

Mary Taylor, CPA
Auditor of State

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

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 year ended June 30, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Strongsville City School District, Cuyahoga County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

March 30, 2007

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of Strongsville City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets decreased by \$ 8,814,258.
- Revenues for governmental activities totaled \$ 72,738,152 in 2006. Of this total, 92.0 percent consisted of General revenues while Program revenues accounted for the balance of 8.0 percent.
- Program expenses totaled \$ 81,552,410. Instructional expenses made up 53.8 percent of this total while support services accounted for 40.5 percent. Other expenses rounded out the remaining 5.7 percent.
- Outstanding general obligation bonded debt had a net increase of \$ 315,000.

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 2006?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by 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 of page 15. 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
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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 2006 compared to 2005.

TABLE 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Current and other assets	\$ 64,743,066	\$ 65,022,513
Capital assets, net	42,928,530	42,411,562
Total assets	\$ 107,671,596	\$ 107,434,075
 Liabilities		
Current liabilities	\$ 55,526,897	\$ 49,584,661
Long-term liabilities		
Due in one year	3,004,566	4,695,493
Due in more than one year	29,905,839	25,105,369
Total liabilities	88,437,302	79,385,523
 Net assets		
Invested in capital assets, net of related debt	16,453,530	18,581,562
Restricted	7,116,722	7,146,406
Unrestricted	(4,335,958)	2,320,584
Total net assets	\$ 19,234,294	\$ 28,048,552

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

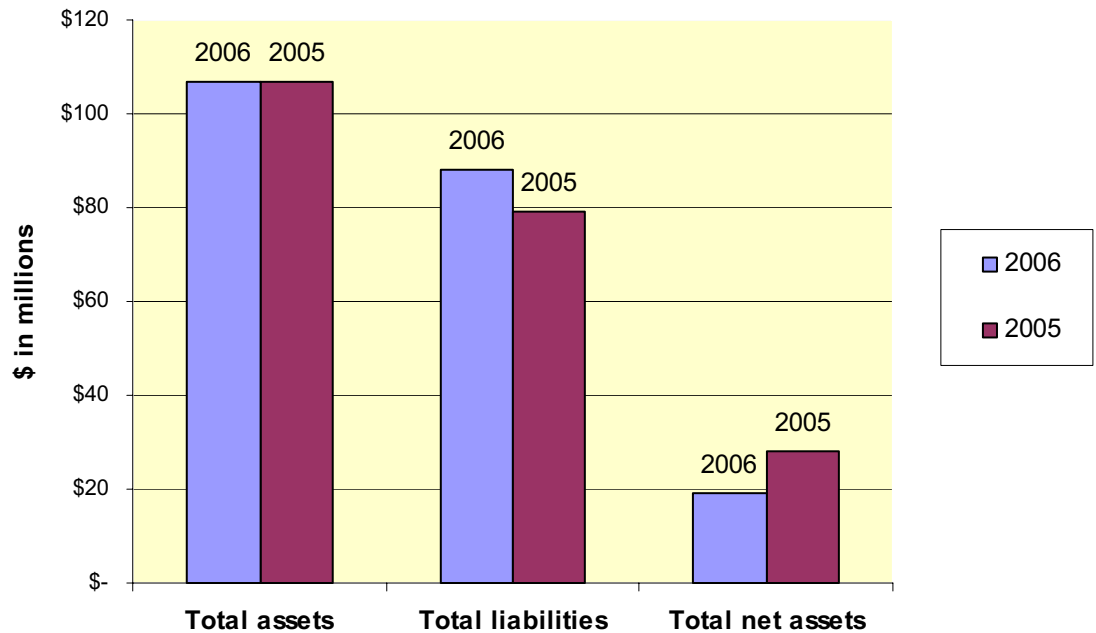
Details of Table 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Equity in pooled cash	\$ 8,315,809	\$ 12,657,902
Due from other governments	259,165	449,740
Inventories and supplies	-	18,383
Taxes receivable	56,168,092	51,896,488
Capital assets		
Non-depreciable capital assets	2,611,204	2,583,950
Depreciable capital assets, net	40,317,326	39,827,612
Total assets	\$ 107,671,596	\$ 107,434,075
 Liabilities		
Accounts and contracts payable	\$ 405,185	\$ 583,146
Accrued salaries, wages and benefits	5,254,993	4,884,654
Claims payable	49,422	45,027
Accrued interest payable	120,900	111,600
Due to other governments	2,158,405	1,886,368
Unearned revenue	47,537,992	42,073,866
Long-term liabilities		
Due within one year	3,004,566	4,695,493
Due in more than one year	29,905,839	25,105,369
Total liabilities	88,437,302	79,385,523
 Net assets		
Invested in capital assets, net of related debt	16,453,530	18,581,562
Restricted	7,116,722	7,146,406
Unrestricted	(4,335,958)	2,320,584
Total net assets	\$ 19,234,294	\$ 28,048,552

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

Graph #1
Net Assets (Governmental Activities)
(in millions)

	2006	2005
Total assets	\$ 107	\$ 107
Total liabilities	88	79
Total net assets	\$ 19	\$ 28



Total assets increased by \$ 237,521. Contributing to this net increase was a \$ 4,342,093 decrease in equity in pooled cash, which was offset with an increase of \$ 4,271,604 in taxes receivable. Other items impacting the change in assets are due to other governments and inventories and supplies which decreased by \$ 190,575 and \$ 18,383 respectively. Capital assets increased by \$ 516,968.

Total liabilities increased by \$ 9,044,279. The most notable areas that increased were unearned revenue and long-term liabilities. Unearned revenue is primarily the result of taxes receivable and related amount available for advance from the county auditor. During fiscal year 2006, long-term liabilities increased by \$ 3,109,543 due to the issuance of certificates of participation.

By comparing assets and liabilities, one can see the overall position of the School District has deteriorated as evidenced by the decrease in net assets of \$ 8,814,258.

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$ 66,953,671 or 92.0 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 \$ 5,784,481 or only 8.0 percent of total revenue.

Table 2 shows the changes in net assets for fiscal years 2006 and 2005.

STRONGSVILLE CITY SCHOOL DISTRICT
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Unaudited

TABLE 2
Governmental Activities

	2006	2005
Revenues		
Program revenues		
Charges for services and sales	\$ 2,847,088	\$ 2,857,717
Operating grants, interest and contributions	2,862,801	2,575,465
Capital grants, interest and contributions	74,592	204,140
Total program revenues	5,784,481	5,637,322
General revenue		
Property tax	48,378,020	48,820,248
Grants and entitlements	16,161,408	16,456,603
Investment earnings	675,525	292,015
Miscellaneous	1,738,718	362,701
Total general revenues	66,953,671	65,931,567
Total revenues	72,738,152	71,568,889
Program expenses		
Instruction		
Regular	38,420,545	36,331,247
Special	4,889,537	3,751,486
Vocational	304,204	330,708
Adult/continuing	110,306	31,564
Other instruction	121,658	1,256,502
Supporting services		
Pupil	3,189,401	3,102,085
Instructional staff	3,904,631	3,495,000
Board of education	28,504	52,891
Administration	3,283,308	3,092,675
Fiscal services	5,161,238	4,246,666
Business	775,315	984,859
Operation and maintenance	12,304,572	8,741,181
Pupil transportation	3,782,808	3,624,111
Central services	607,370	450,446
Operation of non-instructional		
Food service operation	2,048,246	2,000,070
Community services	621,939	670,975
Extracurricular activities	620,785	186,862
Interest	1,378,043	1,237,696
Total program expenses	81,552,410	73,587,024
Increase in net assets	(8,814,258)	(2,018,135)
Net assets, beginning of year	28,048,552	30,066,687
Net assets, end of year	\$ 19,234,294	\$ 28,048,552

STRONGSVILLE CITY SCHOOL DISTRICT
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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 2003, 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 2004. 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.

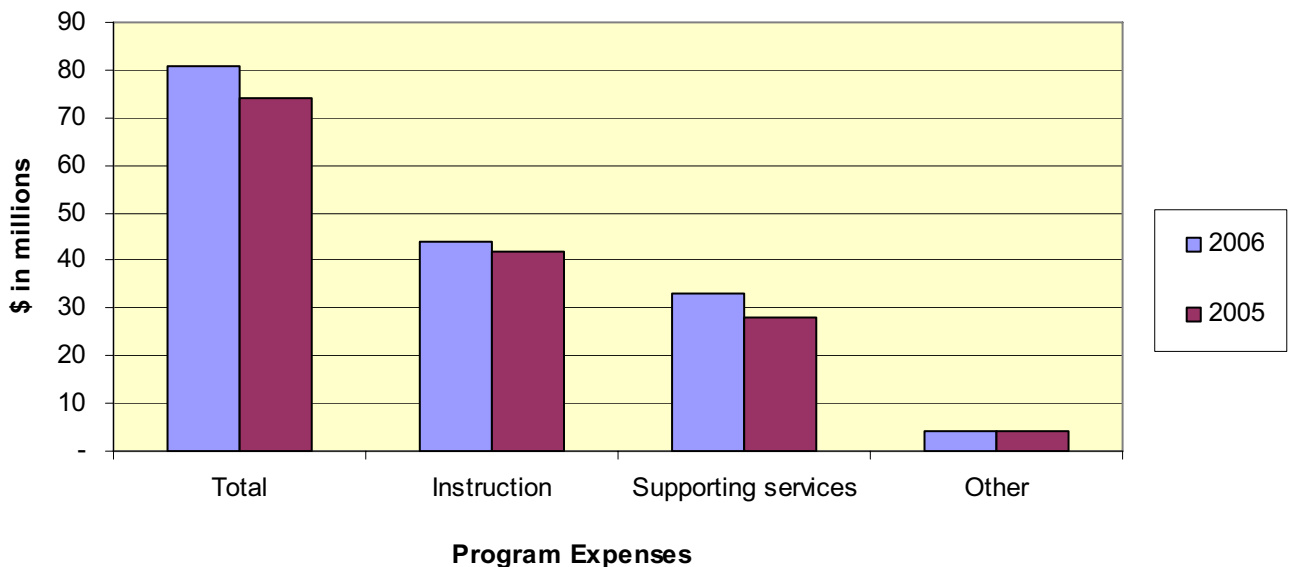
Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 53.8 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 40.5 percent. The remaining amount of program expenses, roughly 5.7 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges and numerous extracurricular activities.

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.

Graph #2
Program Expenses
(in millions)

	2006	2005
Instruction	\$ 44	\$ 42
Supporting services	33	28
Other	4	4
Total	\$ 81	\$ 74



STRONGSVILLE CITY SCHOOL DISTRICT
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Table 3
 Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006
Governmental Activities		
Instruction		
Regular	\$ 38,420,545	\$ (37,422,765)
Special	4,889,537	(4,491,385)
Vocational	304,204	(258,792)
Adult/continuing	110,306	(86,251)
Other instruction	121,658	(121,658)
Support services		
Pupil	3,189,401	(2,482,441)
Instructional staff	3,904,631	(3,342,024)
Board of education	28,504	(28,504)
Administration	3,283,308	(3,047,794)
Fiscal services	5,161,238	(5,161,238)
Business	775,315	(775,315)
Operation and maintenance	12,304,572	(12,244,605)
Pupil transportation	3,782,808	(3,782,808)
Central services	607,370	(607,370)
Operation of non-instructional		
Food service operation	2,048,246	(155,351)
Community services	621,939	(43,290)
Extracurricular activities	620,785	(338,295)
Interest	1,378,043	(1,378,043)
Total	\$ 81,552,410	\$ (75,767,929)

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 59.3 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 19.8 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 7.1 percent of all governmental expenses.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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 \$ 71,941,523 and expenditures of \$ 85,718,017. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$ 7,478,453.

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 original and final budget basis revenue estimate totaled \$ 62,466,000 and \$63,902,900, respectively. The budget basis final expense estimate totaled \$ 68,749,114 compared to original estimates of \$ 66,696,000. This difference was primarily due to changes in staffing costs throughout the year and a watchful spending plan.

The General Fund unencumbered ending cash balance totaled \$ 897,032.

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2006, the School District had \$ 42,928,530 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2006 values compared to 2005.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2006	2005
	\$ 2,611,204	\$ 1,875,167
Building and improvements	36,848,915	36,924,655
Furniture and equipment	1,737,624	1,991,790
Vehicles	1,730,787	1,619,950
Total capital assets	\$ 42,928,530	\$ 42,411,562

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. For additional information, see Note 8 of the Notes to the Basic Financial Statements.

STRONGSVILLE CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Debt

At June 30, 2006 the School District had \$ 32,910,405 of long-term obligations outstanding. Table 5 summarizes the School District's long-term obligations.

Table 5
 Long-term Liabilities

	June 30, 2006	June 30, 2005
Notes payable	\$ -	\$ 2,195,000
Bonds payable	21,950,000	21,635,000
Certificates of participation	4,525,000	-
Compensated absences	6,435,405	5,970,862
	\$ 32,910,405	\$ 29,800,862

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.

For additional debt obligation information see Notes 14 and 15 of the Notes to the Basic Financial Statements.

School District 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, 2006
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 2003, 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 2001, 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 2002, 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, 2003, 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, 2003, 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 William P. Parkinson, Treasurer, Strongsville City School District, 13200 Pearl Road, Strongsville, OH 44136, or email at parkinson@strongnet.org.

STRONGSVILLE CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
Assets	
Equity in pooled cash	\$ 8,315,809
Due from other governments	259,165
Taxes receivable	56,168,092
Capital assets	
Nondepreciable capital assets	2,611,204
Depreciable capital assets, net	40,317,326
Total assets	<u>107,671,596</u>
Liabilities	
Accounts and contracts payable	405,185
Accrued salaries, wages and benefits	5,254,993
Claims payable	49,422
Accrued interest payable	120,900
Due to other governments	2,158,405
Unearned revenue	47,537,992
Long term liabilities	
Due within one year	3,004,566
Due in more than one year	29,905,839
Total liabilities	<u>88,437,302</u>
Net assets	
Invested in capital assets, net of related debt	16,453,530
Restricted for:	
Debt service	4,629,988
Capital projects	1,477,431
School supplies	218,355
Extracurricular activities	147,490
State grants	8,364
Federal grants	74,497
Local grants	132,901
Set-asides	1,195,507
Other purposes	226,614
Unrestricted	(5,330,383)
Total net assets	<u>\$ 19,234,294</u>

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
Governmental activities					
Instruction					
Regular	\$ 38,420,545	\$ 780,958	\$ 183,822	\$ 33,000	\$ (37,422,765)
Special	4,889,537	26,943	371,209	-	(4,491,385)
Vocational	304,204	-	45,412	-	(258,792)
Adult/continuing	110,306	-	24,055	-	(86,251)
Other instruction	121,658	-	-	-	(121,658)
Supporting services					
Pupil	3,189,401	-	682,172	24,788	(2,482,441)
Instructional staff	3,904,631	-	562,607	-	(3,342,024)
Board of education	28,504	-	-	-	(28,504)
Administration	3,283,308	-	235,514	-	(3,047,794)
Fiscal services	5,161,238	-	-	-	(5,161,238)
Business	775,315	-	-	-	(775,315)
Operation and maintenance	12,304,572	59,967	-	-	(12,244,605)
Pupil transportation	3,782,808	-	-	-	(3,782,808)
Central services	607,370	-	-	-	(607,370)
Operation of non-instructional					
Food service operation	2,048,246	1,595,637	297,258	-	(155,351)
Community services	621,939	101,093	460,752	16,804	(43,290)
Extracurricular activities	620,785	282,490	-	-	(338,295)
Interest	1,378,043	-	-	-	(1,378,043)
Total governmental activities	\$ 81,552,410	\$ 2,847,088	\$ 2,862,801	\$ 74,592	(75,767,929)
General revenues					
Property taxes levied for:					
					44,141,870
					3,194,685
					1,041,465
					16,161,408
					675,525
					1,738,718
					66,953,671
Change in net assets					
					(8,814,258)
					28,048,552
					\$ 19,234,294

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 113,665	\$ 4,368,491	\$ 2,391,635	\$ 6,873,791
Restricted cash	1,195,507	-	-	1,195,507
Receivables, net of allowance				
Taxes, current	47,554,515	3,307,558	1,141,677	52,003,750
Taxes, delinquent	3,808,079	264,855	91,408	4,164,342
Due from other governments	-	-	259,165	259,165
Interfund receivable	71,748	-	900	72,648
Total assets	\$ 52,743,514	\$ 7,940,904	\$ 3,884,785	\$ 64,569,203
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 89,723	\$ -	\$ 315,462	\$ 405,185
Accrued wages and benefits	5,027,902	-	227,091	5,254,993
Due to other governments	1,911,173	-	77,018	1,988,191
Interfund payable	-	-	72,648	72,648
Unearned revenue	47,278,885	3,288,388	1,135,061	51,702,334
Compensated absences	357,036	-	-	357,036
Total liabilities	\$ 54,664,719	\$ 3,288,388	\$ 1,827,280	\$ 59,780,387
Fund balances				
Reserved for property taxes	4,083,709	284,025	98,024	4,465,758
Reserved for textbooks	625,728	-	-	625,728
Reserved for capital maintenance	569,779	-	-	569,779
Reserved for encumbrances	323,568	-	471,201	794,769
Unreserved, reported in				
General Fund	(7,523,989)	-	-	(7,523,989)
Special Revenue Funds	-	-	699,590	699,590
Debt Service Fund	-	4,368,491	-	4,368,491
Capital Projects Funds	-	-	788,690	788,690
Total fund balances	(1,921,205)	4,652,516	2,057,505	4,788,816
Total liabilities and fund balances	\$ 52,743,514	\$ 7,940,904	\$ 3,884,785	\$ 64,569,203

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental funds balances	\$ 4,788,816
Amounts 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.	42,928,530
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are primarily attributed to property taxes.	4,164,342
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.	197,089
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.	(170,214)
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due	(120,900)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(6,078,369)
Bonds payable and certificates of participation	<u>(26,475,000)</u>
Net assets of governmental activities	<u>\$ 19,234,294</u>

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 44,185,219	\$ 3,205,613	\$ 1,041,000	\$ 48,431,832
Tuition and fees	208,353	-	298,123	506,476
Interest	554,946	-	108,970	663,916
Intergovernmental	15,723,188	362,671	3,012,942	19,098,801
Extracurricular	-	-	345,891	345,891
Charges for services	-	-	1,593,353	1,593,353
Other	746,121	-	555,133	1,301,254
Total revenues	<u>61,417,827</u>	<u>3,568,284</u>	<u>6,955,412</u>	<u>71,941,523</u>
Expenditures				
Current				
Instruction				
Regular	38,635,472	-	776,594	39,412,066
Special	4,385,092	-	402,894	4,787,986
Vocational	292,986	-	-	292,986
Adult/continuing	-	-	110,306	110,306
Other instruction	116,472	-	625	117,097
Supporting services				
Pupil	2,376,462	-	717,204	3,093,666
Instructional staff	3,351,367	-	481,383	3,832,750
Board of education	28,078	-	-	28,078
Administration	2,874,567	-	254,205	3,128,772
Fiscal services	5,360,416	45,873	14,989	5,421,278
Business	760,919	-	511	761,430
Operation and maintenance	6,516,381	-	1,620,638	8,137,019
Pupil transportation	3,457,063	-	386,766	3,843,829
Central services	585,184	-	10,809	595,993
Operation of non-instructional				
Food service operation	-	-	2,028,056	2,028,056
Community services	28,088	-	580,061	608,149
Extracurricular activities	274,361	-	266,066	540,427
Capital outlay	-	-	4,171,686	4,171,686
Debt service				
Principal	-	3,440,000	-	3,440,000
Interest	-	1,363,152	3,291	1,366,443
Total expenditures	<u>69,042,908</u>	<u>4,849,025</u>	<u>11,826,084</u>	<u>85,718,017</u>
Excess (deficiency) of revenues over expenditures	<u>(7,625,081)</u>	<u>(1,280,741)</u>	<u>(4,870,672)</u>	<u>(13,776,494)</u>
Other financing sources (uses)				
Transfers-in	184,388	-	20,000	204,388
Bond proceeds	-	1,245,000	1,310,000	2,555,000
Certificates of participation proceeds	-	-	4,525,000	4,525,000
Transfers-out	(20,000)	-	(184,388)	(204,388)
Proceeds from sale of capital assets	(17,760)	-	825,000	807,240
Total other financing sources (uses)	<u>146,628</u>	<u>1,245,000</u>	<u>6,495,612</u>	<u>7,887,240</u>
Net change in fund balances	<u>(7,478,453)</u>	<u>(35,741)</u>	<u>1,624,940</u>	<u>(5,889,254)</u>
Fund balances, beginning of year	5,557,248	4,688,257	432,565	10,678,070
Fund balances, end of year	<u>\$ (1,921,205)</u>	<u>\$ 4,652,516</u>	<u>\$ 2,057,505</u>	<u>\$ 4,788,816</u>

The accompanying notes are an integral part of these 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, 2006

Net change in fund balances - total governmental funds		\$ (5,889,254)
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, net	2,608,647
	Depreciation expense	<u>(2,091,679)</u>
		516,968
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(3,812)
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities.		(7,080,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		3,440,000
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, an interest expenditure is reported when due.		(11,600)
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	(264,144)
	Pension obligations	<u>486,831</u>
		222,687
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.		<u>(9,247)</u>
Change in net assets of governmental activities		<u>\$ (8,814,258)</u>

The accompanying notes are an integral part of these 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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 44,617,663	\$ 45,644,000	\$ 45,572,409	\$ (71,591)
Tuition and fees	212,121	217,000	208,353	(8,647)
Interest	551,807	564,500	554,946	(9,554)
Intergovernmental	16,151,958	16,523,500	15,727,007	(796,493)
Miscellaneous	932,451	953,900	821,467	(132,433)
Total revenue	<u>62,466,000</u>	<u>63,902,900</u>	<u>62,884,182</u>	<u>(1,018,718)</u>
Expenditures				
Current				
Instruction				
Regular	37,386,756	38,537,638	38,508,210	29,428
Special	4,389,235	4,524,350	4,522,327	2,023
Vocational education	284,068	292,813	291,480	1,333
Other	131,767	135,823	135,823	-
Supporting services				
Pupil	2,324,265	2,395,813	2,395,638	175
Instructional	3,260,663	3,361,037	3,354,924	6,113
Board of education	27,434	28,278	28,278	-
Administration	2,814,743	2,901,390	2,895,850	5,540
Fiscal	4,771,140	4,918,011	4,917,997	14
Business	782,208	806,287	806,276	11
Operations and maintenance	6,294,709	6,488,480	6,482,179	6,301
Pupil transportation	3,374,968	3,478,860	3,478,359	501
Central services	616,341	635,314	600,906	34,408
Non-Instructional services				
Community Services	27,249	28,088	28,088	-
Extracurricular	210,454	216,932	216,932	-
Total expenditures	<u>66,696,000</u>	<u>68,749,114</u>	<u>68,663,267</u>	<u>85,847</u>
Excess (deficiency) of revenues over expenditures	<u>(4,230,000)</u>	<u>(4,846,214)</u>	<u>(5,779,085)</u>	<u>(932,871)</u>
Other financing sources (uses)				
Transfers-in	-	200,100	184,388	(15,712)
Transfers-out	(20,000)	(20,000)	(20,000)	-
Advances in	-	272,000	243,138	(28,862)
Advances out	(266,000)	(297,886)	(297,886)	-
Other miscellaneous use of funds	-	(25,000)	-	25,000
Total other financing sources (uses)	<u>(286,000)</u>	<u>129,214</u>	<u>109,640</u>	<u>(19,574)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(4,516,000)</u>	<u>(4,717,000)</u>	<u>(5,669,445)</u>	<u>(952,445)</u>
Prior year encumbrances	349,383	349,383	349,383	-
Fund balance, at beginning of year	6,217,094	6,217,094	6,217,094	-
Fund balance, at end of year	<u>\$ 2,050,477</u>	<u>\$ 1,849,477</u>	<u>\$ 897,032</u>	<u>\$ (952,445)</u>

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUND

JUNE 30, 2006

	<u>Self Insurance</u>
Assets	
Equity in pooled cash	\$ 246,511
Total assets	<u>246,511</u>
Liabilities	
Claims payable	\$ 49,422
Total liabilities	<u>49,422</u>
Net assets	
Unrestricted	<u>\$ 197,089</u>

The accompanying notes are an integral part of these 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, 2006

	<u>Self Insurance</u>
Operating revenues	
Charges for services	\$ 737,955
Total operating revenues	737,955
Operating expenses	
Claims	758,811
Total operating expenses	758,811
Operating income	(20,856)
Nonoperating income	
Interest income	11,609
Change in net assets	(9,247)
Net assets, beginning of year	206,336
Net assets, end of year	\$ 197,089

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Self Insurance</u>
Cash flows from operating activities:	
Cash received from interfund services	\$ 737,955
Cash payments for claims	<u>(754,416)</u>
Net cash used in operating activities	<u>(16,461)</u>
Cash flows from investing activities	
Receipt of interest	11,609
Net cash provided by investing activities	<u>11,609</u>
Net decrease in cash and cash equivalents	(4,852)
Cash and cash equivalents, beginning of year	<u>251,363</u>
Cash and cash equivalents, end of year	<u>\$ 246,511</u>
Reconciliation of operating income to net cash used for operating activities:	
Operating income	\$ (20,856)
Adjustments	
Increase in claims payable	<u>4,395</u>
Total adjustments	<u>4,395</u>
Net cash used in operating activities	<u>\$ (16,461)</u>

The accompanying notes are an integral part of these financial statements.

STRONGSVILLE CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS
JUNE 30, 2006

Assets	
Equity in pooled cash	\$ 292,764
Total assets	<u>\$ 292,764</u>
Liabilities	
Accounts payable	\$ 7,139
Due to students	272,755
Due to others	12,870
Total liabilities	<u>\$ 292,764</u>

The accompanying notes are an integral part of these financial statements.

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STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2005 was 7,373. The District employs 522 certificated and 408 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 provide 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 Schools 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 10B and 17 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 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, 2006
(CONTINUED)

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 separately as proprietary statements. Fiduciary funds are reported by fund type.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

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. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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, 2006
(CONTINUED)

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 basis of accounting arise in the recognition of revenue, the recording of unearned 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, 2006
(CONTINUED)

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.

Unearned Revenue

Unearned 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned 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, 2006
(CONTINUED)

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 fund level for all 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 financial statements.

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, 2006.

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, 2006 totaled \$ 675,525.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006
 (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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 governments 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 16). This is eliminated on the financial statement presentation for the Statement of Net Assets.

H. 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:

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

I. 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, 2006
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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.

K. 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.

L. 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.

M. 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, textbooks and encumbrances.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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 reserve for textbooks represents monies required to be set aside by State statute.

N. 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.

O. 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.

P. 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 - COMPLIANCE AND ACCOUNTABILITY

DEFICIT FUND EQUITY

The General Fund deficit of \$ 1,921,205 is the result of reflecting expenditures in accordance with the modified accrual basis of accounting, which are larger than amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

Not apparent in the basic financial statements are deficit fund equity balances in the Food Service and Parent Mentor special revenue funds of \$ 8,230, and \$ 170 respectively. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances resulted from reflecting expenditures in accordance with the modified accrual basis of accounting, which are larger than amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006
 (CONTINUED)

NOTE 4 - 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
Budget basis	\$ (5,669,445)
Adjustments, increase (decrease)	
Revenue accruals	(1,709,493)
Expenditure accruals	(99,515)
GAAP basis, as reported	\$ (7,478,453)

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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;
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 (STAROhio);
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.

At fiscal year end, the District had \$ 2,350 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. The District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the District's deposits was \$ 1,502,503 and the bank balance was \$ 1,568,238. Of the bank balance, \$ 101,956 was covered by federal depository insurance and \$ 1,466,282 was uninsured. Of the remaining balance, \$ 1,466,282 was collateralized with securities held by the pledging institution's trust department not in the District's name.

The District has no policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

C. INVESTMENTS

As of June 30, 2006, the District had the following investments:

	Weighted Average Maturities Years	Fair Value
Federal Home Loan Bank Bonds	* .312	\$ 558,285
Federal Home Loan Mortgage Corporation Bonds	* 1.167	1,567,276
Federal National Mortgage Association Notes	* 1.773	1,878,696
U.S. Treasury Notes	* 1.649	797,959
STAROhio	n/a	2,301,504
		<u>\$ 7,103,720</u>
Portfolio weighted average maturity	.98	

* The securities have various call dates. The District believes no securities will be called.

As a means of limiting its exposure to fair value losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than two years.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, the Federal Home Loan Mortgage Corporation Bonds, and the Federal National Mortgage Association Notes are exposed to credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006
 (CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS (continued)

The Federal Home Loan Bank Bonds, the Federal Home Loan Mortgage Corporation Bonds, and the Federal National Mortgage Association Notes carry a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

The District places no limit on the amount that may be invested in any one issuer. The following is the District's allocation as of June 30, 2006:

	Percentage of Investments
Federal Home Loan Bank Bonds	7.86%
Federal Home Loan Mortgage Corporation Bonds	22.06%
Federal National Mortgage Association Notes	26.45%
U.S. Treasury Notes	11.23%
STAROhio	32.40%

NOTE 6 - 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 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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, 2006
 (CONTINUED)

NOTE 6 - 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, 2006, are available to finance fiscal year 2006 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, 2006 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 2006 operations. The receivable is therefore offset by a credit to unearned 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, 2006, was \$ 4,083,709 in the General Fund, \$ 284,025 in the Debt Service Fund and \$ 98,024 in the Permanent Improvements Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections			2006 First - Half Collections		
	Amount	%		Amount	%	
Agricultural/Residential and Other Real Estate	\$ 1,284,141,110	91.00	%	\$ 1,298,043,560	91.64	%
Public Utilities	29,942,840	2.12		26,889,950	1.90	
Tangible Personal Property	97,009,776	6.88		91,507,827	6.46	
Total Assessed Value	<u>\$ 1,411,093,726</u>	<u>100.00</u>	%	<u>\$ 1,416,441,337</u>	<u>100.00</u>	%
Tax rate per \$1,000 of assessed valuation	<u>\$ 77.30</u>			<u>\$ 77.30</u>		

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes and amounts due from other governments. 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.

A summary of the principal items of due from other government receivables follows:

Fund	Amount
Food Service	\$ 36,395
Entry Year Teacher	500
Alternative Challenge	13,079
IDEA Part B	189,946
Title III	2,739
Early Childhood Special Education	3,047
Title II-A	9,709
Miscellaneous Federal Grants	3,750
Due from other governments	<u>\$ 259,165</u>

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Disposals	Balance June 30, 2006
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,875,167	\$ 736,037	\$ -	\$ 2,611,204
Depreciable capital assets				
Buildings and improvements	53,734,261	1,453,990	18,964	55,169,287
Furniture and equipment	6,713,704	22,944	63,586	6,673,062
Vehicles	5,075,958	414,084	248,512	5,241,530
Total capital assets being depreciated	<u>65,523,923</u>	<u>1,891,018</u>	<u>331,062</u>	<u>67,083,879</u>
Less accumulated depreciation				
Buildings and improvements	16,809,606	1,511,322	556	18,320,372
Furniture and equipment	4,721,914	277,110	63,586	4,935,438
Vehicles	3,456,008	303,247	248,512	3,510,743
Total accumulated depreciation	<u>24,987,528</u>	<u>2,091,679</u>	<u>312,654</u>	<u>26,766,553</u>
Depreciable capital assets, net of accumulated depreciation	<u>40,536,395</u>	<u>(200,661)</u>	<u>18,408</u>	<u>40,317,326</u>
Governmental activities capital assets, net	<u>\$ 42,411,562</u>	<u>\$ 535,376</u>	<u>\$ 18,408</u>	<u>\$ 42,928,530</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 1,005,021
Special	107,558
Vocational	9,054
Other	4,561
Supporting services	
Pupil	92,360
Instructional staff	103,487
Administration	95,962
Fiscal	28,801
Business	15,021
Operation and maintenance of plant	129,190
Pupil transportation	354,959
Central services	9,711
Operation of noninstructional services	
Food service operation	38,457
Community services	12,783
Extracurricular activities	84,754
Total depreciation expense	<u>\$ 2,091,679</u>

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 9 - INTERFUND ACTIVITY

On the fund financial statements at June 30, 2006, interfund balances consisted of the following:

	Due From: Nonmajor Governmental Funds
Due to:	
General Fund	\$ 71,748
Nonmajor Governmental Funds	900
	\$ 72,648

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

During the year ended June 30, 2006 interfund transfers were made to close inactive programs. Interfund transfers consisted of the following:

	Transfer From:		
	General Fund	Nonmajor Governmental Funds	Total
Transfer to:			
General Fund	\$ -	\$ 184,388	\$ 184,388
Nonmajor Governmental Funds	20,000	-	20,000
Total	\$ 20,000	\$ 184,388	\$ 204,388

NOTE 10 - 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 2006, 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. General liability is protected by Indiana Insurance Company with a \$ 2,000,000 annual aggregate and \$ 1,000,000 single occurrence limit with no deductible. Vehicles are covered by Indiana Insurance Company and hold a \$ 250 deductible for comprehensive and a \$ 1,000 deductible for collision. Automobile liability has a \$ 1,000,000 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.

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006
 (CONTINUED)

NOTE 10 - RISK MANAGEMENT (continued)

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.

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, 2006 and 2005 are as follows:

	2006	2005
Unpaid claims, beginning of year	\$ 45,027	\$ 40,576
Incurred claims	758,811	684,737
Claims payment	(754,416)	(680,286)
Unpaid claims, end of year	\$ 49,422	\$ 45,027

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The 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.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Plan members are required to contribute 10 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 9.09 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, 2006, 2005, and 2004 were \$ 1,142,000, \$ 1,087,900, and \$ 1,273,500, respectively. The full amount has been contributed for 2005 and 2004. For 2006, \$ 326,400 (28.6%) has been contributed with the remainder being reflected as an intergovernmental payable.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The 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.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

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.

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.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

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, 2006 were 10% of covered payroll for members and 14% for employers; 13% was the portion used to fund pension obligations. The District's contribution to STRS for the years ended June 30, 2006, 2005, and 2004 were \$ 4,154,600, \$ 4,294,200, and \$ 3,923,200, respectively. The full amount has been contributed for 2005 and 2004. For 2006, \$ 3,289,500 (79.2%) has been contributed with the remainder being reported as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report that can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

NOTE 12 - 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. 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. For the fiscal year ended June 30, 2005, the most recent information available, the healthcare allocation rate is 3.42%. 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 2006, the minimum pay was established as \$ 35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$ 87,846 to fund health care benefits, including surcharge. 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 the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005 were \$ 178,221,113 and the target level was \$ 335.2 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits was \$ 267.5 million. At June 30, 2005, the number of benefit recipients receiving health care benefits was 58,123.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

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 Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District this amount equaled \$ 319,600 for fiscal year 2006. The balance in the Health Care Stabilization Fund was \$ 3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$ 254,780,000. At June 30, 2005 there were 115,395 eligible benefit recipients.

NOTE 13 – PRIOR YEAR DEFEASANCE OF DEBT

In 2005, the District defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As of June 30, 2006, outstanding general obligation bonds of \$ 2,045,000 are considered to be defeased.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2006 were as follows:

	Outstanding June 30, 2005	Additions	Retired	Outstanding June 30, 2006	Amounts Due In One Year
Bonds, 6.500%; issued 1986, matures 2010	\$ 1,560,000	\$ -	\$ 260,000	\$ 1,300,000	\$ 260,000
Bonds, 6.950%; issued 1991, matures 2011	910,000	-	130,000	780,000	130,000
Bonds, 3.750%; issued 1996, matures 2012	16,950,000	-	1,675,000	15,275,000	1,870,000
Refunding bonds, 4.1% - 4.45%, issued 2004, matures 2014	2,215,000	-	175,000	2,040,000	195,000
Bonds, 2.820% to 4.480% issued 2005, matures 2035	-	1,660,000	-	1,660,000	50,000
Bonds, 4.40%; issued 2006, matures 2020	-	895,000	-	895,000	41,187
Total bonds	<u>21,635,000</u>	<u>2,555,000</u>	<u>2,240,000</u>	<u>21,950,000</u>	<u>2,546,187</u>
Certificates of participation, 3.5% - 5.0%, issued 2006, matures 2034	-	4,525,000	-	4,525,000	-
Notes payable	2,195,000	-	2,195,000	-	-
Compensated absences	5,970,862	1,042,163	577,620	6,435,405	458,379
	<u>\$ 29,800,862</u>	<u>\$ 8,122,163</u>	<u>\$ 5,012,620</u>	<u>\$ 32,910,405</u>	<u>\$ 3,004,566</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. Notes payable were paid from the Debt Service Fund. Compensated absences will be paid from the fund from which the employee is paid.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2006, were as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 2,546,187	\$ 1,073,254	\$ 3,619,441
2008	2,652,181	934,617	3,586,798
2009	2,779,327	792,868	3,572,195
2010	2,896,572	643,989	3,540,561
2011	3,013,919	487,234	3,501,153
2012 - 2016	6,733,711	744,051	7,477,762
2017 - 2021	523,103	249,518	772,621
2022 - 2026	215,000	169,448	384,448
2027 - 2031	260,000	116,450	376,450
2031 - 2036	330,000	43,625	373,625
	<u>\$ 21,950,000</u>	<u>\$ 5,255,054</u>	<u>\$ 27,205,054</u>

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

Certificates of Participation – During fiscal year 2006, the District entered into a ground lease to secure the necessary funding for construction and other capital improvements.

The Leasing Corporation entered an agreement with a trustee through which it assigned and transferred rights and interest under the lease to Huntington National Bank, as trustee. The Trustee issued Certificates of Participation in the lease agreement enabling holders of the Certificates to receive a portion of the semi-annual lease payments. Proceeds of the issuance are being used for the enlargement and other improvements to Muraski Elementary School.

The obligation of the District under the lease and any subsequent lease renewal is subject to annual appropriation of the rental payments. The annual interest and semi-annual interest requirements will be provided from the Debt Service Fund. The Certificates of Participation are not a general obligation of the District, but are payable only from appropriations by the District for annual lease payments.

Principal and interest requirements to retire certificates of participation outstanding at June 30, 2006, were as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ -	\$ 205,494	\$ 205,494
2008	-	205,494	205,494
2009	-	205,494	205,494
2010	100,000	205,494	305,494
2011	105,000	201,994	306,994
2012 - 2016	580,000	948,720	1,528,720
2017 - 2021	705,000	824,164	1,529,164
2022 - 2026	870,000	664,044	1,534,044
2027 - 2031	1,085,000	438,500	1,523,500
2031 - 2036	1,080,000	138,259	1,218,259
	<u>\$ 4,525,000</u>	<u>\$ 4,037,657</u>	<u>\$ 8,562,657</u>

STRONGSVILLE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006
 (CONTINUED)

NOTE 15 – NOTES PAYABLE

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

	Balance June 30, 2005	Additions	Retired	Balance June 30, 2006
Energy conservation notes: 2005, 1.75%	\$ 995,000	\$ -	\$ 995,000	\$ -
Bond anticipation note 2004, 2.140%	1,200,000	-	1,200,000	-
	<u>\$ 2,195,000</u>	<u>\$ -</u>	<u>\$ 2,195,000</u>	<u>\$ -</u>

The energy conservation improvement notes were backed by the full faith and credit of the District and mature within one year.

NOTE 16 - 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 2006.

	Textbook	Capital Maintenance
Balance, July 1, 2005	\$ 1,003,104	\$ 177,992
Required set aside	1,072,562	1,072,562
Qualifying expenditures	(1,449,938)	(680,775)
Balance June 30, 2006	<u>\$ 625,728</u>	<u>\$ 569,779</u>

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 1,449,938 and \$ 680,775, respectively.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 17 - 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, 2006, the District paid \$ 105,639 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. The District did not contribute to the Polaris Career Center during fiscal year 2006.

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, 2006
(CONTINUED)

NOTE 17 JOINTLY GOVERNED ORGANIZATIONS (continued)

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among ninety-two 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 2006 the District paid \$ 220,780 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.

STRONGSVILLE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 18 - CONTINGENCIES

A. GRANTS

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, 2006.

B. LITIGATION

The District is party to legal proceedings. The District is of the opinion that the ultimate disposition of the current proceedings will not have a material effect, if any, on the financial condition of the District.

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**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	74,321	\$0	74,321
National School Lunch Program	044842-LLP4-2005	10.555	71,992	0	71,992	0
	044842-LLP4-2006	10.555	189,915	0	189,915	0
Total U.S. Department of Agriculture - Nutrition Cluster			261,907	74,321	261,907	74,321
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Basic Education	044842-ABS1-2005C	84.002	0	0	2,045	0
	044842-ABS1-2006	84.002	43,272	0	46,366	0
Total Adult Basic Education			43,272	0	48,411	0
Special Education Cluster:						
Special Education: Grants to States	044842-6BSF-2005	84.027	31,192	0	135,798	0
	044842-6BSF-2006	84.027	1,332,346	0	1,286,257	0
Total Special Education Grants to States			1,363,538	0	1,422,055	0
Special Education: Preschool Grants	044842-PGS1-2005	84.173	163	0	104	0
	044842-PGS1-2006	84.173	35,138	0	34,660	0
Total Special Education: Preschool Grants			35,301	0	34,764	0
Total Special Education Cluster			1,398,839	0	1,456,819	0
Safe and Drug-Free Schools and Communities National Programs	044842-T4S1-2004	84.184C	0	0	23	0
Safe and Drug-Free Schools and Communities State Grants	044842-DRS1-2005	84.186	653	0	2,159	0
	044842-DRS1-2006	84.186	16,422	0	16,375	0
Total Safe and Drug-Free Schools and Communities State Grants			17,075	0	18,534	0
Innovative Education Program Strategies	044842-C2S1-2005	84.298	7,852	0	2,447	0
	044842-C2S1-2006	84.298	30,055	0	27,973	0
Total Innovative Education Program Strategies			37,907	0	30,420	0
Advanced Placement Program	AVTF-2004	84.330	624	0	624	0
English Language Acquisition Grants	044842-T3S1-2005	84.365	1,334	0	3,512	0
	044842-T3S1-2006	84.365	23,349	0	22,522	0
	044842-T3S2-2006	84.365	13,500	0	13,013	0
Total English Language Acquisition Grants			38,183	0	39,047	0
Improving Teacher Quality State Grants	044842-TRS1-2005	84.367	(1,722)	0	6,665	0
	044842-TRS1-2006	84.367	109,622	0	106,013	0
Total Improving Teacher Quality State Grants			107,900	0	112,678	0
Hurricane Education Recovery	044842-HR01-2006	84.938	4,500	0	4,500	0
Total U.S. Department of Education			1,648,300	0	1,711,056	0
Total			<u>\$ 1,910,207</u>	<u>\$ 74,321</u>	<u>\$ 1,972,963</u>	<u>\$ 74,321</u>

The accompanying notes to this schedule are an integral part of this schedule.

**STRONGSVILLE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D – NEGATIVE RECEIPTS

The negative receipt (\$1,722) in the Improving Teacher Quality State Grants, CFDA# 84.367, was to reflect the carryover of funds from the 2005 fiscal year to the 2006 fiscal year.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable



Mary Taylor, CPA

Auditor of State

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

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

We have audited the 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 year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 30, 2007, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-001 and 2006-002. In a separate letter to the District's management dated March 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Mary Taylor, CPA
Auditor of State

March 30, 2007



Mary Taylor, CPA

Auditor of State

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

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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006. In a separate letter to the District's management dated March 30, 2007, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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



Mary Taylor, CPA
Auditor of State

March 30, 2007

**STRONGSVILLS CITY SCHOOL DSITRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

**STRONGSVILLS CITY SCHOOL DSITRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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

Finding Number	2006-001
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Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code. Ohio Rev. Code § 5705.41(D) provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

The following funds had expenditures plus encumbrances in excess of appropriations at the legal level of control as of June 30, 2006:

Fund	Expenditures Plus Encumbrances	Appropriations	Variance
EMIS	\$31,831	\$25,000	\$(6,831)
Entry Year Teacher Grant	14,400	10,000	(4,400)
Early Childhood Special Education Grant	43,178	34,694	(8,484)
Food Service	1,885,403	1,731,727	(153,676)
IDEA Part B Federal Fund	1,555,142	1,404,344	(150,798)
Bond Retirement	5,832,905	5,806,819	(26,086)
Dental Self Insurance	754,416	707,000	(47,416)
Ohio Reads Grant	6,030	6,000	(30)
Title IV-A Drug Free Schools	18,581	17,000	(1,581)

We recommend appropriations be compared to expenditures plus encumbrances on a monthly basis and appropriations be amended when necessary. The Treasurer should also deny payment requests exceeding appropriations approved by the Board.

District's Response

In consideration of your office's suggestion, the District has already implemented procedures which require monitoring, on a monthly basis, fund appropriations for expenditures and revenue. If necessary, appropriate amendments to the Amended Appropriations and the Certificate of Estimated Resources documents will be made upon Board approval.

**STRONGSVILLS CITY SCHOOL DSITRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)**

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

Finding Number	2006-002
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Appropriations in Excess of Estimated Resources

Ohio Revised Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Revised Code Section 5705.40 provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The following funds had appropriations which were in excess of estimated resources as reported on the Official Certificate of Estimated Resources at June 30, 2006:

Fund	Appropriations	Estimated Resources Plus Carryover Balances	Variance
School Net	\$62,000	\$0	\$62,000
School Net Professional Development	50,000	7,300	42,700
Student Reading Intervention	127,900	37,100	90,800
Miscellaneous State Funds	34,100	32,875	1,225

We recommend that appropriations be established at a level that is equal to, or less than, the total estimated resources.

District's Response

In consideration of your office's suggestion, the District has already implemented procedures which require monitoring, on a monthly basis, fund appropriations for expenditures and revenue. If necessary, appropriate amendments to the Amended Appropriations and the Certificate of Estimated Resources documents will be made upon Board approval.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**STRONGSVILLS CITY SCHOOL DSITRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (B)
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2005-001	Expenditures plus encumbrances were in excess of appropriations at the legal level of control, contrary to Ohio Rev. Code § 5705.41(B)(D).	No	Not corrected, finding repeated as finding number 2006-001.
2005-002	Funds had appropriations in excess of total estimated resources, contrary to Ohio Rev. Code § 5705.39.	No	Not corrected, finding repeated as finding number 2006-002.



Mary Taylor, CPA
Auditor of State

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
JULY 10, 2007