



**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Strongsville City School District
Cuyahoga County
13200 Pearl Road
Strongsville, Ohio 44136

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Strongsville City School District, Cuyahoga County, Ohio, (the District) as of and for the fiscal year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Strongsville City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District increased the capitalization threshold for capital assets and implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

January 2, 2004

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of Strongsville City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial Highlights for 2003 are as follows:

- In total, net assets increased by \$5,634,692.
- Revenues for governmental activities totaled \$66,936,132 in 2003. Of this total, 94.0 percent consisted of General revenues while Program revenues accounted for the balance of 6.0 percent.
- Program expenses totaled \$61,301,440. Instructional expenses made up 60.5 percent of this total while support services accounted for 32.4 percent. Other expenses rounded out the remaining 7.1 percent.
- Outstanding general obligation bonded debt decreased to \$24,904,742 from \$26,674,742 in 2002.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure. In the *Statement of Net Assets* and the *Statement of Activities*, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. Fund financial reports provided detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General fund and Debt Service fund.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Funds

All of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

TABLE 1
Net Assets
Governmental Activities

	2003	2002
Assets		
Current and other assets	\$ 62,613,388	\$ 55,959,246
Capital assets, net	42,792,310	39,896,483
Total assets	\$ 105,405,698	\$ 95,855,729
 Liabilities		
Current liabilities	\$ 51,440,334	\$ 43,158,712
Long-term liabilities		
Due in one year	1,648,890	5,183,888
Due in more than one year	28,826,939	29,658,286
Total liabilities	81,916,163	78,000,886
 Net Assets		
Invested in capital assets, net of related debt	17,887,568	13,221,741
Restricted for:		
Debt service	4,261,341	4,176,471
Capital projects	105,926	24,060
Other purposes	25,955	-
Unrestricted	1,208,745	432,571
Total net assets	\$ 23,489,535	\$ 17,854,843

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Details of Table 1
Net Assets
Governmental Activities

	2003	2002
Assets		
Equity in pooled cash	\$ 11,217,220	\$ 11,328,041
Accounts receivable	3,483	7,088
Inventories and supplies	18,326	30,968
Taxes receivable	51,374,359	44,593,149
Capital assets		
Non-depreciable capital assets	2,482,950	2,482,950
Depreciable capital assets, net	40,309,360	37,413,533
Total assets	\$ 105,405,698	\$ 95,855,729
 Liabilities		
Accounts and contracts payable	\$ 650,000	\$ 1,201,481
Accrued salaries, wages and benefits	3,903,680	3,952,591
Claims payable	119,946	32,518
Accrued interest payable	2,100	4,300
Due to other governments	1,659,071	1,498,761
Deferred revenue	44,110,537	35,474,061
Notes payable	995,000	995,000
Long-term liabilities		
Due within one year	1,648,890	5,183,888
Due in more than one year	28,826,939	29,658,286
Total liabilities	81,916,163	78,000,886
 Net assets		
Invested in capital assets, net of related debt	17,887,568	13,221,741
Restricted for:		
Debt service	4,261,341	4,176,471
Capital projects	105,926	24,060
Other purposes	25,955	-
Unrestricted	1,208,745	432,571
Total net assets	\$ 23,489,535	\$ 17,854,843

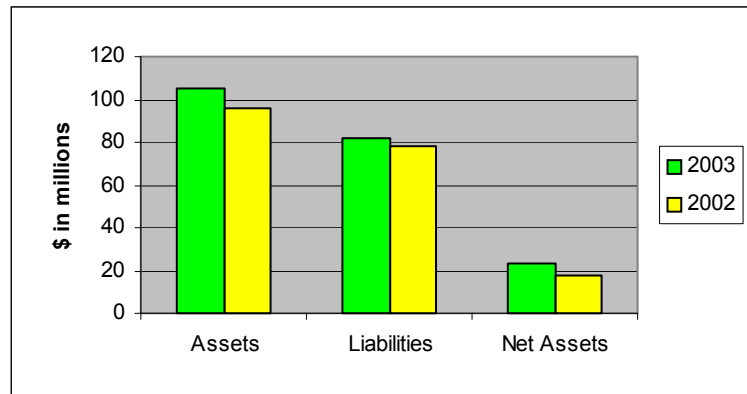
STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Graph #1

Net Assets (Governmental Activities)
(in millions)

	2003	2002
Total assets	\$ 105	\$ 96
Total liabilities	82	78
Total net assets	\$ 23	\$ 18

Governmental Activities



Total assets increased by \$9,549,969. The majority of this increase can be attributed directly to the area of taxes receivable. More specifically, this increase in assets was derived from the collection of the five mill plus one mill incremental levy that was passed in calendar year 2002. Another major addition is to capital assets for the donation of Pat Catan Stadium and stadium items.

Total liabilities increased by \$3,915,277. The most notable area that increased was deferred revenue. Deferred revenue increased by \$8,636,476 from 2002 as a result of the recently passed levy. Deferred revenue is primarily the result of taxes receivable and related amount available for advance from county auditor. The amount available for advance in 2002 was unusually high, which caused deferred revenue in 2002 to be lower. During fiscal year 2003, the District paid \$3,002,238 of Early Retirement Incentives and paid down severance of \$578,634.

By comparing assets and liabilities, one can see the overall position of the School District has improved as evidenced by the increase in net assets of \$5,634,692.

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$62,893,415 or 94.0 percent of the total revenue. The most significant portion of the General revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$4,042,717 or only 6.0 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

TABLE 2
 Governmental Activities

	2003
Revenues	
Program revenues	
Charges for services and sales	\$ 1,944,912
Operating grants, interest and contributions	2,097,805
Total program revenues	4,042,717
General revenue	
Property tax	41,976,503
Grants and entitlements	16,611,626
Investment earnings	345,205
Miscellaneous	3,960,081
Total general revenues	62,893,415
Total revenues	66,936,132
Program expenses	
Instruction	
Regular	32,886,035
Special	3,163,737
Vocational	297,995
Adult/continuing	29,378
Other instruction	709,521
Supporting services	
Pupil	1,087,340
Instructional staff	2,299,697
Board of education	69,187
Administration	2,656,528
Fiscal services	3,700,854
Business	482,653
Operation and maintenance	5,963,757
Pupil transportation	3,111,685
Central services	440,340
Operation of non-instructional	
Food service operation	1,831,237
Community services	657,217
Extracurricular activities	
Academic and subject oriented	4,331
Sports oriented	526,603
Debt service	
Interest	1,383,345
Total program expenses	61,301,440
Increase in net assets	5,634,692
Net assets, beginning of year - restated	17,854,843
Net assets, end of year	\$ 23,489,535

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In August of 2002, the School District successfully passed a five year, five mill plus one mill incremental levy that is estimated to generate 7.3 million dollars in additional revenue per year. Collections began the second half of Fiscal Year 2003. The full effect of this levy will be realized in Fiscal Year 2004/2005. This additional income will be dedicated to the operational and capital needs of the School District over the next four to five years. This levy will have to be renewed in 2007 for a full collection in 2008.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As one can see, approximately 60.5 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 32.4 percent. The remaining amount of program expenses, roughly 7.1 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges and numerous extracurricular activities.

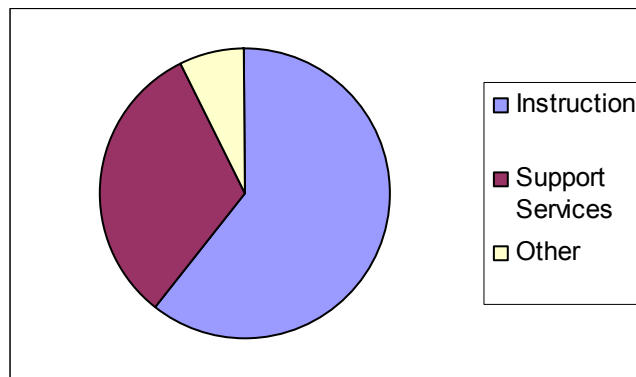
Actual expenses were consistent with annual budget expectations and the School District even exhibited an increase in net assets in 2003 of \$5,634,692. This increase was primarily due to the initial collection of the levy that was passed by the Strongsville voters in calendar year 2002.

The Statement of Activities shows the total net cost of program services. Table 3 on the following page shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(in millions)

Instruction	\$	37
Support services		20
Other		4
Total		61

Program Expenses



STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

	Total Cost of Services 2003	Net Cost of Services 2003
Governmental Activities	<u>2003</u>	<u>2003</u>
Instruction		
Regular	\$ 32,886,035	\$ (32,233,583)
Special	3,163,737	(3,018,891)
Vocational	297,995	(192,998)
Adult/continuing	29,378	(29,378)
Other instruction	709,521	(709,521)
Support services		
Pupil	1,087,340	(612,607)
Instructional staff	2,299,697	(2,065,114)
Board of education	69,187	(69,187)
Administration	2,656,528	(2,594,421)
Fiscal services	3,700,854	(3,700,854)
Business	482,653	(482,653)
Operation and maintenance	5,963,757	(5,879,191)
Pupil transportation	3,111,685	(3,111,685)
Central services	440,340	(440,340)
Operation of non-instructional		
Food service operation	1,831,237	(104,964)
Community services	657,217	(99,057)
Extracurricular activities		
Academic and subject oriented	4,331	(4,331)
Sports oriented	526,603	(526,603)
Debt service		
Interest	1,383,345	(1,383,345)
Total	<u>\$ 61,301,440</u>	<u>\$ (57,258,723)</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 68 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 27 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 7 percent of all governmental expenses.

Clearly, the Strongsville community is by far the greatest source of financial support for the students of the Strongsville City Schools.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

School District's funds

Information regarding the School District's major funds can be found on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$62,119,765 and expenditures of \$63,896,109. The net change in fund balance for the year was most significant in the General Fund, a decrease of (\$1,719,009).

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the General Fund.

The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses but provide flexibility for site-based decision and management.

For the General Fund, the final budget basis revenue estimate totaled \$61,942,362; this was above original budget estimates of \$58,993,198. The main difference between the original and final estimates was due to an under estimation of intergovernmental receipts. The budget basis expense estimate totaled \$60,048,381 compared to original estimates of \$60,064,870. This difference was primarily due to changes in staffing costs throughout the year.

The General Fund unencumbered ending cash balance totaled \$4,325,416.

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2003, the School District had \$42,792,310 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2003 values compared to 2002.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2003	2002
Land	\$ 2,482,950	\$ 2,482,950
Building and improvements	36,517,063	33,134,816
Furniture and equipment	2,376,919	2,588,548
Vehicles	1,415,378	1,690,169
Total capital assets	\$ 42,792,310	\$ 39,896,483

All capital assets, except land, are reported net of depreciation. As one can see, the main increase in capital assets during the fiscal year occurred in the categories of building and improvements. The increase was primarily due to the upgrade in athletic grounds which included the track and baseball fields. For additional information, see Note 9 of the Notes to the Basic Financial Statements.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Debt

At June 30, 2003 the School District had \$24,904,742 in bonds outstanding. Table 5 summarizes the School District's bonds outstanding.

Long-Term Obligations

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

Table 5
 Bonds Outstanding

	June 30, 2003	June 30, 2002
Bonds, 6.500% matures 2010	\$ 2,080,000	\$ 2,340,000
Bonds, 6.950% matures 2011	1,170,000	1,300,000
Bonds, 6.200% matures 2015	2,525,000	2,670,000
Bonds, 3.750% matures 2012	19,129,742	20,364,742
Total bonds	\$ 24,904,742	\$ 26,674,742

Outstanding bonds consist of general obligation bonds for building issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the District. General obligation bonds will be paid from the Debt Service Fund from property taxes.

The overall debt margin of the District is \$88,470,246 with an unvoted debt margin of \$10,618,988. Other obligations include compensated absences. For additional debt obligation information see Note 14 of the Notes to the Basic Financial Statements.

School District Outlook

Strongsville City Schools has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan. The School District ranks among the top schools in Ohio for educational excellence.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Although the School District relies heavily on its property taxpayers to support its operations, the community support of the schools is quite strong. As mentioned earlier, the Strongsville voters had passed an incremental tax levy five mills plus one mill for five years in August of 2002, which will help fund the general operations and permanent improvements of the School District over the next five years. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court, again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate.' The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it is expected that the decision would result in an increase in overall State funding for education. On March 21, 2002, the Ohio General Assembly was still analyzing what impact this Supreme Court decision would have on funding for individual school districts. Further, the State of Ohio has asked the Court to reconsider and clarify the parts of the decision. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Strongsville City School District has not anticipated any meaningful growth in State revenue due to the concern that the State may require the redistribution of commercial and industrial property taxes. With 41 percent of the taxes of the School District coming from local business and industry, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Strongsville City School District has committed itself to financial and educational excellence for many years to come.

Contacting the School District's Financial Management

This financial report is designated to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact David M. Mattingly, Chief Financial Officer, Strongsville City School District, 13200 Pearl Road, Strongsville, OH 44136, or email at mattingly@strongnet.org.

STRONGSVILLE CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash	\$ 11,217,220
Accounts receivable	3,483
Inventories and supplies	18,326
Taxes receivable	51,374,359
Capital assets	
Nondepreciable capital assets	2,482,950
Depreciable capital assets, net	40,309,360
Total assets	105,405,698
 Liabilities	
Accounts and contracts payable	650,000
Accrued salaries, wages and benefits	3,903,680
Claims payable	119,946
Accrued interest payable	2,100
Due to other governments	1,659,071
Deferred revenue	44,110,537
Notes payable	995,000
Long term liabilities	
Due within one year	1,648,890
Due in more than one year	28,826,939
Total liabilities	81,916,163
 Net assets	
Invested in capital assets, net of related debt	16,892,568
Restricted for:	
Debt service	5,256,341
Capital projects	105,926
Other purposes	25,955
Unrestricted	1,208,745
Total net assets	\$ 23,489,535

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	32,886,035	308,295	344,157	-	(32,233,583)
Special	3,163,737	18,700	126,146	-	(3,018,891)
Vocational	297,995	-	104,997	-	(192,998)
Adult/continuing	29,378	-	-	-	(29,378)
Other instruction	709,521	-	-	-	(709,521)
Supporting services					
Pupil	1,087,340	-	474,733	-	(612,607)
Instructional staff	2,299,697	-	234,583	-	(2,065,114)
Board of education	69,187	-	-	-	(69,187)
Administration	2,656,528	-	62,107	-	(2,594,421)
Fiscal services	3,700,854	-	-	-	(3,700,854)
Business	482,653	-	-	-	(482,653)
Operation and maintenance	5,963,757	84,566	-	-	(5,879,191)
Pupil transportation	3,111,685	-	-	-	(3,111,685)
Central services	440,340	-	-	-	(440,340)
Operation of non-instructional					
Food service operation	1,831,237	1,443,935	282,338	-	(104,964)
Community services	657,217	89,416	468,744	-	(99,057)
Extracurricular activities					
Academic and subject oriented	4,331	-	-	-	(4,331)
Sports oriented	526,603	-	-	-	(526,603)
Interest	1,383,345	-	-	-	(1,383,345)
Total governmental activities	<u>\$ 61,301,440</u>	<u>\$ 1,944,912</u>	<u>\$ 2,097,805</u>	<u>\$ -</u>	<u>(57,258,723)</u>
General revenues					
Property taxes levied for:					
General purpose					38,286,635
Debt service					2,728,930
Capital improvements					960,938
Grants and entitlements not restricted to specific purposes					16,611,626
Investment earnings					345,205
Miscellaneous					3,960,081
Total general revenues					<u>62,893,415</u>
Change in net assets					5,634,692
Net assets at beginning of year, restated					17,854,843
Net assets at end of year					<u>\$ 23,489,535</u>

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 4,051,238	\$ 3,791,590	\$ 2,252,422	\$ 10,095,250
Restricted cash	933,084	-	-	933,084
Receivables, net of allowance				
Taxes, current	43,756,560	3,097,273	1,036,855	47,890,688
Taxes, delinquent	3,182,961	225,289	75,421	3,483,671
Accounts and other	-	-	3,483	3,483
Interfund receivable	3,510	-	-	3,510
Inventories and supplies	-	-	18,326	18,326
Total assets	\$ 51,927,353	\$ 7,114,152	\$ 3,386,507	\$ 62,428,012
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	283,358	-	366,642	\$ 650,000
Accrued wages and benefits	3,748,487	-	155,193	3,903,680
Accrued interest payable	-	-	2,100	2,100
Due to other governments	1,073,617	-	27,441	1,101,058
Interfund payable	-	-	3,510	3,510
Deferred revenue	43,485,672	3,078,100	1,030,436	47,594,208
Compensated absences	8,547	-	-	8,547
Notes payable	-	-	995,000	995,000
Total liabilities	48,599,681	3,078,100	2,580,322	54,258,103
Fund balances				
Reserved for inventories	-	-	18,326	18,326
Reserved for property taxes	3,454,445	244,505	81,854	3,780,804
Reserved for capital maintenance	435,072	-	-	435,072
Reserved for textbooks	498,012	-	-	498,012
Reserved for encumbrances	377,452	-	189,086	566,538
Unreserved, reported in				
General Fund	(1,437,309)	-	-	(1,437,309)
Special Revenue Funds	-	-	516,919	516,919
Debt Service Fund	-	3,791,547	-	3,791,547
Capital Projects Funds	-	-	-	-
Total fund balances	3,327,672	4,036,052	806,185	8,169,909
Total liabilities and fund balances	\$ 51,927,353	\$ 7,114,152	\$ 3,386,507	\$ 62,428,012

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental funds balances	\$	8,169,909
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		42,792,310
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		3,483,671
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		68,940
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(558,013)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(5,562,540)
Bonds payable		(24,904,742)
		(30,467,282)
Net assets of governmental activities	\$	23,489,535

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 38,286,635	\$ 2,728,930	\$ 960,938	\$ 41,976,503
Tuition and fees	167,151	-	290,227	457,378
Interest	199,167	107,800	34,674	341,641
Intergovernmental	14,438,235	347,920	2,272,949	17,059,104
Extracurricular	-	-	324,805	324,805
Charges for services	-	-	1,443,935	1,443,935
Other	149,567	-	366,832	516,399
Total revenues	<u>53,240,755</u>	<u>3,184,650</u>	<u>5,694,360</u>	<u>62,119,765</u>
Expenditures				
Current				
Instruction				
Regular	31,948,122	-	907,751	32,855,873
Special	2,836,625	-	218,268	3,054,893
Vocational	286,977	-	-	286,977
Adult/continuing	-	-	29,378	29,378
Other instruction	700,122	-	-	700,122
Supporting services				
Pupil	2,105,454	-	509,795	2,615,249
Instructional staff	1,856,218	-	258,951	2,115,169
Board of education	69,187	-	-	69,187
Administration	2,667,138	-	67,174	2,734,312
Fiscal services	3,600,728	42,492	14,529	3,657,749
Business	513,864	-	-	513,864
Operation and maintenance	5,129,572	-	1,105,674	6,235,246
Pupil transportation	2,638,340	-	1,644	2,639,984
Central services	394,571	-	-	394,571
Operation of non-instructional				
Food service operation	-	-	1,751,657	1,751,657
Community services	26,958	-	600,733	627,691
Extracurricular activities				
Academic and subject oriented	-	-	4,331	4,331
Sports oriented	171,926	-	284,585	456,511
Debt service				
Principal	-	1,770,000	-	1,770,000
Interest	-	1,385,545	(2,200)	1,383,345
Total expenditures	<u>54,945,802</u>	<u>3,198,037</u>	<u>5,752,270</u>	<u>63,896,109</u>
Excess (deficiency) of revenues over expenditures	<u>(1,705,047)</u>	<u>(13,387)</u>	<u>(57,910)</u>	<u>(1,776,344)</u>
Other financing sources (uses)				
Transfers-in	7,038	-	21,000	28,038
Transfers-out	(21,000)	-	(7,038)	(28,038)
Total other financing sources (uses)	<u>(13,962)</u>	<u>-</u>	<u>13,962</u>	<u>-</u>
Net change in fund balances	<u>(1,719,009)</u>	<u>(13,387)</u>	<u>(43,948)</u>	<u>(1,776,344)</u>
Fund balances, beginning of year, as restated	5,046,681	4,049,439	850,133	9,946,253
Fund balances, end of year	<u>\$ 3,327,672</u>	<u>\$ 4,036,052</u>	<u>\$ 806,185</u>	<u>\$ 8,169,909</u>

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ (1,776,344)

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

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

Capital outlay	1,674,296	
Depreciation expense	(1,940,945)	
Total	(266,649)	(266,649)

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

Donation of fixed assets	3,162,476	
Property taxes	1,650,327	
	4,812,803	4,812,803

Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 1,770,000

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	1,147,370	
Pension obligations	(70,515)	
	1,076,855	1,076,855

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 18,027

Change in net assets of governmental activities \$ 5,634,692

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues				
Taxes	\$ 42,627,836	\$ 41,439,809	\$ 41,428,545	\$ (11,264)
Tuition and fees	167,443	209,000	167,151	(41,849)
Interest	203,904	256,000	199,167	(56,833)
Intergovernmental	14,327,971	17,945,376	14,438,235	(3,507,141)
Miscellaneous	1,666,044	2,092,177	149,892	(1,942,285)
Total revenue	<u>58,993,198</u>	<u>61,942,362</u>	<u>56,382,990</u>	<u>(5,559,372)</u>
Expenditures				
Current				
Instruction				
Regular	34,747,645	34,428,179	33,436,270	991,909
Special	2,692,504	2,921,967	2,822,400	99,567
Vocational education	260,993	307,662	299,505	8,157
Other	1,340,824	1,486,446	977,381	509,065
Supporting services				
Pupil	2,097,066	2,240,608	2,120,832	119,776
Instructional	2,118,918	2,040,577	1,909,846	130,731
Board of education	76,985	91,422	69,187	22,235
Administration	2,949,245	2,847,933	2,727,728	120,205
Fiscal	3,712,959	3,893,244	3,539,981	353,263
Business	848,148	833,650	583,077	250,573
Operations and maintenance	5,532,496	5,485,745	5,240,749	244,996
Pupil transportation	2,864,629	2,853,039	2,679,710	173,329
Central services	646,234	425,722	394,493	31,229
Non-Instructional Services				
Community Services	-	25,044	25,044	-
Extracurricular				
Sports oriented	176,224	167,143	167,143	-
Total expenditures	<u>60,064,870</u>	<u>60,048,381</u>	<u>56,993,346</u>	<u>3,055,035</u>
Excess (deficiency) of revenues over expenditures	<u>(1,071,672)</u>	<u>1,893,981</u>	<u>(610,356)</u>	<u>(2,504,337)</u>
Other financing sources (uses)				
Transfers-in	-	10,000	7,038	(2,962)
Transfers-out	(4,000)	(39,000)	(21,000)	18,000
Advances in	-	250,000	225,999	(24,001)
Advances out	(600,000)	(599,998)	(208,174)	391,824
Other miscellaneous use of funds	-	(74,200)	-	74,200
Total other financing sources (uses)	<u>(604,000)</u>	<u>(453,198)</u>	<u>3,863</u>	<u>457,061</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(1,675,672)</u>	<u>1,440,783</u>	<u>(606,493)</u>	<u>(2,047,276)</u>
Prior year encumbrances	2,214,136	2,214,136	2,214,136	-
Fund balance, at beginning of year	2,717,773	2,717,773	2,717,773	-
Fund balance, at end of year	<u>\$ 3,256,237</u>	<u>\$ 6,372,692</u>	<u>\$ 4,325,416</u>	<u>\$ (2,047,276)</u>

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
INTERNAL SERVICE FUND

JUNE 30, 2003

	<u>Self Insurance</u>
Assets	
Equity in pooled cash	\$ 188,886
Liabilities	
Claims payable	<u>119,946</u>
Net assets	
Unrestricted	<u><u>\$ 68,940</u></u>

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Operating revenues	
Charges for services	\$ 693,028
Total operating revenues	693,028
Operating expenses	
Claims	678,565
Total operating expenses	678,565
Operating income	14,463
Nonoperating income	
Interest income	3,564
Change in net assets	18,027
Net assets, beginning of year	50,913
Net assets, end of year	\$ 68,940

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Cash flows from operating activities:	
Cash received from interfund services	\$ 693,028
Cash payments for claims	(591,137)
Net cash provided by operating activities	101,891
 Cash flows from investing activities	
Receipt of interest	3,564
Net cash provided by investing activities	3,564
 Net increase in cash and cash equivalents	105,455
 Cash and cash equivalents, beginning of year	83,431
 Cash and cash equivalents, end of year	\$ 188,886
 Reconciliation of operating income to net cash used for operating activities	
Operating income	\$ 14,463
Adjustments	
Increase in claims payable	87,428
Net cash provided by operating activities	\$ 101,891

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2003

Assets	
Equity in pooled cash	\$ 202,476
Total assets	<u>202,476</u>
Liabilities	
Accounts payable	3,393
Due to students	198,128
Due to others	955
Total liabilities	<u>\$ 202,476</u>

See accompanying notes to the basic financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Strongsville City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2002 was 7,227. The District employs 418 certificated and 374 non-certificated employees.

REPORTING ENTITY

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Within the District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed by the District on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and, 1) the District is able to significantly influence the programs or services performed or provided by the organization; or 2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with the Lake Erie Educational Computer Association, the Polaris Career Center, the Strongsville Education Foundation, and the Ohio School Council Association which are considered to be jointly governed organizations. The District also participates in a public risk pool managed by the Ohio Schools Boards Association Workers' Compensation Group Rating Program. These organizations and their relationships with the District are described in more detail in Notes 11 and 18 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - the general fund is the operating fund of the school district and is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund - the debt service fund receives property taxes for the payment of general obligation bonds for building issues.

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

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for revenue received from other funds and the settlement expenses for dental claims of District employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and the fiduciary fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for the General Fund and at the fund level for all other funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. CASH AND INVESTMENTS

To improve cash management, all cash received by the District is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "equity in pooled cash" on the balance sheet.

The District has investments in a liquid asset management account and are considered to be non-participating. In accordance with the provisions of GASB 31, carrying value is at amortized cost. Any difference between cost and fair value is considered to be immaterial.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2003 totaled \$ 341,641.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. INVENTORY

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased.

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for the purchase of textbooks and instructional material and the acquisition and construction of capital improvements (see Note 17). This is eliminated on the financial statement presentation for the Statement of Net Assets.

I. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land improvements	15 - 50 years
Buildings and improvements	20 - 50 years
Furniture, and equipment	8 - 20 years
Vehicles	10 years

J. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net assets.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities from proprietary funds are reported on the proprietary fund statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, inventory, capital maintenance, textbooks and encumbrances.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE RESERVES AND DESIGNATIONS (continued)

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserves for capital maintenance and textbooks represents monies required to be set aside by State statute.

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

P. INTERFUND TRANSACTIONS

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

Q. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38 and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (continued)

A. CHANGES IN ACCOUNTING PRINCIPLES (continued)

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that enterprise funds and certain internal service funds should be reclassified to special revenue funds and that the self-insurance program should be accounted for as an internal service fund.

B. CHANGE IN ACCOUNTING POLICY

For financial reporting purposes the District increased its capitalization policy threshold from \$ 1,000 to \$ 5,000. Beginning balances as of June 30, 2002 have been restated as follows:

	As Previously Reported June 30, 2002	Adjustment	As Restated June 30, 2002
Capital assets, cost	\$ 62,264,421	\$ (2,872,536)	\$ 59,391,885

C. RESTATEMENT OF FUND BALANCE

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Non-Major Governmental Funds	Total
Fund balances, June 30, 2002	\$ 4,724,169	\$ 4,049,439	\$ 482,968	\$ 9,256,576
Fund reclassification	-	-	628,992	628,992
Fixed assets, net	-	-	(374,055)	(374,055)
Deferred revenue	-	-	25,724	25,724
Accrued expenses	322,512	-	86,504	409,016
Restated fund balances, June 30, 2002	\$ 5,046,681	\$ 4,049,439	\$ 850,133	9,946,253
GASB 34 adjustments				
Capital assets				39,896,483
Internal Service Fund				50,913
Long-term assets				1,833,344
Long-term liabilities				(33,872,150)
Governmental activities net assets, June 30, 2002				\$ 17,854,843

	Business-type Activities
Net assets, June 30, 2002	\$ 628,992
Fund reclassification	(628,992)
Adjusted net assets, June 30, 2002	\$ -

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – DEFICIT FUND EQUITY

At June 30, 2003, the Title 1 and Title II-A special revenue funds and the capital projects Building fund had deficit fund balances of \$ 4,898, \$ 9,689, and \$ 954,949 respectively. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance General Fund	
	General
Budget basis	\$ (606,493)
Adjustments, increase (decrease)	-
Revenue accruals	(3,142,235)
Expenditure accruals	2,047,544
Other sources (uses)	(17,825)
GAAP basis, as reported	\$ (1,719,009)

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the District's deposits was \$ 1,991,824 and the bank balance was \$ 2,363,580. Of the bank balance,

1. \$ 102,000 was covered by federal depository insurance; and
2. \$ 2,261,580 was uninsured and uncollateralized. Although State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value
U.S. Government securities	\$ 4,639,101	\$ 4,639,101
Investment in State Treasurer's Investment Pool		4,788,771
		\$ 9,427,872

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 11,419,696	\$ -
U. S. Government securities	(4,639,101)	4,639,101
Investment in State Treasurer's Investment Pool	(4,788,771)	4,788,771
GASB Statement No. 3	\$ 1,991,824	\$ 9,427,872

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

The District receives property taxes from Cuyahoga and Lorain Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003/2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$ 3,454,445 in the General Fund, \$ 244,505 in the Debt Service Fund and \$ 81,854 in the Permanent Improvements Fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second - Half Collections		2003 First - Half Collections		
	Amount	%	Amount	%	
Agricultural/Residential and Other Real Estate	\$ 1,136,867,840	88.10	\$ 1,136,859,030	88.09	%
Public Utilities	31,976,790	2.48	31,986,230	2.48	
Tangible Personal Property	121,599,684	9.42	121,672,964	9.43	
Total Assessed Value	<u>\$ 1,290,444,314</u>	<u>100.00</u>	<u>\$ 1,290,518,224</u>	<u>100.00</u>	%
Tax rate per \$1,000 of assessed valuation	<u>70.60</u>		<u>70.60</u>		

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes and miscellaneous accounts. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002 (As Restated)	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 2,482,950	\$ -	\$ -	\$ 2,482,950
Depreciable capital assets				
Buildings and improvements	46,041,001	4,651,105	-	50,692,106
Furniture and equipment	6,407,656	116,174	-	6,523,830
Vehicles	4,460,278	69,493	-	4,529,771
Total capital assets being depreciated	<u>56,908,935</u>	<u>4,836,772</u>	<u>-</u>	<u>61,745,707</u>
Less accumulated depreciation				
Buildings and improvements	12,906,185	1,268,858	-	14,175,043
Furniture and equipment	3,819,108	327,803	-	4,146,911
Vehicles	2,770,109	344,284	-	3,114,393
Total accumulated depreciation	<u>19,495,402</u>	<u>1,940,945</u>	<u>-</u>	<u>21,436,347</u>
Depreciable capital assets, net of accumulated depreciation	<u>37,413,533</u>	<u>2,895,827</u>	<u>-</u>	<u>40,309,360</u>
Governmental activities capital assets, net	<u>\$ 39,896,483</u>	<u>\$ 2,895,827</u>	<u>\$ -</u>	<u>\$ 42,792,310</u>

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	723,574
Special		96,009
Vocational		8,626
Adult education		9,802
Supporting services		
Pupil		72,160
Instructional staff		188,026
Administration		74,110
Fiscal		12,073
Business		23,646
Operation and maintenance of plant		107,181
Pupil transportation		454,765
Central services		11,982
Operation of noninstructional services		
Food service operation		74,670
Community services		18,388
Extracurricular activities		
Sports oriented		65,933
Total depreciation expense	\$	<u>1,940,945</u>

NOTE 10 - INTERFUND ASSETS/LIABILITIES

On the fund financial statements at June 30, 2003, interfund balances consisted of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 3,510	\$ -
Special Revenue		
Title I	-	1,500
Title II - A	-	2,010
Total	<u>\$ 3,510</u>	<u>\$ 3,510</u>

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue Funds.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District contracted with Indiana Insurance Company for property insurance. Travelers Insurance Company covers boiler and machinery at \$ 30,000,000 single occurrence and \$ 1,000 deductible. Crime policy for employee dishonesty, forgery and alteration is covered by Ohio Casualty Insurance Co., with a \$ 250,000 limit and \$ 1,000 deductible. Liability is protected by Nationwide Agribusiness Insurance Company with a \$ 5,000,000 annual aggregate/\$ 2,000,000 single occurrence limit and no deductible. Vehicles are covered by Corecis and hold a \$ 250 deductible for comprehensive and a \$ 500 deductible for collision. Automobile liability has a \$ 2,000,000 combined single limit of liability. The District provides medical and life insurance to employees through commercial insurance coverage. There has not been any significant reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage in any of the preceding three years.

B. WORKERS' COMPENSATION

The District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc., provides administrative, cost control and actuarial services to the GRP.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District provides dental benefits for employees and their covered dependents through a self-insurance program administered by an outside third party. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Changes in the balance of claims liability during the years ended June 20, 2003 and 2002 are as follows:

	2003	2002
Unpaid claims, beginning of year	\$ 32,518	\$ -
Incurred claims	678,565	129,929
Claims payment	(591,137)	(97,411)
Unpaid claims, end of year	<u>\$ 119,946</u>	<u>\$ 32,518</u>

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Strongsville City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS 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 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits, for fiscal year 2003. 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2003, 2002, and 2001 were \$690,691, \$1,161,600, and \$1,134,800, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$307,308 (44.5%) has been contributed with the remainder being reflected as an intergovernmental payable.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Strongsville City School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan options – Effective July 1, 2001, new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among nine investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's year's of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Prior to February 1, 2002, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. Effective February 1, 2002, benefits are increased annually by 3% of the original base amount, regardless of the change in the CPI.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

A defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$ 1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$ 2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to member's beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2003 were 9.3% of covered payroll for members and 14% for employers; 13% was the portion used to fund pension obligations. The Strongsville City School District's contribution to STRS for the years ended June 30, 2003, 2002, and 2001 were \$3,462,919, \$3,672,700, and \$3,610,300, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$2,836,038 (82%) has been contributed with the remainder being reported as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2003 were \$ 9,440 made by the District and \$ 27,926 made by plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 Comprehensive Annual Financial Report can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2003 the healthcare allocation rate is 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2003, the minimum pay has been established as \$ 14,500. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$ 204,930,737 and the target level was \$ 307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits was \$ 303.6 million.

The number of benefit recipients receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$612,931 of which \$219,292 was the unpaid contribution.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. Effective, July 1, 2002, 1% of covered payroll will be allocated to the fund. For the School District, this amount equaled \$118,162 for fiscal year 2003. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$ 354,697,000. There were 105,300 eligible benefit recipients.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding July 1, 2002	Additions	Retired	Outstanding June 30, 2003	Amounts Due In One Year
Bonds, 6.500%; issued 1996, matures 2010	\$ 2,340,000	\$ -	\$ 260,000	\$ 2,080,000	\$ 260,000
Bonds, 6.950%; issued 1991, matures 2011	1,300,000	-	130,000	1,170,000	130,000
Bonds, 6.200%; issued 1994, matures 2015	2,670,000	-	145,000	2,525,000	150,000
Bonds, 3.750%; issued 1996, matures 2012	20,364,742	-	1,235,000	19,129,742	684,742
Total bonds	26,674,742	-	1,770,000	24,904,742	1,224,742
Compensated absences	5,583,958	774,533	787,404	5,571,087	424,148
Early retirement incentive	3,002,238	-	3,002,238	-	-
	<u>\$ 35,260,938</u>	<u>\$ 774,533</u>	<u>\$ 5,559,642</u>	<u>\$ 30,475,829</u>	<u>\$ 1,648,890</u>

Outstanding bonds consist of general obligation bonds for building issues. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the District. General obligation bonds will be paid from the Debt Service Fund from property taxes. Compensated absences will be paid from the fund from which the employee is paid.

The overall debt margin of the District is \$ 88,470,246 with an unvoted debt margin of \$ 10,618,988. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2003, were as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 1,224,742	\$ 2,007,555	\$ 3,232,297
2005	2,045,000	1,231,591	3,276,591
2006	2,235,000	1,119,068	3,354,068
2007	2,440,000	995,283	3,435,283
2008	2,535,000	861,723	3,396,723
2009 - 2013	13,875,000	2,078,288	15,953,288
2014 - 2015	550,000	33,300	583,300
	<u>\$ 24,904,742</u>	<u>\$ 8,326,808</u>	<u>\$ 33,231,550</u>

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 15 – OPERATING LEASES

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2003, expenditures for operating leases totaled \$ 39,480.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

	Year ending June 30,	Amount
	2004	\$ 39,480
	2005	39,480
Total minimum lease payments		<u>\$ 78,960</u>

NOTE 16 –SHORT TERM OBLIGATIONS

The District's note activity, including amounts outstanding and interest rates is as follows:

	Balance June 30, 2002	Additions	Retired	Balance June 30, 2003
Energy Conservation Notes:				
2002, 1.75%	\$ 995,000	\$ -	\$ 995,000	\$ -
2003, 2.50%	-	995,000	-	995,000
	<u>\$ 995,000</u>	<u>\$ 995,000</u>	<u>\$ 995,000</u>	<u>\$ 995,000</u>

The energy conservation improvement notes are backed by the full faith and credit of the District and mature within one year. The note liability is reflected in the fund which received the proceeds.

NOTE 17 - SET-ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2003.

	Textbook	Capital Maintenance	Total
Balance, July 1, 2002	\$ 78,695	\$ 33,427	\$ 112,122
Required set aside	967,321	967,321	1,934,642
Offset credits	-	-	-
Qualifying expenditures	(548,004)	(565,676)	(1,113,680)
Balance June 30, 2003	<u>\$ 498,012</u>	<u>\$ 435,072</u>	<u>\$ 933,084</u>

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2003, the District paid \$ 61,952 to LEECA.

B. POLARIS CAREER CENTER

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special needs of the students. Its Board of Education consists of representatives from the board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. Strongsville City School District students may attend the vocational school. Each school district's control is limited to its representation on the Board. Financial information can be obtained by contacting the Polaris Career Center, 7285 Old Oak Blvd., Middleburg Heights, Ohio 44130.

C. STRONGSVILLE EDUCATION FOUNDATION

The Strongsville City School Foundation (Foundation) is a jointly governed organization established under the Ohio Revised Code to support and enhance educational opportunities for the youth of the Strongsville community. The Foundation Board of Trustees consists of at least three but not more than seventeen trustees. The current Superintendent of the Strongsville City Schools shall be on the Board of Trustees and serve as Executive Director. At least one Trustee shall be a member of the Board of Education of the Strongsville City School District. A majority of the Trustees shall at all times be persons other than "substantial contributors," as defined in Section 507(d)(2) of the Internal Revenue Code. Each Trustee has one vote. The board is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS (continued)

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003 the District paid \$ 198,633 to the Council.

The Strongsville City Schools participates in the Council's electric purchase program which was implemented during fiscal year 2000. The program allows school districts to purchase electricity at reduced rates for a period of eight years through Energy Acquisition Corporation (Corporation), a non-profit corporation with a self-appointing board of trustees. The Corporation issued \$ 119,140,000 of notes to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI). The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement during the eight year period, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The Strongsville City Schools participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$ 89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, Ohio 44131.

NOTE 19 - SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 20 - INTERFUND TRANSFERS

During the year ended June 30, 2003, the General Fund transferred \$ 20,000 to the SCS-TV program and \$ 1,000 to the Stockroom Fund to provide for the payment of expenditures. The transfers from the Non-major governmental funds were to close inactive programs.

NOTE 21 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Agency		Pass-through Agency Awarding		Non-Cash		Non-Cash
Pass-through Agency						
<u>Federal Program</u>	<u>CFDA #</u>	<u>Number</u>	<u>Receipts</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Expenditures</u>
United States Department Of Education						
Passed-through Ohio Department of Education						
Special Education Cluster:						
Special Education - Grants to States	84.027	44842 6B-SF	\$ 642,165		\$ 636,666	
Special Education - Pre-School Grants	84.173	44842 PG-S1	<u>27,642</u>		<u>20,772</u>	
Total Special Education Cluster			669,807		657,438	
Adult Education - State Grant Program	84.002	44842 AB-S1	49,555		39,071	
Title 1 Grants to Local Educational Agencies	84.010	44842 C1-S1	108,501		93,924	
Innovative Education Program Strategies	84.298	44842 C2-S1	48,680		41,220	
Safe and Drug-Free Schools and Communities- National Programs	84.184C	44842 T4-S1	5,174		299	
Special Education-State Program Improvement for Children with Disabilities	84.323	44842 ST-S1	60,000		28,764	
Advanced Placement Program	84.330	44842 AV-S1	250		250	
Assistive Technology Infusion Grants	84.352A	44842 AT-S1	20,242		18,304	
Class Size Reduction Subsidy	84.340	44842 CR-S1	(171)		-	
English Language Acquisition Grants	84.365	44842 T3-S1	16,748		13,506	
Goals 2000	84.276	44842 G2-S8	(1,980)		-	
Eisenhower Professional Development State Grant	84.281	44842 MS-S1	(3,111)		-	
Improving Teacher Quality State Grants	84.367	44842 TR-S1	95,282		89,340	
Safe and Drug-Free Schools and Communities- State Grants	84.186	44842 DR-S1	<u>22,288</u>		<u>17,299</u>	
Total United States Department of Education			<u>1,091,265</u>		<u>999,415</u>	
United States Department Of Agriculture						
Passed-through Ohio Department of Education						
Child Nutrition Cluster:						
National School Lunch Program	10.555	44842 LL-P4	<u>164,037</u>		<u>164,037</u>	
Food Distribution Program	10.550	44842 04-PU		\$ 92,538		\$ 92,538
Total Nutrition Cluster/ Total United States Department of Agriculture			<u>164,037</u>	<u>92,538</u>	<u>164,037</u>	<u>92,538</u>
Total Federal Financial Assistance			<u>\$ 1,255,302</u>	<u>\$ 92,538</u>	<u>\$ 1,163,452</u>	<u>\$ 92,538</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) includes the federal grant activity of the District and is presented on the basis of cash receipts and disbursements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM

Federal revenues from the U.S. Department of Agriculture are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2003, the value of food commodities on hand was insignificant.

NOTE D – TRANSFER OF FEDERAL RECEIPTS

During fiscal year 2003, the Class Size Reduction Subsidy (CFDA# 84.340) and the Eisenhower Professional Development State Grant (CFDA# 84.281) were discontinued with the program purpose continued under the Improving Teacher Quality State Grant (CFDA# 84.367). Certain federal receipts originally designated for the two discontinued programs, reflected as negative receipts on the Schedule, were transferred to the new program.

NOTE E – REFUNDING OF UNUSED FEDERAL RECEIPTS

Reflected as a negative receipt is a refund to the Ohio Department of Education for unspent monies originally received for the Goals 2000 – State and Local Education Systemic Improvement Program (CFDA# 84.276).



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Education
Strongsville City School District
Cuyahoga County
13200 Pearl Road
Strongsville, Ohio 44136

We have audited the basic financial statements of the Strongsville City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 2, 2004, wherein we noted the District changed the capitalization threshold for capital assets and adopted Government Accounting Standards Board Statements 34. 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 District'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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 to 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 a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the District in a separate letter dated January 2, 2004.

Strongsville City School District
Cuyahoga County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, the Board of Education, 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.

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

Betty Montgomery
Auditor of State

January 2, 2004



Auditor of State Betty Montgomery

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

Board of Education
Strongsville City School District
Cuyahoga County
13200 Pearl Road
Strongsville, Ohio 44136

Compliance

We have audited the compliance of the Strongsville City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Strongsville City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, 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.



Betty Montgomery
Auditor of State

January 2, 2004

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education Grants to States – CFDA# 84.027 Special Education-Preschool Grants – CFDA# 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	\$ 300,000/All Others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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**Auditor of State
Betty Montgomery**

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STRONGSVILLE CITY SCHOOL DISTRICT

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
MARCH 30, 2004**