILLE
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Budgeting for Ohio Department of Transportation Projects	Yes	N/A
2005-002	Ohio Rev. Code Section 5705.10(H) – Deficit Fund Balances	No	Finding partially corrected, repeated as a management letter comment.
2005-003	Ohio Rev. Code Section 5705.41(B) – Expenditures plus encumbrances in excess of appropriations	No	Finding partially corrected, repeated as a management letter comment.



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
JANUARY 29, 2008**