

CITY OF STRONGSVILLE, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

Honorable Mayor, Finance Director,
and Members of City Council
City of Strongsville
18688 Royalton Road
Strongsville, OH 44136

We have reviewed the Independent Auditor's Report of the City of Strongsville, Cuyahoga County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 24, 2003

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CITY OF STRONGSVILLE, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002

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Certified Public Accountants
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Ohio Society of Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Strongsville, Ohio, as of and for the year ended December 31, 2002. These general purpose financial statements are the responsibility of the City of Strongsville, Ohio's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Strongsville, Ohio, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated June 6, 2003 on our consideration of the City of Strongsville, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

June 6, 2003

James G. Zupka
Certified Public Accountant

CITY OF STRONGSVILLE, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

	Governmental Fund Types			Proprietary Fund Types		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and Other Debits						
Equity in Pooled Cash and Cash Equivalents	\$ 1,097,053	\$ 2,296,530	\$ 516,925	\$ 7,022,443	\$ 6,261,500	\$ 112,511
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	0
Receivables:						
Taxes	4,487,981	3,948,022	2,969,835	0	0	0
Accounts	48,714	25,388	0	94,392	3,166,767	1,385
Special Assessments	0	0	3,609,690	0	0	0
Due from Other Governments	780,701	952,072	335,021	0	0	0
Inventory	46,394	517,805	0	0	0	157,962
Prepaid Items	265,741	7,294	0	0	0	0
Unamortized Bond Issuance Cost	0	0	303,460	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0		0	43,375,180	0
Other Debits						
Amount Available in Debt Service Funds for Retirement of General Obligation Bonds	0	0	0	0	0	0
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0
Total Assets and Other Debits	\$ 6,726,584	\$ 7,747,111	\$ 7,734,931	\$ 7,116,835	\$ 52,803,447	\$ 271,858

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (CONTINUED)

	Fiduciary Fund Types Trust and Agency	Account Groups		Totals	Component	Totals
		General Fixed Assets	General Long-Term Obligations	Memorandum Only Primary Government	Unit Community Improvement Corporation	Memorandum Only Reporting Entity
Assets and Other Debits						
Equity in Pooled Cash and Cash Equivalents	\$ 1,711,628	\$ 0	\$ 0	\$ 19,018,590	\$ 19,683	\$ 19,038,273
Cash and Cash Equivalents in Segregated Accounts	62,916	0	0	62,916	0	62,916
Receivables:						
Taxes	0	0	0	11,405,838	0	11,405,838
Accounts	0	0	0	3,336,646	0	3,336,646
Special Assessments	0	0	0	3,609,690	0	3,609,690
Due from Other Governments	0	0	0	2,067,794	0	2,067,794
Inventory	0	0	0	722,161	0	722,161
Prepaid Items	0	0	0	273,035	0	273,035
Unamortized Bond Issuance Cost	0	0	0	303,460	0	303,460
Fixed Assets (Net of Accumulated Depreciation)	0	92,597,461	0	135,972,641	0	135,972,641
Other Debits						
Amount Available in Debt Service Funds for Retirement of General Obligation Bonds	0	0	820,385	820,385	0	820,385
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	33,844,089	33,844,089	0	33,844,089
Total Assets and Other Debits	\$ 1,774,544	\$ 92,597,461	\$34,664,474	\$211,437,245	\$ 19,683	\$211,456,928

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (CONTINUED)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<u>Liabilities, Fund Equity, and Other Credits</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 77,109	\$ 74,692	\$ 0	\$ 0	\$ 24,131	\$ 66,537
Contracts Payable	0	58,042	0	1,277,838	2,638,572	0
Retirement Payable	80,998	168,381	0	0	61,066	36,608
Accrued Wages and Benefits	290,916	324,892	0	0	40,319	21,764
Due to Other Governments	130,967	147,597	0	0	53,134	20,284
Deposits Held and Due to Others	0	0	0	0	0	0
Deferred Revenue	1,893,068	4,325,400	6,914,546	0	0	0
General Obligation Notes Payable	0	850,000	0	2,100,000	0	0
General Obligation Bonds Payable	0	0	0	0	1,930,000	0
Special Assessment Commitment Bonds Payable	0	0	0	0	0	0
Ohio Water Development Authority Bonds Payable	0	0	0	0	4,393,006	0
Ohio Public Works Commission	0	0	0	0	184,243	0
Compensated Absences Payable	102,092	87,541	0	0	159,227	39,435
Pension Obligation Payable	0	0	0	0	0	0
Total Liabilities	2,575,150	6,036,545	6,914,546	3,377,838	9,483,698	184,628
<u>Fund Equity and Other Credits</u>						
Investment in General Fixed Assets	0	0	0	0	0	0
Contributed Capital	0	0	0	0	36,047,636	0
Retained Earnings						
Unreserved	0	0	0	0	7,272,113	87,230
Fund Balances:						
Reserved for Inventory	46,394	517,805	0	0	0	0
Reserved for Prepaid Items	265,741	7,294	0	0	0	0
Reserved for Encumbrances	254,641	190,870	0	3,551,012	0	0
Reserved for Debt Service	0	0	820,385	0	0	0
Unreserved, Undesignated	3,584,658	994,597	0	187,985	0	0
Total Fund Equity and Other Credits	4,151,434	1,710,566	820,385	3,738,997	43,319,749	87,230
Total Liabilities, Fund Equity, and Other Credits	\$ 6,726,584	\$ 7,747,111	\$ 7,734,931	\$ 7,116,835	\$ 52,803,447	\$ 271,858

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (CONTINUED)

	Fiduciary Fund Types Trust and Agency	Account Groups		Totals	Component	Totals
		General Fixed Assets	General Long-Term Obligations	Memorandum Only Primary Government	Unit Community Improvement Corporation	Memorandum Only Reporting Entity
<u>Liabilities, Fund Equity, and Other Credits</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 242,469	\$ 0	\$ 242,469
Contracts Payable	0	0	0	3,974,452	0	3,974,452
Retirement Payable	0	0	400,506	747,559	0	747,559
Accrued Wages and Benefits	0	0	0	677,891	0	677,891
Due to Other Governments	0	0	685,023	1,037,005	0	1,037,005
Deposits Held and Due to Others	1,642,187	0	0	1,642,187	0	1,642,187
Deferred Revenue	0	0	0	13,133,014	0	13,133,014
General Obligation Notes Payable	0	0	0	2,950,000	0	2,950,000
General Obligation Bonds Payable	0	0	29,410,000	31,340,000	0	31,340,000
Special Assessment Commitment Bonds Payable	0	0	2,100,000	2,100,000	0	2,100,000
Ohio Water Development Authority Bonds Payable	0	0	0	4,393,006	0	4,393,006
Ohio Public Works Commission	0	0	264,612	448,855	0	448,855
Compensated Absences Payable	44,234	0	1,724,345	2,156,874	0	2,156,874
Pension Obligation Payable	0	0	79,988	79,988	0	79,988
Total Liabilities	1,686,421	0	34,664,474	64,923,300	0	64,923,300
<u>Fund Equity and Other Credits</u>						
Investment in General Fixed Assets	0	92,597,461	0	92,597,461	0	92,597,461
Contributed Capital	0	0	0	36,047,636	0	36,047,636
Retained Earnings:						
Unreserved	0	0	0	7,359,343	19,683	7,379,026
Fund Balances:						
Reserved for Inventory	0	0	0	564,199	0	564,199
Reserved for Prepaid Items	0	0	0	273,035	0	273,035
Reserved for Encumbrances	0	0	0	3,996,523	0	3,996,523
Reserved for Debt Service	0	0	0	820,385	0	820,385
Unreserved, Undesignated	88,123	0	0	4,855,363	0	4,855,363
Total Fund Equity and Other Credits	88,123	92,597,461	0	146,513,945	19,683	146,533,628
Total Liabilities, Fund Equity and Other Credits	\$ 1,774,544	\$ 92,597,461	\$34,664,474	\$211,437,245	\$ 19,683	\$211,456,928

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Type				Fund Type Expendable Trust and Agency	Totals	Component	Totals
	General	Special Revenue	Debt Service	Capital Projects		Memorandum	Unit	Memorandum
						Only Primary Government	Community Improvement Corporation	Only Reporting Entity
Revenues								
Local Taxes - Income Tax	\$16,219,415	\$ 2,012,315	\$ 0	\$ 0	\$ 0	\$18,231,730	\$ 0	\$18,231,730
Local Taxes - Property Tax	499,543	3,012,491	2,255,486	490,926	0	6,258,446	0	6,258,446
Other Taxes	12,027	0	0	0	0	12,027	0	12,027
Intergovernmental Revenue	2,378,142	2,255,881	645,105	41,779	0	5,320,907	0	5,320,907
Special Assessments	0	0	239,084	0	0	239,084	0	239,084
Charges for Services	272,983	3,415,753	0	473,274	25,293	4,187,303	0	4,187,303
Fines, Licenses, and Permits	1,564,739	91,879	0	44,000	0	1,700,618	0	1,700,618
Interest Income	289,845	0	0	92,324	0	382,169	133	382,302
Miscellaneous	3,329	22,977	0	249,699	0	276,005	0	276,005
Total Revenues	<u>21,240,023</u>	<u>10,811,296</u>	<u>3,139,675</u>	<u>1,392,002</u>	<u>25,293</u>	<u>36,608,289</u>	<u>133</u>	<u>36,608,422</u>
Expenditures								
Current:								
Security of Persons and Property	6,656,483	7,323,255	0	0	0	13,979,738	0	13,979,738
Public Health and Welfare	968,024	421,028	0	0	0	1,389,052	0	1,389,052
Leisure Time Activities	350,004	3,943,395	0	642,272	0	4,935,671	0	4,935,671
Community Development	1,238,286	186,910	0	0	0	1,425,196	0	1,425,196
Basic Utilities	2,099,775	24,189	0	0	0	2,123,964	0	2,123,964
Transportation	0	5,411,225	0	0	0	5,411,225	0	5,411,225
General Government	3,842,164	0	21,465	0	0	3,863,629	0	3,863,629
Capital Outlay	0	0	0	4,752,158	0	4,752,158	0	4,752,158
Debt Service:								
Principal Retirement	1,130	14,321	1,585,000	5,136	0	1,605,587	0	1,605,587
Interest and Fiscal Charges	3,436	0	1,699,573	63,000	0	1,766,009	0	1,766,009
Total Expenditures	<u>15,159,302</u>	<u>17,324,323</u>	<u>3,306,038</u>	<u>5,462,566</u>	<u>0</u>	<u>41,252,229</u>	<u>0</u>	<u>41,252,229</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,080,721	(6,513,027)	(166,363)	(4,070,564)	25,293	(4,643,940)	133	(4,643,807)
Other Financing Sources (Uses)								
Sale of Fixed Assets	47,031	0	0	0	0	47,031	0	47,031
Transfers In	0	5,185,000	0	1,633,000	0	6,818,000	0	6,818,000
Transfers Out	(6,525,000)	(380,000)	(63,000)	0	0	(6,968,000)	0	(6,968,000)
Total Other Financing Sources (Uses)	<u>(6,477,969)</u>	<u>4,805,000</u>	<u>(63,000)</u>	<u>1,633,000</u>	<u>0</u>	<u>(102,969)</u>	<u>0</u>	<u>(102,969)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(397,248)	(1,708,027)	(229,363)	(2,437,564)	25,293	(4,746,909)	133	(4,746,776)
Fund Balances Surplus (Deficit) at Beginning of Year, Restated	4,542,201	3,373,776	1,049,748	6,176,561	62,830	15,205,116	19,550	15,224,666
Increase (Decrease) in Reserve for Inventory	6,481	44,817	0	0	0	51,298	0	51,298
Fund Balances at End of Year	<u>\$ 4,151,434</u>	<u>\$ 1,710,566</u>	<u>\$ 820,385</u>	<u>\$ 3,738,997</u>	<u>\$ 88,123</u>	<u>\$10,509,505</u>	<u>\$ 19,683</u>	<u>\$10,529,188</u>

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Revenues						
Local Taxes - Income Tax	\$ 15,998,259	\$ 15,998,259	\$ 0	\$ 2,141,806	\$ 2,141,806	\$ 0
Local Taxes - Property Tax	499,543	499,543	0	3,012,491	3,012,491	0
Intergovernmental Revenue	2,297,515	2,297,515	0	2,321,958	2,321,958	0
Special Assessments	0	0	0	0	0	0
Charges for Services	290,229	290,229	0	3,445,323	3,445,323	0
Fines, License, and Permits	1,558,493	1,558,493	0	64,543	64,543	0
Interest Income	292,240	292,240	0	0	0	0
Miscellaneous	108,178	108,178	0	36,231	36,231	0
Total Revenues	21,044,457	21,044,457	0	11,022,352	11,022,352	0
Expenditures						
Current:						
Security of Persons and Property	6,745,434	6,624,756	120,678	7,803,700	7,342,349	461,351
Public Health and Welfare	1,016,000	954,157	61,843	472,700	421,028	51,672
Leisure Time Activities	388,000	406,844	(18,844)	3,911,000	3,873,383	37,617
Community Development	1,317,700	1,250,650	67,050	186,910	186,910	0
Basic Utilities	2,450,000	2,350,793	99,207	25,000	24,649	351
Transportation	0	0	0	6,035,500	5,729,225	306,275
General Government	4,257,700	3,968,595	289,105	0	0	0
Capital Outlay	0	0	0	189	0	189
Debt Service						
Principal Retirement	1,130	1,130	0	14,500	14,321	179
Interest and Fiscal Charges	3,436	3,436	0	0	0	0
Total Expenditures	16,179,400	15,560,361	619,039	18,449,499	17,591,865	857,634
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,865,057	5,484,096	619,039	(7,427,147)	(6,569,513)	857,634
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	850,000	850,000	0
Sale of Fixed Assets	47,031	47,031	0	0	0	0
Transfers In	0	0	0	5,185,000	5,185,000	0
Transfers Out	(6,525,000)	(6,525,000)	0	(380,000)	(380,000)	0
Retirement of Notes	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(6,477,969)	(6,477,969)	0	5,655,000	5,655,000	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,612,912)	(993,873)	619,039	(1,772,147)	(914,513)	857,634
Fund Balance at Beginning of Year	1,853,118	1,853,118	0	2,853,368	2,853,368	0
Prior Year Encumbrances Appropriated	64,403	64,403	0	166,805	166,805	0
Fund Balances at End of Year	\$ 304,609	\$ 923,648	\$ 619,039	\$ 1,248,026	\$ 2,105,660	\$ 857,634

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	Debt Service			Capital Projects		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Revenues						
Local Taxes - Income Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Local Taxes - Property Tax	2,255,486	2,255,486	0	490,926	490,926	0
Intergovernmental Revenue	645,105	645,105	0	140,893	140,893	0
Special Assessments	239,084	239,084	0	0	0	0
Charges for Services	0	0	0	378,882	378,882	0
Fines, Licenses, and Permits	0	0	0	44,000	44,000	0
Interest Income	0	0	0	92,324	92,324	0
Miscellaneous	0	0	0	249,801	249,805	4
Total Revenues	3,139,675	3,139,675	0	1,396,826	1,396,830	4
Expenditures						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare	0	0	0	0	0	0
Leisure Time Activities	0	0	0	850,000	510,650	339,350
Community Development	0	0	0	0	0	0
Basic Utilities	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	21,465	21,465	0	0	0	0
Capital Outlay	0	0	0	8,926,864	8,154,438	772,426
Debt Service:						
Principal Retirement	1,585,000	1,585,000	0	5,136	5,136	0
Interest and Fiscal Charges	1,943,535	1,746,602	196,933	0	0	0
Total Expenditures	3,550,000	3,353,067	196,933	9,782,000	8,670,224	1,111,776
Excess (Deficiency) of Revenues Over (Under) Expenditures	(410,325)	(213,392)	196,933	(8,385,174)	(7,273,394)	1,111,780
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	2,100,000	2,100,000	0	0	0	0
Sale of Fixed Assets	0	0	0	0	0	0
Transfers In	0	0	0	1,570,000	1,570,000	0
Transfers Out	0	0	0	0	0	0
Retirement of Notes	(2,100,000)	(2,100,000)	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	1,570,000	1,570,000	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(410,325)	(213,392)	196,933	(6,815,174)	(5,703,394)	1,111,780
Fund Balances at Beginning of Year	730,317	730,317	0	7,376,999	7,376,999	0
Prior Year Encumbrances Appropriated	0	0	0	848,610	848,610	0
Fund Balances at End of Year	\$ 319,992	\$ 516,925	\$ 196,933	\$ 1,410,435	\$ 2,522,215	\$ 1,111,780

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Revenues			
Local Taxes - Income Tax	\$ 18,140,065	\$ 18,140,065	\$ 0
Local Taxes - Property Tax	6,258,446	6,258,446	0
Intergovernmental Revenues	5,405,471	5,405,471	0
Special Assessments	239,084	239,084	0
Charges for Services	4,114,434	4,114,434	0
Fines, Licenses, and Permits	1,667,036	1,667,036	0
Interest Income	384,564	384,564	0
Miscellaneous	394,210	394,214	4
Total Revenues	<u>36,603,310</u>	<u>36,603,314</u>	<u>4</u>
Expenditures			
Current:			
Security of Persons and Property	14,549,134	13,967,105	582,029
Public Health and Welfare	1,488,700	1,375,185	113,515
Leisure Time Activities	5,149,000	4,790,877	358,123
Community Development	1,504,610	1,437,560	67,050
Basic Utilities	2,475,000	2,375,442	99,558
Transportation	6,035,500	5,729,225	306,275
General Government	4,279,165	3,990,060	289,105
Capital Outlay	8,927,053	8,154,438	772,615
Debt Service:			
Principal Retirement	1,605,766	1,605,587	179
Interest and Fiscal Charges	1,946,971	1,750,038	196,933
Total Expenditures	<u>47,960,899</u>	<u>45,175,517</u>	<u>2,785,382</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,357,589)</u>	<u>(8,572,203)</u>	<u>2,785,386</u>
Other Financing Sources(Uses)			
Proceeds from Sale of Notes	2,950,000	2,950,000	0
Sale of Fixed Assets	47,031	47,031	0
Transfers In	6,755,000	6,755,000	0
Transfers Out	(6,905,000)	(6,905,000)	0
Retirement of Notes	(2,100,000)	(2,100,000)	0
Total Other Financing Sources (Uses)	<u>747,031</u>	<u>747,031</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(10,610,558)</u>	<u>(7,825,172)</u>	<u>2,785,386</u>
Fund Balances at Beginning of Year	12,813,802	12,813,802	0
Prior Year Encumbrances Appropriated	1,079,818	1,079,818	0
Fund Balances at End of Year	<u><u>\$ 3,283,062</u></u>	<u><u>\$ 6,068,448</u></u>	<u><u>\$ 2,785,386</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED
 EARNINGS (DEFICIT) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund Type</u>		<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
<u>Operating Revenues</u>			
Charges for Services	\$ 9,054,810	\$ 3,710,397	\$12,765,207
Miscellaneous	2,042	0	2,042
Total Operating Revenues	<u>9,056,852</u>	<u>3,710,397</u>	<u>12,767,249</u>
<u>Operating Expenses</u>			
Wages and Benefits	1,314,152	522,548	1,836,700
Utilities	24,423	419,633	444,056
Contractual Services	7,218,798	971,982	8,190,780
Maintenance	299,704	34,543	334,247
Depreciation	1,728,485	0	1,728,485
Benefit Payments	0	1,873,135	1,873,135
Other	1,257	1,703	2,960
Total Operating Expenses	<u>10,586,819</u>	<u>3,823,544</u>	<u>14,410,363</u>
Operating Income (Loss)	<u>(1,529,967)</u>	<u>(113,147)</u>	<u>(1,643,114)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Interest and Fiscal Charges	(595,533)	0	(595,533)
Donated Infrastructure	465,574	0	465,574
Total Nonoperating Expenses	<u>(129,959)</u>	<u>0</u>	<u>(129,959)</u>
Income (Loss) before Operating Transfers	<u>(1,659,926)</u>	<u>(113,147)</u>	<u>(1,773,073)</u>
<u>Operating Transfers</u>			
Operating Transfers In	<u>0</u>	<u>150,000</u>	<u>150,000</u>
Total Operating Transfers	<u>0</u>	<u>150,000</u>	<u>150,000</u>
Net Income (Loss)	<u>(1,659,926)</u>	<u>36,853</u>	<u>(1,623,073)</u>
Retained Earnings at Beginning of Year, Restated	<u>8,932,039</u>	<u>50,377</u>	<u>8,982,416</u>
Retained Earnings at End of Year	<u><u>\$ 7,272,113</u></u>	<u><u>\$ 87,230</u></u>	<u><u>\$ 7,359,343</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (DEFICIT) -
 BUDGET (NON-GAAP BASIS) AND ACTUAL -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise			Internal Service		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Charges for Services	\$ 7,932,000	\$ 7,932,000	\$ 0	\$ 3,709,012	\$ 3,709,012	\$ 0
Miscellaneous	2,042	2,042	0	0	0	0
Total Revenues	7,934,042	7,934,042	0	3,709,012	3,709,012	0
Expenses						
Wages and Benefits	1,766,364	1,229,043	537,321	514,948	514,948	0
Utilities	34,000	24,423	9,577	430,273	430,273	0
Contractual Services	7,405,886	4,786,738	2,619,148	1,031,062	1,027,582	3,480
Materials and Supplies	133,980	133,980	0	0	0	0
Maintenance	312,000	309,665	2,335	0	0	0
Benefit Payments	0	0	0	1,965,000	1,873,135	91,865
Debt Service:						
Principal Retirement	450,237	449,909	328	0	0	0
Interest and Fiscal Charges	595,533	595,533	0	0	0	0
Other	2,000	1,257	743	12,429	11,429	1,000
Total Expenses	10,700,000	7,530,548	3,169,452	3,953,712	3,857,367	96,345
Income (Loss) Before Operating Transfer	(2,765,958)	403,494	3,169,452	(244,700)	(148,355)	96,345
Operating Transfers						
Operating Transfers In	0	0	0	150,000	150,000	0
Total Operating Transfers	0	0	0	150,000	150,000	0
Net Income (Loss)	(2,765,958)	403,494	3,169,452	(94,700)	1,645	96,345
Fund Balances at Beginning of Year	5,668,628	5,668,628	0	110,880	110,880	0
Prior Year Encumbrances Appropriated	69,274	69,274	0	0	0	0
Fund Balances at End of Year	\$ 2,971,944	\$ 6,141,396	\$ 3,169,452	\$ 16,180	\$ 112,525	\$ 96,345

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (DEFICIT) -
 BUDGET (NON-GAAP BASIS) AND ACTUAL -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	<u>TOTALS (MEMORANDUM ONLY)</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Charges for Services	\$ 11,641,012	\$ 11,641,012	\$ 0
Miscellaneous	2,042	2,042	0
Total Revenues	<u>11,643,054</u>	<u>11,643,054</u>	<u>0</u>
<u>Expenses</u>			
Wages and Benefits	2,281,312	1,743,991	537,321
Utilities	464,273	454,696	9,577
Contractual Services	8,436,948	5,814,320	2,622,628
Materials and Supplies	133,980	133,980	0
Maintenance	312,000	309,665	2,335
Benefit Payments	1,965,000	1,873,135	91,865
Debt Service:			
Principal Retirement	450,237	449,909	328
Interest and Fiscal Charges	595,533	595,533	0
Other	14,429	12,686	1,743
Total Expenses	<u>14,653,712</u>	<u>11,387,915</u>	<u>3,265,797</u>
Income (Loss) Before Operating Transfer	<u>(3,010,658)</u>	<u>255,139</u>	<u>3,265,797</u>
<u>Operating Transfers</u>			
Operating Transfers In	150,000	150,000	0
Total Operating Transfers	<u>150,000</u>	<u>150,000</u>	<u>0</u>
Net Income (Loss)	<u>(2,860,658)</u>	<u>405,139</u>	<u>3,265,797</u>
Fund Balances at Beginning of Year	5,779,508	5,779,508	0
Prior Year Encumbrances Appropriated	69,274	69,274	0
Fund Balance at End of Year	<u><u>\$ 2,988,124</u></u>	<u><u>\$ 6,253,921</u></u>	<u><u>\$ 3,265,797</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash Received from Users	\$ 7,932,000	\$ 3,709,012	\$11,641,012
Other Operating Revenue	2,042	0	2,042
Cash Paid to Suppliers for Goods and Services	(324,127)	(430,273)	(754,400)
Cash Paid for Contractual Services	(4,676,595)	(1,027,582)	(5,704,177)
Cash Paid to Employees for Service	(1,229,043)	(2,388,083)	(3,617,126)
Other Operating Expense	(1,257)	(11,429)	(12,686)
Net Cash Provided by Operating Activities	<u>1,703,020</u>	<u>(148,355)</u>	<u>1,554,665</u>
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Purchase of Fixed Assets	(133,980)	0	(133,980)
Net Cash Provided by Investing Activities	<u>(133,980)</u>	<u>0</u>	<u>(133,980)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Operating Transfers - In	0	150,000	150,000
Net Cash from Noncapital Financing Activities	<u>0</u>	<u>150,000</u>	<u>150,000</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Principal Paid on Bonds and Notes	(449,909)	0	(449,909)
Interest Expense and Fiscal Charges	(595,533)	0	(595,533)
Net Cash (Used in) Capital and Related Financing Activities	<u>(1,045,442)</u>	<u>0</u>	<u>(1,045,442)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>523,598</u>	<u>1,645</u>	<u>525,243</u>
Cash and Cash Equivalents at Beginning of Year	<u>5,737,902</u>	<u>110,866</u>	<u>5,848,768</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 6,261,500</u></u>	<u><u>\$ 112,511</u></u>	<u><u>\$ 6,374,011</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>			
Operating Income (Loss)	\$1,529,967)	\$ (113,147)	\$(1,643,114)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	1,728,485	0	1,728,485
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(1,122,810)	(1,385)	(1,124,195)
(Increase) Decrease in Inventory of Supplies	0	5,050	5,050
(Increase) Decrease in Prepays	230	0	230
Increase (Decrease) in Accounts Payable	(78,035)	(44,403)	(122,438)
Increase (Decrease) in Contracts Payable	2,620,008	(2,070)	2,617,938
Increase (Decrease) in Accrued Wages and Benefits	16,308	3,852	20,160
Increase (Decrease) in Retirement Incentive	(38,839)	(18,304)	(57,143)
Increase (Decrease) in Due to Other Governments	21,692	3,135	24,827
Increase (Decrease) in Compensated Absences	85,948	18,917	104,865
Net Cash Provided by Operating Activities	<u><u>\$ 1,703,020</u></u>	<u><u>\$ (148,355)</u></u>	<u><u>\$ 1,554,665</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

NOTE 1: **REPORTING ENTITY AND BASIS OF PRESENTATION**

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.

A. **Reporting Entity**

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 accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2002, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all organizations, activities, functions, and component units for which the City (primary government) is financial accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Based upon the application of these criterion, the City has one component unit, the Community Improvement Corporation of Strongsville (the CIC). The financial statements present the government and its component unit for which the government is considered to be financially accountable. The financial statements of the CIC are reported separately to emphasize that it is legally separate from the City.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **REPORTING ENTITY AND BASIS OF PRESENTATION** (Continued)

A. **Reporting Entity** (Continued)

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

B. **Basis of Presentation - Fund Accounting**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources.

For financial statement presentation purposes, the various funds of the City are grouped into governmental, proprietary, and fiduciary fund types.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary and trust funds) are accounted for through governmental funds. The following are the City's governmental fund types:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **REPORTING ENTITY AND BASIS OF PRESENTATION** (Continued)

B. **Basis of Presentation - Fund Accounting** (Continued)

Governmental Fund Types (Continued)

General Fund

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

Special Revenue Fund

The special revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to special assessments, major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest, and related costs.

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by propriety funds).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds

The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **REPORTING ENTITY AND BASIS OF PRESENTATION** (Continued)

B. **Basis of Presentation - Fund Accounting** (Continued)

Proprietary Fund Types (Continued)

Internal Service Funds

Internal service funds are used to account for goods and services provided by City departments and funds on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's fiduciary funds are expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group

This account group is used to account for all general fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group

This account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary funds or trust funds.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

A. **Measurement Focus and Basis of Accounting** (Continued)

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and fiduciary funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments, special assessment, and state levied locally shared taxes (including motor vehicle license fees, and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until actually received.

Special assessment installments which are measurable, but not available at December 31 are recorded as deferred revenue. Property taxes measurable as of December 31, 2002, but which are not intended to finance 2002 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

A. **Measurement Focus and Basis of Accounting** (Continued)

The accrual basis of accounting is utilized for reporting purposes by the proprietary and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

With respect to proprietary activities, the City has adopted GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict pronouncements.

B. **Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the presentation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level with each department in the general fund. Budgetary control for all other funds is at the fund level (i.e. personal services and other operations). Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget

A budget of estimated cash receipts and disbursements which has been adopted by City Council is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1, to December 31 of the following year.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

B. **Budgetary Process** (Continued)

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Director of Finance determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During 2002 the appropriation ordinance was amended. The budgetary figures which appear in the statements of budgetary comparison represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

B. **Budgetary Process** (Continued)

Encumbrances (Continued)

On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for proprietary fund types.

Lapsing of Appropriations

At the close of each 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 year and need not be reappropriated.

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance 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, appropriations and encumbrances. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

The Combined Statement of Revenues, Expenditures and Changes in Fund Cash Balances (Non-GAAP Basis) - Budget and Actual - All Governmental Fund Types and Similar Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity (Non-GAAP Basis) - Budget and Actual - All Proprietary Fund Types are presented on the budgetary basis to provide a comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for the proprietary fund type (GAAP).

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

B. Budgetary Process (Continued)

Budgetary Basis of Accounting (Continued)

4. Proceeds from and principal payments on short-term note obligations redeemed within the same year are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis:

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures
Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Project	Expendable Trust	Total
GAAP Basis	\$ (397,248)	\$(1,708,027)	\$ (229,363)	\$(2,437,564)	\$ 25,293	\$(4,746,909)
Increase (Decrease) Due to:						
Revenue						
Accruals	(195,566)	211,056	0	4,828	(25,293)	(4,975)
Expenditure						
Accruals	(141,277)	(76,672)	(47,029)	1,292,570	0	1,027,592
Proceeds from						
Sale of Notes	0	850,000	2,100,000	0	0	2,950,000
Retirement of ST						
Notes	0	0	(2,100,000)	0	0	(2,100,000)
Transfers Out (In)	0	0	63,000	(63,000)	0	0
Net Impact of						
Encumbrances	(259,782)	(190,870)	0	(4,500,228)	0	(4,950,880)
Budget Basis	\$ (993,873)	\$ (914,513)	\$ (213,392)	\$(5,703,394)	\$ 0	\$ (7,825,172)

Net Income (Loss)/Excess (Deficiency) of Revenues Over Expenses
Proprietary Fund Type

	Enterprise	Internal Service	Total
GAAP Basis	\$(1,659,926)	\$ 36,853	\$(1,623,073)
Increase (Decrease) Due to:			
Revenue Accruals	(1,588,384)	(1,385)	(1,589,769)
Expenditure Accruals	2,043,423	(33,823)	2,009,600
Depreciation Expense	1,728,485	0	1,728,485
Net Impact of Encumbrances	(120,104)	0	(120,104)
Budget Basis	\$ 403,494	\$ 1,645	\$ 405,139

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

C. Cash and Investments

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" on the combined balance sheet.

During 2002, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements), commercial paper, and Government securities. Nonparticipating investment contracts such as repurchase agreements and commercial paper are reported at cost. Government securities are reported at fair value, which is the quoted market price as of the valuation date.

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 2002 amounted to \$289,845, which includes \$267,896 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 combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

For purposes on the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

D. Inventory of Supplies

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 costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that the supplies inventory does not constitute available spendable resources even though it is a component of net assets.

E. Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund that finances the acquisition. When purchased, such assets are capitalized at cost in the general fixed assets account group. Contributed fixed assets are recorded at their estimated fair market value at the time received.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems are not capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

Property, plant and equipment used by enterprise funds is stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Depreciation for the enterprise fund is charged to operations by allocating the cost of the fixed assets over the estimated useful lives of the assets on the straight-line basis. Depreciation is recorded in the general fixed asset account group as a reduction to the investment in general fixed assets account. Estimated useful lives of the various classes of fixed assets are:

Land Improvements	15-20 years
Buildings and Improvements	50 years
Furniture and Fixtures	7-10 years
Machinery and Equipment	5-20 years
Vehicles	3-6 years
Sanitary Sewer Installations	50 years
Storm Lines	50 years

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

F. **Short-Term Receivables/Payables**

Receivables and payables resulting from transactions between funds for goods received or services provided are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

G. **Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements, are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

H. **Contributed Capital**

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds and is not subject to repayment. These assets are recorded at their fair market value on the date contributed. The City adopted Governmental Accounting Standards Board Statement No. 33. Therefore, no additional contributed capital was recorded in 2002.

I. **Fund Equity**

Reservations of fund balances of governmental funds are to satisfy legal covenants that require a portion of the fund balance to be segregated or to identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserved for encumbrances - This reserve represents encumbrances outstanding at the end of the year based upon purchase orders and contracts signed by the City but not completed as of the close of the fiscal year.

Reserved for inventories - This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

I. **Fund Equity** (Continued)

Reserved for prepaid items - This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

J. **Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements from a different fund for expenditures/expenses previously incurred, (that are properly applicable to the other fund), are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is being reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. **Long-Term Obligations**

Long-term obligations are recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligation account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the appropriate funds and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriated funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

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

L. **Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. **Fund Deficit**

Fund balance/retained earnings at December 31, 2002 included the following individual fund deficits:

<u>Special Revenue Fund</u>	
Fire Levy	\$ 101,156
Recreation Levy	12,515
Fire Department Vehicle	246,537
<u>Capital Project</u>	
General Capital Improvement	1,132,785
<u>Enterprise Fund</u>	
Sewer Capital Improvement	3,155,687
<u>Internal Service</u>	
Building Maintenance and Operation Fund	77,531

The fund deficits in the Fire Levy special revenue fund and Recreation Levy special revenue fund were due to the recognition of expenditures on the modified accrual basis which is greater than expenditures recognized on the cash basis. The fund deficits in the Fire Department Vehicle Special Revenue Fund and the General Capital Improvement Capital Project Fund are the result of reclassing note proceeds to a general obligation note payable account. The fund deficit in the Sewer Capital Improvement Enterprise Fund was carried forward from prior years' long-term debt on accrual basis. The Building Maintenance and Operating internal service fund deficit was carried forward from prior years due to the recognition of expenditures on the accrual basis which is greater than expenditures recognized on cash basis. The deficit does not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Compliance

In 2002, the following funds had expenditures in excess of appropriations contrary to Ohio Revised Code Section 5705.41:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Leisure Time Activities	\$ 388,000	\$ 406,844	\$ (18,844)
Motor Vehicle License Special			
Revenue Fund	300,000	308,333	(8,333)

NOTE 4: **RESTATEMENT OF PRIOR YEAR BALANCES**

The prior year fund balances of the General Fixed Assets Account Group and the enterprise funds were restated due to the change in the City's capitalization policy, reclassification of storm sewer lines from the enterprise fund to the General Fixed Assets Account Group, and an error in due to/due from account balances. The enterprise fund retained earnings are also restated because the component unit was blended with the City's enterprise fund in the prior year and, instead, should be discretely presented.

The accounting error and change in capitalization policy have required a restatement of beginning fund balances/retained earnings at December 31, 2001 in the following funds:

<u>General Fixed Assets Account Group</u>	
Investment in General Fixed Assets as of December 31, 2001	\$ 33,630,279
Fixed Assets	55,718,330
Restated Balance, December 31, 2001	\$ 89,348,609
<u>Enterprise Fund</u>	
Contributed Capital as of December 31, 2001	\$ 70,751,737
Storm Lines	(33,834,856)
Fixed Assets	(869,245)
Restated Contributed Capital as of December 31, 2001	\$ 36,047,636

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 4: **RESTATEMENT OF PRIOR YEAR BALANCES** (Continued)

<u>Component Unit</u>	
Retained Earnings as of December 31, 2001	\$ 6,003,068
Fixed Assets	1,614,596
Due to/Due from	1,333,925
Retained Earnings of Component Unit	(19,550)
Restated Retained Earnings, December 31, 2001	<u>\$ 8,932,039</u>
<u>General Fund</u>	
Fund Equity as of December 31, 2001	\$ 4,469,091
Due to/Due from	73,110
Restated Fund Equity as of December 31, 2001	<u>\$ 4,542,201</u>
<u>Motor Vehicle License Tax</u>	
Fund Equity as of December 31, 2001	\$ (131,697)
Due to/Due from	199,486
Restated Fund Equity as of December 31, 2001	<u>\$ 67,789</u>
<u>General Obligation Bond Retirement Fund</u>	
Fund Equity as of December 31, 2001	\$ 4,090,432
Due to/Due from	(3,040,684)
Restated Fund Equity as of December 31, 2001	<u>\$ 1,049,748</u>
<u>General Capital Improvement Fund</u>	
Fund Equity as of December 31, 2001	\$ 4,663,834
Due to/Due from	1,512,727
Restated Fund Equity as of December 31, 2001	<u>\$ 6,176,561</u>
<u>Municipal Garage Internal Service Fund</u>	
Fund Equity as of December 31, 2001	\$ 148,008
Due to/Due from	(78,564)
Restated Fund Equity as of December 31, 2001	<u>\$ 69,444</u>

NOTE 5: **DEPOSITS AND INVESTMENTS**

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

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

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

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasury Asset Reserve of Ohio (STAROhio).

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

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

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

Deposits

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

Investments

- Category 1* - Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2* - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3* - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

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

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$1,921,722 with \$4,200 of cash on hand and the bank balance was \$2,147,770. Of the bank balance, \$666,935 was fully insured by federal depository insurance. All remaining deposits were classified at Category 3.

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

B. **Investments**

Investments as of December 31, 2002 are summarized below.

<u>Category</u>		<u>Carrying Value</u>	<u>Fair Value</u>
3	Repurchase Agreement	\$17,175,267	\$17,175,267
Totals		<u>\$17,175,267</u>	<u>\$17,175,267</u>
		=====	=====

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

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

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

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

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

C. **Reconciliation of Cash, Cash Equivalents, and Investments** (Continued)

	Cash & Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 19,101,189	\$ 0
Investments:		
Repurchase Agreement	(17,175,267)	17,175,267
GASB Statement No. 3	<u>\$ 1,925,922</u>	<u>\$ 17,175,267</u>

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

Component Unit Cash

The Community Improvement Corporation cash deposit of \$19,683 which was fully insured, is maintained separately.

NOTE 6: **PROPERTY TAXES**

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **PROPERTY TAXES** (Continued)

The assessed value upon which the 2002 tax receipts were based on was \$1,302,427,721. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2002 was \$11.60 per \$1,000 of assessed valuation.

Real and public utility property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is due December 31, with the remainder payable by June 30. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

NOTE 7: **INCOME TAXES**

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

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

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

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 8: **RECEIVABLES**

Receivables at December 31, 2002 consisted of taxes, accounts (billings for user charged services including unbilled sewer services), interest and intergovernmental receivables arising from shared revenues. All receivables are deemed collectible in full.

A summary of the principal items of intergovernmental receivables follows:

Due from Other Governments

	<u>Amount</u>
General Fund:	
Local Government	\$ 453,267
Estate Tax	241,690
Homestead and Rollback	59,343
Liquor Permits	12,304
Other	14,097
Total General Fund	780,701
Special Revenue Fund:	
Gasoline Tax	411,947
Highway Tax	163,279
Homestead and Rollback	355,980
Permissive Tax	20,866
Total Special Revenue Fund	952,072
Debt Service Fund:	
Homestead and Rollback	335,021
Total Debt Service Fund	335,021
Total Due from Other Governments	\$2,067,794

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 9: **FIXED ASSETS**

A summary of changes in general fixed assets for the year ended December 31, 2002 follows:

	Beginning Balance 01/01/2002 as Restated	Additions	Deletions	Ending Balance 12/31/2002
<u>GFAAG</u>				
Land	\$ 6,129,901	\$ 0	\$ 0	\$ 6,129,901
Land Improvement	1,392,280	0	0	1,392,280
Buildings and Improvements	22,627,078	0	0	22,627,078
Furniture and Fixtures	54,877	3,402	0	58,279
Machinery and Equipment	2,245,468	141,670	0	2,387,138
Vehicles	8,938,167	1,231,469	0	10,169,636
Construction in Progress	164,496	2,909,749	0	3,074,245
Storm Lines	93,188,450	2,360,210	0	95,548,660
Totals	<u>134,740,717</u>	<u>6,646,500</u>	<u>0</u>	<u>141,387,217</u>
Less Accumulated Depreciation		(45,392,108)	(3,397,648)	(48,789,756)
Totals	<u>\$89,348,609</u>	<u>\$ 3,248,852</u>	<u>\$ 0</u>	<u>\$92,597,461</u>
<u>Enterprise</u>				
Land	\$ 1,508,079	\$ 0	\$ 0	\$ 1,508,079
Land Improvement	3,753,215	0	0	3,753,215
Buildings and Improvements	8,923,801	0	0	8,923,801
Furniture and Fixtures	19,748	0	0	19,748
Machinery and Equipment	8,328,055	0	0	8,328,055
Vehicles	69,000	0	0	69,000
Sanitary Sewer	66,112,178	599,554	0	66,711,732
Totals	<u>88,714,076</u>	<u>599,554</u>	<u>0</u>	<u>89,313,630</u>
Less Accumulated Depreciation	(44,209,965)	(1,728,485)	0	(45,938,450)
Totals	<u>\$44,504,111</u>	<u>\$(1,128,931)</u>	<u>\$ 0</u>	<u>\$43,375,180</u>

NOTE 10: **RISK MANAGEMENT**

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

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City contracted with several companies for various types of insurance as follows:

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

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

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Specialty National Ins. Co.	Building and Personal Property	\$ 1,000
Specialty National Ins. Co.	Crime Coverage:	
	- Theft, Disappearance/Destruction	250
	- Employee Dishonesty (Per Loss)	250
Specialty National Ins. Co.	Commercial General Liability	
	- Limit: 1,000,000 per occurrence (\$3,000,000 in aggregate)	
	- Limit: 50,000 Fire Damage	
	- Limit: 10,000 Medical Expense	No Deductible
Specialty National Ins. Co.	Business Auto Coverage	
	- Comprehensive Coverage	250
	- Physical Damage Collision	1,000
	- Medical Payment	
Specialty National Ins. Co.	Commercial Umbrella Coverage	
	- Sewer Liability	No Deductible
	- Commercial General Liability	No Deductible
	- Employers Liability	No Deductible
	- Public Officials Liability	10,000
	- Law Enforcement Liability	No Deductible
Specialty National Ins. Co.	Inland Marine including Theft	500
Travelers Property Casualty	Boiler and Machinery Policy	10,000

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

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one or two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. Ohio Public Employees Retirement System

The following information was provided by OPERS to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

The City of Strongsville contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The 2002 and 2001 employer contribution rates were 13.55 percent of covered payroll of which 5 percent and 4.3 percent were the portions used to fund health care for the years 2002 and 2001, respectively. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$1,236,893, \$1,108,166, and \$847,185, respectively. The full amount has been contributed for 2001 and 2000; 75 percent has been contributed for 2002, with \$257,737 being reported as a liability within the general long-term obligations account group and the remainder recorded in the proprietary fund.

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. The portion of the 2002 and 2001 employer contributions used to fund health care were \$456,421 and \$347,534, respectively.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

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

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F” Fund)

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund 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 Ohio Police and Fire Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City’s contributions to the OP&F Fund for the years ending December 31, 2002, 2001, and 2000 were \$807,942, \$743,693, and \$761,769 for police and \$879,038, \$782,555, and \$782,282 for firefighters, respectively. The full amount has been contributed for 2001 and 2000; 74 percent has been contributed for 2002 for police and 75 percent has been contributed for fire, with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-third basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer’s contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund’s Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer’s contributions to the OP&F Fund.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$322,044 representing 7.75 percent of covered payroll for police and \$284,060 representing 7.75 percent of covered payroll for fire. Health care funding and accounting were on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 12: **OTHER EMPLOYER BENEFITS**

Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation and compensation time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off, or as some other form of compensation, because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that conditions for compensation will be met in the future.

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

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 12: **OTHER EMPLOYER BENEFITS** (Continued)

Compensated Absences (Continued)

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.

In accordance with Governmental Accounting Standards Board (GASB) Statement 16, the City has accrued a liability for compensated absences at December 31, 2002. For governmental fund types, the City recognized the current portion of this liability at December 31, 2002 that is expected to be liquidated with expendable available financial resources. Accumulated vacation and sick leave totaled \$189,633 and is recorded as a liability within the respective fund type since it was used within sixty days of year-end. The remainder of the compensated absences liability for governmental fund types amounted to \$1,724,345 and is recorded as a liability in the general long-term debt group since the timing of future payments is not determinable. For proprietary and internal service funds, accumulated vacation and sick leave is \$198,663 at December 31, 2002. These amounts are recorded as liabilities in the respective enterprise and internal service funds.

NOTE 13: **RETIREMENT INCENTIVE PLAN**

In 1997, the City established a Voluntary Retirement Incentive Plan in compliance with Section 145.297, Ohio Revised Code, under which the City may purchase additional service credit from the Public Employees Retirement System on behalf of certain employees of the City. The effective period of the Plan was May 1, 1997 to December 31, 1999 and the maximum years of service credit purchasable was five years per eligible employee. At December 31, 2002, the City recognized the current portion of the retirement incentive liability of \$249,379 for governmental fund types in the respective funds. The remainder of the liability for governmental fund types amounted to \$400,506 and is recorded as a liability in the general long-term debt account group. For proprietary funds, the retirement incentive liability is \$97,674 at December 31, 2002. This amount was recorded as a liability in the respective enterprise and internal service funds.

CITY OF STRONGSVILLE, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 14: **SHORT-TERM NOTES PAYABLE**

	Balance			Balance
	<u>January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2002</u>
Various Purpose Improvement				
Notes Series 2002	\$ 2,100,000	\$ 2,100,000	\$ 2,100,000	\$ 2,100,000
Fire Truck Notes	0	850,000	0	850,000
Total Notes Payable	<u>\$ 2,100,000</u>	<u>\$ 2,950,000</u>	<u>\$ 2,100,000</u>	<u>\$ 2,950,000</u>

The City reissued the various purpose improvement notes for \$2,100,000 on July 1, 2002 for the purpose of improving streets and acquiring motorized vehicles and equipment together with any necessary appurtenances for use by the service department.

The City issued a bond anticipation note for \$850,000 on February 14, 2002 for the purpose of acquiring an aerial platform fire truck.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **LONG-TERM OBLIGATIONS**

Long-term obligations of the City as of December 31, 2002 were as follows:

<u>General Long-Term Obligations</u> <u>Account Group</u>	<u>Balance</u> <u>January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2002</u>
<u>General Long-Term Debt</u>				
<i><u>General Obligation Bonds Payable</u></i>				
Variable Rate (4.0% in 1997 to 5.95% in 2021), 1996 Various Purpose Improvement Bonds refunding due through 2021	\$ 2,125,000	\$ 0	\$ 380,000	\$ 1,745,000
Variable Rate (3.6% in 1996 to 6.55% in 2009), 1992 various purpose Improvement Bonds due through 2009	250,000	0	250,000	0
Variable Rate (4.0% in 1994 to 6.0% in 2014), 1994 various purpose Improvement Bonds due through 2014	535,000	0	85,000	450,000
Variable Rate (4.05% in 2002 to 5.05% in 2014), 1997 street Improvement Bonds due through 2009	3,240,000	0	365,000	2,875,000
Variable Rate (3% in 2002 to 3.5% in 2006), Library Improvement Bonds due through 2020	6,990,000	0	260,000	6,730,000
Variable Rate (3% in 2002 to 4% in 2007), 2002 Fire Station Bonds due through 2021	1,790,000	0	15,000	1,775,000
Variable Rate (3% in 2002 to 5% in 2021), refunded 1992 and 1996 Various Purpose Improvement Bonds, due through 2021	13,910,000	0	50,000	13,860,000
Variable Rate (3% in 2002 to 4% in 2007), Fire Truck Acquisition Bonds due through 2011	920,000	0	50,000	870,000
Variable Rate (3% in 2002 to 4% in 2007), Communications Equipment Acquisition Bonds due through 2016	665,000	0	15,000	650,000
Variable Rate (3% in 2002 to 4% in 2007), Service Center Expansion Bond due through 2021	460,000	0	5,000	455,000
<i>Total General Obligation Bonds Payable</i>	<u>30,885,000</u>	<u>0</u>	<u>1,475,000</u>	<u>29,410,000</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **LONG-TERM OBLIGATIONS** (Continued)

	<u>Balance</u> <u>January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31,</u> <u>2002</u>
General Long-Term Obligations				
Account Group (Continued)				
General Long-Term Debt (Continued)				
<i>OPWC Loan</i>				
Ohio Public Works Commission - 0% Note due through 2015	153,257	0	10,947	142,310
Ohio Public Works Commission - 0% Note due through 2016	65,902	0	4,545	61,357
Ohio Public Works Commission- 0% Note due through 2017	53,980	0	3,374	50,606
Ohio Public Works Commission 0% Note Due through 2020	10,930	0	591	10,339
<i>Total General Obligation Notes Payable</i>	284,069	0	19,457	264,612
<i>Special Assessment Bonds Payable with Government Commitment</i>				
1994 Various Purpose Improvement Bonds due through 2014	885,000	0	50,000	835,000
5.7%, 1996 Various Purpose Improvement Bonds due through 2016	1,045,000	0	50,000	995,000
1998 Various Purpose Improvement Bonds due through 2018	280,000	0	10,000	270,000
<i>Total Special Assessment Bonds Payable with Government Commitments</i>	2,210,000	0	110,000	2,100,000
Total General Long-Term Debt	33,379,069	0	1,604,457	31,774,612
Other Long-Term Obligations				
Compensated Absences	1,692,098	32,247	0	1,724,345
Police and Fire Pension Liability	81,118	0	1,130	79,988
Retirement Incentive	815,889	0	415,383	400,506
Accrued Pension	602,058	82,965	0	685,023
Total Other Long-Term Obligations	3,191,163	115,212	416,513	2,889,862
Total General Long-Term Obligations Account Group	\$ 36,570,232	\$ 115,212	\$ 2,020,970	\$ 34,664,474
				=
Enterprise Funds				
Ohio Water Development Authority, 10.54% 1986 Bonds due through 2011	\$ 4,733,741	\$ 0	\$ 340,735	\$ 4,393,006
Ohio Public Works Commission - 0% Note due through 2015	198,417	0	14,174	184,243
Variable Rate (4.05% in 2002 to 5.05% in 2014), 1997 Sanitary Sewer various purpose improvement due through 2014	2,025,000	0	95,000	1,930,000
Total Enterprise Funds Debt	\$ 6,957,158	\$ 0	\$ 449,909	\$ 6,507,249
				=

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **LONG-TERM OBLIGATIONS** (Continued)

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

Defeased Debt

In 2001, the City had 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 financial statements. As of December 31, 2002, the amount of defeased debt outstanding but removed from the General Long-Term Account Group amounted to \$12,910,000.

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

Due In	Governmental					
	General Obligation Bonds		Special Assessment Bonds		Police & Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 1,630,000	\$ 1,355,345	\$ 110,000	\$ 125,085	\$ 1,179	\$ 3,387
2004	1,675,000	1,291,920	115,000	119,530	1,229	3,336
2005	1,690,000	1,221,616	120,000	113,105	1,282	3,284
2006	1,775,000	1,150,945	130,000	106,298	1,337	3,229
2007	1,815,000	1,075,205	140,000	98,895	1,394	3,171
2008-2012	7,160,000	4,361,921	805,000	358,143	7,924	14,905
2013-2017	7,225,000	2,772,075	655,000	98,010	9,778	13,051
2018-2022	6,440,000	798,175	25,000	1,375	12,066	10,762
2023-2027	0	0	0	0	14,890	7,938
2027-2032	0	0	0	0	18,373	4,453
2033	0	0	0	0	10,536	672
	<u>\$ 29,410,000</u>	<u>\$ 14,027,202</u>	<u>\$ 2,100,000</u>	<u>\$ 1,020,441</u>	<u>\$ 79,988</u>	<u>\$ 68,188</u>

Due In	OPWC		Totals	
	Principal	Interest	Principal	Interest
2003	\$ 19,457	\$ 0	\$ 1,760,636	\$ 1,483,817
2004	19,457	0	1,810,686	1,414,786
2005	19,457	0	1,830,739	1,338,005
2006	19,457	0	1,925,794	1,260,472
2007	19,457	0	1,975,851	1,177,271
2008-2012	97,285	0	8,070,209	4,734,969
2013-2017	68,573	0	7,958,351	2,883,136
2018-2022	1,469	0	6,478,535	810,312
2023-2027	0	0	14,890	7,938
2028-2032	0	0	18,373	4,453
2033	0	0	10,536	672
	<u>\$ 264,612</u>	<u>\$ 0</u>	<u>\$ 31,854,600</u>	<u>\$ 15,115,831</u>

Due In	Enterprise					
	General Obligation Bonds		OWDA		OPWC	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 115,000	\$ 92,607	\$ 376,649	\$ 463,022	\$ 14,173	\$ 0
2004	120,000	87,663	416,347	423,324	14,173	0
2005	140,000	82,442	460,230	379,441	14,173	0
2006	145,000	76,213	508,739	330,933	14,173	0
2007	155,000	69,687	562,360	277,311	14,173	0
2008-2012	855,000	231,810	2,068,681	450,336	70,865	0
2013-2017	400,000	30,553	0	0	42,513	0
2016-2022	0	0	0	0	0	0
2022-2026	0	0	0	0	0	0
2027-2031	0	0	0	0	0	0
2032-2036	0	0	0	0	0	0
	<u>\$ 1,930,000</u>	<u>\$ 670,975</u>	<u>\$ 4,393,006</u>	<u>\$ 2,324,367</u>	<u>\$184,243</u>	<u>\$ 0</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements (Continued)

<u>Due In</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 505,822	\$ 555,629
2004	550,520	510,987
2005	614,403	461,883
2006	667,912	407,146
2007	731,533	346,998
2007-2012	2,994,546	682,146
2013-2017	442,513	30,553
2018-2022	0	0
2022-2026	0	0
2027-2031	0	0
2032-2036	0	0
	<u>\$ 6,507,249</u>	<u>\$ 2,995,342</u>

NOTE 16: **CONDUIT DEBT**

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

<u>Type</u>	<u>On Behalf of</u>	<u>Original Issuance</u>	<u>Year Issued</u>
Industrial Revenue Bonds	Nutro Corporation	\$1,350,000	1994
Industrial Revenue Bonds	Nutro Corporation	1,750,000	2000
Total		<u>\$3,100,000</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 GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 17: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City's enterprise funds account for the provision of sewer services . The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the City of Strongsville as of and for the year ended December 31, 2002 on a GAAP basis:

	<u>Sewer Capital Improvement</u>	<u>Sanitary Sewer</u>	<u>Total</u>
Operating Revenues	\$ 470,939	\$ 8,585,913	\$ 9,056,852
Operating Expenses, excluding Depreciation	274,235	8,584,099	8,858,334
Depreciation Expense	0	1,728,485	1,728,485
Operating Income (Loss)	196,704	(1,726,671)	(1,529,967)
Non-Operating Revenues (Expenses)	(498,935)	368,976	(129,959)
Net Income	(302,231)	(1,357,695)	(1,659,926)
Bonds and Other Long-Term Liabilities	4,577,249	1,930,000	6,507,249
Total Assets	1,434,160	51,369,287	52,803,447
Net Working Capital	1,421,562	5,030,256	6,451,818
Retained Earnings	(3,155,687)	10,427,800	7,272,113

NOTE 18: **CONSTRUCTION COMMITMENTS**

As of December 31, 2002, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Traffic Signalization	\$ 45,175
Westwood Park Sanitary Sewer	39,000
Library	4,115,755
Total	<u>\$4,199,930</u>

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 19: **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 20: **SUBSEQUENT EVENTS**

On February 12, 2003, the City reissued its \$850,000 fire truck note, bearing interest at the rate of 1.40 percent per year, payable at maturity, and maturing on February 12, 2004. The note was issued in anticipation of the issuance of bonds for the purpose of acquiring an aerial platform fire truck.

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

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

We have audited the general purpose financial statements of the City of Strongsville, Ohio (the City), as of and for the year ended December 31, 2002, and have issued our report thereon dated June 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Strongsville, Ohio, in a separate letter dated June 6, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated June 6, 2003.

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

June 6, 2003

James G. Zupka
Certified Public Accountant

CITY OF STRONGSVILLE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002
(CONTINUED)

Prior Recommendations

The prior audit report, as of December 31, 2001, included management letter recommendations. These have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



**Auditor of State
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CITY OF STRONGVILLE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 19, 2003**