

**CITY OF MACEDONIA, OHIO**

**AUDIT REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**





**Auditor of State  
Betty Montgomery**

The Honorable Mayor, Finance Director,  
and Members of City Council  
City of Macedonia  
9691 Valley View Road  
Macedonia, Ohio 44056

We have reviewed the Independent Auditor's Report of the City of Macedonia, Summit County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

September 23, 2004

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**CITY OF MACEDONIA, OHIO  
AUDIT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Accountant's Report	1-2
Management's Discussion and Analysis	3-9
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet - Governmental Funds	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund	16
Statement of Fund Net Assets - Proprietary Fund	17
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	18
Statement of Cash Flows - Proprietary Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds	20
Notes to the Basic Financial Statements	21-54
Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55-56
Schedule of Findings	57
Summary Schedule of Prior Year Recommendations	58

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT**

The Honorable Mayor, Finance Director, and  
and Members of City Council  
City of Macedonia, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Macedonia, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Macedonia, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 21, 2004 on our consideration of the City of Macedonia, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

James G. Zupka, CPA, Inc.  
Certified Public Accountants

July 21, 2004

**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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This Discussion and Analysis of the City of Macedonia's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

The City adopted the reporting standards of GASB Statement No. 34 for the reporting period ended December 31, 2003. Because this is the first year the City is reporting governmental activities on an accrual basis of accounting in accordance with GASB Statement No. 34, comparisons are not possible. However, in next year's discussion this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

### **Financial Highlights**

Key financial highlights for 2003 were as follows:

Total assets of the City of Macedonia exceeded its liabilities at the close of the most recent year by \$29,153,919.

- Total net assets increased \$1,305,708 or 4.7 percent from 2002. Net assets of governmental activities increased \$1,313,078 or 4.72 percent and net assets of business-type activities decreased by \$7,298 or 0.02 percent.
- During the year, the City had revenues that were \$1,313,078 higher than the \$12,638,093 in expenses incurred for all governmental programs.
- The general fund had a decrease in fund balance of \$539,689 during 2003.
- The City received a donation of infrastructure (roads, water mains, and storm sewers) from developers in 2003 totaling \$1,118,729.

### **Using This Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a long-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.



**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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**Reporting the City as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the City's financial activities are divided into two distinct kinds of activities:

Governmental Activities - Most of the City's programs and services are reported here including police, fire, street and highway maintenance, capital improvements, community and economic development, and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues, including federal and state grants and other shared revenues.

Business-type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

The analysis of the City's major funds begins on page 12. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Macedonia, the City's major funds are the General, General Bond Retirement, and General Capital Improvements Fund.

**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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Governmental Funds The majority of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end 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 City'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 on services provided to the City's residents. 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.

Proprietary Funds Proprietary funds are classified as either enterprise or internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its Nordonia Home Days functions. The City has no other enterprise fund or internal service fund. The basic proprietary fund financial statements can be found on page 17 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own program. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 20 of this report.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-53 of this report.

### **The City as a Whole**

This is the first year for government-wide financial statements using the full accrual basis of accounting. Therefore, comparisons with prior year are not possible. However, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$29,153,919. 2003 revenues exceeded expenses by \$1,305,780. Revenues generated were \$13,966,000 and expenses from all programs were \$12,660,220. The following two tables present condensed information regarding Net Assets and Changes in Net Assets for 2003 for governmental activities.

**CITY OF MACEDONIA, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**Unaudited**

**Table 1 - Net Assets**

	Governmental Activities
<b>Assets</b>	
Current and Other Assets	\$ 8,665,751
Capital Assets, Net	37,325,226
<b>Total Assets</b>	<b>45,990,977</b>
<b>Liabilities</b>	
Current and Other Liabilities	4,165,477
Long-Term Liabilities:	
Due Within One Year	1,191,566
Due in More than One Year	11,483,242
<b>Total Liabilities</b>	<b>16,840,285</b>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Debt	25,476,126
Restricted:	
Debt Service	2,842,312
Other Purposes	943,747
Unrestricted	(111,493)
<b>Total Net Assets</b>	<b>\$29,150,692</b>

Table 2 shows the Changes in Net Assets for the year ended December 31, 2003

**Table 2 - Changes in Net Assets**

	Governmental Activities
<b>Revenues</b>	
<i>Program Revenues</i>	
Charges for Services	\$ 2,195,969
Operating Grants and Contributions	546,087
Capital Grants and Contributions	2,669,325
<b>Total Program Revenues</b>	<b>5,411,381</b>
<i>General Revenues</i>	
Property Taxes	1,771,402
Municipal Income Tax	5,698,697
Other Taxes	349,750
Grants and Entitlements not Restricted to Specific Programs	679,979
Investment Earnings	32,012
Miscellaneous	7,950
<b>Total General Revenues</b>	<b>8,539,790</b>
<b>Total Revenues</b>	<b>13,951,171</b>
<b>Program Expenses</b>	
Security of Persons and Property	4,506,784
Public Health Services	171,777
Leisure Time Activities	1,612,649
Community Development	445,799
Basic Utility Services	905,381
Transportation	1,907,495
General Government	2,486,228
Interest and Fiscal Charges	601,980
<b>Total Program Expenses</b>	<b>12,638,093</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 1,313,078</b>

**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

The following table presents the cost of each of the City's four largest programs, police, fire, transportation, and leisure services, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3 - Governmental Activities**

	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>
Police and Fire	\$ 4,506,784	\$ 3,999,786
General Government	2,486,228	1,962,551
Leisure Services	1,612,649	808,102
All Others	4,032,432	456,273

***Business-Type Activities***

Business-type activity for the City is the Nordonia Home Days. This program had revenues of \$14,829 and expenses of \$22,127 for 2003. Subsequent to the Nordonia Home Days, this program had remaining cash of \$3,227, with no outstanding liabilities and net assets of \$3,227.

***Debt***

The City issued \$3,475,000 in new debt in the current year. The purpose was to refund an outstanding Recreations Center Bond and retire a Highland Road Improvement Note (Phase III). At December 31, 2003, the City had various debt issues outstanding, which included \$10,015,000 of general obligation bonds, \$1,834,100 of special assessment debt with City commitment and \$1,200,000 of interest bearing promissory notes. As of December 31, 2003, the City's net general obligation bonded debt of \$13,049,100 was well below the legal limit of \$39,790,018 and debt per capita (US Census 2000 - 9,224) equaled \$1,414.69.

**The City's Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12 reported a combined fund balance of \$497,475, which is above last year's total of \$(683,983). The City has a deficit fund balance in the Bond Retirement fund because the assessment on a major project is in default by the property owner as of 2003.

The general fund is the main operating fund of the City. At the end of 2003, the general fund had a balance of \$259,703. This fund balance represents 3.4 percent of total general fund expenditures and 1.9 percent of total governmental fund expenditures. These numbers are an important representation of the City's financial condition.

**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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The majority of the reported deficit in Other Governmental Funds is due to reporting \$1,200,000 of notes issued in the Anticipation of Bonds as a short term liability. These notes, which funded the acquisition of a fire truck and road projects, will be reissued in 2004.

The purpose of the Bond Retirement fund is to recognize proceeds and debt service payments on long-term debt.

In the General Capital Improvement funds, the City levied special assessments to collect the \$220,000 deficit for the Highland Phase II widening project. This project was funded internally, as bonds were not issued on this project.

The City disposed of a number of vehicles in 2003 from its active fleet in 2003, with a cost of \$108,543. Five Police cruisers were traded in and one was totaled, due to an accident. The Police department replaced 5 vehicles in 2003 at a cost of \$113,701. Two administrative vehicles and a one-ton dump truck were also removed.

Additional machinery and equipment was purchased for various purposes in 2003 totaling \$277,269.

**Budgeting Highlights - General Fund**

The only significant variation in the City's original general fund budget and the final general fund budget was for income tax revenue. The variance between actual revenues and final budgeted revenues for income tax was less by \$321,959. During the year, the City anticipated additional tax revenue. In hindsight, the amount anticipated during the year was overly optimistic, due to the downturn in the economic climate.

**Economic Outlook**

Although there are indications that the national economy is starting to recover, it has not yet trickled down to the local level. The State of Ohio has reduced funding to municipalities both directly (local government funds) and indirectly (tangible personal property tax). Additionally, the local income tax remains flat, at levels prior to 2000.

The City has reevaluated many programs and services offered to our residents for ways to save money. Employees, both union and non-union, agreed to a contract continuation in 2004, with a wage freeze. Employees also have made concessions in employee group health insurance, with the goal of saving money. Open positions caused by attrition have not been filled in 2004 in the Service Department, the Police Department, the Building Department, and the Finance Department.

The City is negotiating the sale of the old City Hall property to Summit County, who currently leases the building. It is expected that this sale will net about \$650,000 in 2004.

**CITY OF MACEDONIA, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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State and Federal grants to fund the State Route 82 widening project have been approved. However, the plans to replace the railroad overpass have been impeded by the discovery of fiber optic cable in the right of way.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tom DiLellio, Finance Director, 9691 Valley View Road, Macedonia, Ohio 44056, or by phone at 330-468-8300.

**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2003**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,812,988	\$ 3,227	\$ 1,816,215
Inventory	49,951	0	49,951
Accounts Receivable	94,054	0	94,054
Intergovernmental Receivable	495,434	0	495,434
Prepaid Items	25,346	0	25,346
Taxes Receivable	3,133,121	0	3,133,121
Special Assessments Receivable	3,054,857	0	3,054,857
Nondepreciable Capital Assets	1,169,147	0	1,169,147
Depreciable Capital Assets, Net	<u>36,156,079</u>	<u>0</u>	<u>36,156,079</u>
<b>Total Assets</b>	<u>45,990,977</u>	<u>3,227</u>	<u>45,994,204</u>
<b><u>Liabilities</u></b>			
Accounts Payable	376,852	0	376,852
Accrued Wages	152,259	0	152,259
Intergovernmental Payable	438,165	0	438,165
Matured Compensated Absences Payable	72,127	0	72,127
Accrued Interest Payable	43,569	0	43,569
Claims Payable	93,805	0	93,805
Deferred Revenue	1,788,700	0	1,788,700
Notes Payable	1,200,000	0	1,200,000
Long-Term Liabilities:			
Due within One Year	1,191,566	0	1,191,566
Due in More Than One Year	<u>11,483,242</u>	<u>0</u>	<u>11,483,242</u>
<b>Total Liabilities</b>	<u>16,840,285</u>	<u>0</u>	<u>16,840,285</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, Net of Related Debt	25,476,126	0	25,476,126
Restricted for:			
Debt Service	2,842,312	0	2,842,312
Other Purposes	943,747	0	943,747
Unrestricted (Deficit)	<u>(111,493)</u>	<u>3,227</u>	<u>(108,266)</u>
<b>Total Net Assets</b>	<u>\$ 29,150,692</u>	<u>\$ 3,227</u>	<u>\$29,153,919</u>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 4,506,784	\$ 451,905	\$ 55,093	\$ 0	\$ (3,999,786)	\$ 0	\$ (3,999,786)
Public Health Services	171,777	0	0	0	(171,777)	0	(171,777)
Leisure Time Activities	1,612,649	804,547	0	0	(808,102)	0	(808,102)
Community Environment	445,799	346,628	13,740	0	(85,431)	0	(85,431)
Basic Utility Services	905,381	69,212	0	897,252	61,083	0	61,083
Transportation	1,907,495	0	477,254	1,772,073	341,832	0	341,832
General Government	2,486,228	523,677	0	0	(1,962,551)	0	(1,962,551)
Interest and Fiscal Charges	601,980	0	0	0	(601,980)	0	(601,980)
<b>Total Governmental Activities</b>	<u>12,638,093</u>	<u>2,195,969</u>	<u>546,087</u>	<u>2,669,325</u>	<u>(7,226,712)</u>	<u>0</u>	<u>(7,226,712)</u>
<b>Business-Type Activities:</b>							
Nordonia Home Days	22,127	14,829	0	0	0	(7,298)	(7,298)
<b>Total Business-Type Activities</b>	<u>22,127</u>	<u>14,829</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(7,298)</u>	<u>(7,298)</u>
<b>Total</b>	<u>\$ 12,660,220</u>	<u>\$ 2,210,798</u>	<u>\$ 546,087</u>	<u>\$ 2,669,325</u>	<u>(7,226,712)</u>	<u>(7,298)</u>	<u>(7,234,010)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					1,559,447	0	1,559,447
Special Revenue					211,955	0	211,955
Income Taxes Levied for:							
General Purposes					3,577,595	0	3,577,595
Special Revenue					748,161	0	748,161
Capital Improvements					1,372,941	0	1,372,941
Other Taxes					349,750	0	349,750
Grants and Entitlements not Restricted to Special Programs					679,979	0	679,979
Investment Earnings					32,012	0	32,012
Miscellaneous					7,950	0	7,950
<b>Total General Revenues</b>					<u>8,539,790</u>	<u>0</u>	<u>8,539,790</u>
Change in Net Assets					1,313,078	(7,298)	1,305,780
Net Assets, Beginning of Year, as Restated					<u>27,837,614</u>	<u>10,525</u>	<u>27,848,139</u>
<b>Net Assets End of Year</b>					<u>\$ 29,150,692</u>	<u>\$ 3,227</u>	<u>\$ 29,153,919</u>

See accompanying notes to the basic financial statements.



**CITY OF MACEDONIA, OHIO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2003**

	General	General Bond Retirement	General Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 333,381	\$ 0	\$ 470,787	\$ 1,008,820	\$ 1,812,988
Receivables:					
Taxes	2,486,068	0	254,303	392,750	3,133,121
Accounts	71,180	0	0	22,874	94,054
Special Assessments	0	3,054,857	0	0	3,054,857
Due from Governments	286,391	0	0	209,043	495,434
Due from Funds	283,977	0	142,950	176,100	603,027
Inventory	8,047	0	0	41,904	49,951
Prepaid Items	22,976	0	0	2,370	25,346
<b>Total Assets</b>	<b><u>\$ 3,492,020</u></b>	<b><u>\$ 3,054,857</u></b>	<b><u>\$ 868,040</u></b>	<b><u>\$ 1,853,861</u></b>	<b><u>\$ 9,268,778</u></b>
<b>Liabilities and Fund Balances</b>					
Accounts Payable	\$ 87,586	\$ 0	\$ 0	\$ 289,266	\$ 376,852
Claims Payable	93,805	0	0	0	93,805
Accrued Wages and Benefits	114,891	0	0	37,368	152,259
Due to Governments	343,686	0	0	94,479	438,165
Due to Other Funds	278,445	178,660	11,100	134,822	603,027
Deferred Revenue	2,241,777	3,054,857	88,776	449,658	5,835,068
General Obligation Bonds Payable	0	0	0	1,200,000	1,200,000
Matured Compensated Absences Payable	72,127	0	0	0	72,127
<b>Total Liabilities</b>	<b><u>3,232,317</u></b>	<b><u>3,233,517</u></b>	<b><u>99,876</u></b>	<b><u>2,205,593</u></b>	<b><u>8,771,303</u></b>
<b>Fund Balances</b>					
Reserved for Inventory	8,047	0	0	41,904	49,951
Reserved for Prepaid Items	22,976	0	0	2,370	25,346
Reserved for Encumbrances	0	0	17,945	21,422	39,367
Reserved for Debt Service	0	(178,660)	0	9,682	(168,978)
Unreserved	228,680	0	750,219	(427,110)	551,789
<b>Total Fund Balances (Deficits)</b>	<b><u>259,703</u></b>	<b><u>(178,660)</u></b>	<b><u>768,164</u></b>	<b><u>(351,732)</u></b>	<b><u>497,475</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,492,020</u></b>	<b><u>\$ 3,054,857</u></b>	<b><u>\$ 868,040</u></b>	<b><u>\$ 1,853,861</u></b>	<b><u>\$ 9,268,778</u></b>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2003**

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<b>Total Governmental Funds Balances</b>		\$ 497,475
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		37,325,226
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:		
Property Taxes	\$ 313,460	
Grants and Entitlements	322,947	
Income Tax	355,104	
Special Assessments	<u>3,054,857</u>	
Total		4,046,368
In the statement of activities, interest is accrued on outstanding bonds. Whereas in governmental funds, an interest expenditure is reported when due.		(43,569)
Long-term liabilities, including bonds payable and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(10,015,000)	
Special Assessment Bonds	(1,834,100)	
Compensated Absences	<u>(825,708)</u>	
Total		<u>(12,674,808)</u>
<b>Net Assets of Governmental Activities</b>		<u><u>\$29,150,692</u></u>

**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2003**

	General	Bond Retirement	General Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local Taxes - Income Tax	\$ 3,639,020	\$ 0	\$ 1,397,511	\$ 760,446	\$ 5,796,977
Local Taxes - Property Tax	1,540,374	0	0	209,359	1,749,733
Estate Taxes	159,374	0	0	125,613	284,987
Intergovernmental	688,814	0	46,414	545,174	1,280,402
Special Assessments	0	56,176	0	94,690	150,866
Charges for Services	408,937	0	0	712,310	1,121,247
Fines, Licenses, and Permits	576,987	0	0	13,626	590,613
Interest Income	10,618	3,967	8,973	8,454	32,012
Miscellaneous	166,530	7,951	65,968	269,583	510,032
<b>Total Revenues</b>	<u>7,190,654</u>	<u>68,094</u>	<u>1,518,866</u>	<u>2,739,255</u>	<u>11,516,869</u>
<b>Expenditures</b>					
Security of Persons and Property	3,791,499	0	282,860	276,372	4,350,731
Public Health Services	163,901	0	0	0	163,901
Leisure Time Activities	13,218	53,996	81,852	1,313,691	1,462,757
Community Environment	425,696	0	875	1,552	428,123
Basic Utilities Expenditures	582,617	0	12,200	40,698	635,515
Transportation	318,977	0	89,478	709,196	1,117,651
General Government	2,275,435	0	119,412	34,970	2,429,817
Debt Service:					
Principal Retirement	0	537,157	0	0	537,157
Interest and Fiscal Charges	0	418,403	0	82,792	501,195
<b>Total Expenditures</b>	<u>7,571,343</u>	<u>1,009,556</u>	<u>586,677</u>	<u>2,459,271</u>	<u>11,626,847</u>
Excess of Revenues Over (Under) Expenditures	<u>(380,689)</u>	<u>(941,462)</u>	<u>932,189</u>	<u>279,984</u>	<u>(109,978)</u>
<b>Other Financing Sources (Uses)</b>					
Refunding Bonds Issued	0	2,215,000	0	1,260,000	3,475,000
Transfers In	121,000	755,435	0	761,465	1,637,900
Transfers Out	(280,000)	0	(939,961)	(417,939)	(1,637,900)
Payment to Refunded Bond Escrow Agent	0	(2,195,177)	0	0	(2,195,177)
<b>Total Other Financing Sources (Uses)</b>	<u>(159,000)</u>	<u>775,258</u>	<u>(939,961)</u>	<u>1,603,526</u>	<u>1,279,823</u>
Net Change in Fund Balances	(539,689)	(166,204)	(7,772)	1,883,510	1,169,845
Fund Balances (Deficits) - Beginning of Year, as Restated	797,309	(12,456)	775,936	(2,244,772)	(683,983)
Increase (Decrease) in Reserve for Inventory	2,083	0	0	9,530	11,613
<b>Fund Balances (Deficits) - End of Year</b>	<u>\$ 259,703</u>	<u>\$ (178,660)</u>	<u>\$ 768,164</u>	<u>\$ (351,732)</u>	<u>\$ 497,475</u>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ 1,169,845</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays and transportation as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		119,857
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(64,068)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Tax	\$ 21,667	
Grants and Entitlements	10,431	
Income Tax	(98,280)	
Special Assessments	<u>1,381,755</u>	
Total		1,315,573
Proceeds from debt issues are an other financing source in the funds but a debt issue increases long-term liabilities in the statement of net assets.		(3,475,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,636,157
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.		(4,608)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(396,291)	
Change in Inventory	<u>11,613</u>	
Total		<u>(384,678)</u>
<b>Change in Net Assets of Governmental Activities</b>		<b><u>\$ 1,313,078</u></b>

**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Taxes - Income Taxes	\$ 4,499,185	\$ 3,949,290	\$ 3,627,331	\$ (321,959)
Local Taxes - Property Taxes	1,574,405	1,574,405	1,540,374	(34,031)
Other Taxes	107,154	126,200	161,310	35,110
Intergovernmental	531,723	698,196	690,596	(7,600)
Charges for Services	354,383	397,233	423,196	25,963
Fines, Licenses, and Permits	434,500	454,500	572,402	117,902
Interest Income	20,000	10,000	10,618	618
Miscellaneous	<u>43,826</u>	<u>108,725</u>	<u>163,266</u>	<u>54,541</u>
<b>Total Revenues</b>	<u>7,565,176</u>	<u>7,318,549</u>	<u>7,189,093</u>	<u>(129,456)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	3,675,950	3,667,650	3,673,810	(6,160)
Public Health	164,640	164,640	163,901	739
Leisure Time Activities	5,760	3,760	13,167	(9,407)
Community Environment	452,625	410,625	398,738	11,887
Basic Utility	608,350	589,350	592,993	(3,643)
Transportation	297,175	328,675	335,296	(6,621)
General Governments	<u>2,250,760</u>	<u>2,195,355</u>	<u>2,173,727</u>	<u>21,628</u>
<b>Total Expenditures</b>	<u>7,455,260</u>	<u>7,360,055</u>	<u>7,351,632</u>	<u>8,423</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>109,916</u>	<u>(41,506)</u>	<u>(162,539)</u>	<u>(121,033)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	28,500	198,000	121,000	(77,000)
Transfers Out	(320,000)	(280,000)	(280,000)	0
Advances In	<u>0</u>	<u>0</u>	<u>193,445</u>	<u>193,445</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(291,500)</u>	<u>(82,000)</u>	<u>34,445</u>	<u>116,445</u>
Net Change in Fund Balance	<u>(181,584)</u>	<u>(123,506)</u>	<u>(128,094)</u>	<u>(4,588)</u>
Fund Balance, Beginning of Year	484,459	484,459	484,459	0
Prior Year Encumbrances Appropriated	<u>27,840</u>	<u>27,840</u>	<u>27,840</u>	<u>0</u>
<b>Fund Balance, End of Year</b>	<u>\$ 330,715</u>	<u>\$ 388,793</u>	<u>\$ 384,205</u>	<u>\$ (4,588)</u>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO  
STATEMENT OF FUND NET ASSETS -  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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	Nonmajor Business-Type <u>Activity</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,227
<b>Total Assets</b>	<u>\$ 3,227</u>
<b><u>Liabilities</u></b>	\$ 0
<b><u>Net Assets</u></b>	
Unrestricted	<u>3,227</u>
<b>Total Net Assets</b>	<u>\$ 3,227</u>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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	<u>Nonmajor Business-Type Activity</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 14,829
<b>Total Operating Revenues</b>	<u>14,829</u>
<b><u>Operating Expenses</u></b>	
Materials and Supplies	<u>22,127</u>
<b>Total Operating Expenses</b>	<u>22,127</u>
Operating Loss	<u>(7,298)</u>
Change in Net Assets	(7,298)
Net Assets at Beginning of Year	<u>10,525</u>
<b>Net Assets at End of Year</b>	<u>\$ 3,227</u>

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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**Cash Flows from Operating Activities**

Cash Received from Users	\$ 14,829
Cash Payments to Suppliers for Goods and Services	<u>(22,127)</u>
<b>Net Cash Provided by (Used by) Operating Activities</b>	<u>(7,298)</u>
Net Decrease in Cash and Cash Equivalents	(7,298)
Cash and Cash Equivalents - Beginning of Year	<u>10,525</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 3,227</u>

**Reconciliation of Operating Loss to Net**

**Cash Provided by Operating Activities**

Operating Loss	\$ (7,298)
<b>Net Cash Provided (Used by) Operating Activities</b>	<u>\$ (7,298)</u>

See accompanying notes to the basic financial statements.



**CITY OF MACEDONIA, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2003**

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	<u>Private Purpose Trust Petroleum UST Fund</u>	<u>Agency</u>
<b><u>Assets</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$ 11,000	\$ 209,798
<b>Total Assets</b>	<u>\$ 11,000</u>	<u>\$ 209,798</u>
<b><u>Liabilities</u></b>		
Deposits Held and Due to Others	\$ 0	\$ 2,029
Funds on Deposit	<u>0</u>	<u>207,769</u>
<b>Total Liabilities</b>	<u>0</u>	<u>\$ 209,798</u>
<b><u>Net Assets</u></b>		
Held in Trust for Clean Up of Underground Storage Tank	<u>11,000</u>	
<b>Total Net Assets</b>	<u>\$ 11,000</u>	

See accompanying notes to the basic financial statements.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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**NOTE 1: REPORTING ENTITY**

The City of Macedonia, Ohio (the “City”) is a charter municipal corporation established for the purpose to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City is a charter city and operates under a Mayor/Council form of government. Elected officials include seven Council members and a Mayor.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of Macedonia and are included as part of the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and **(1)** the City is able to significantly influence the programs or services performed or provided by the organization; **(2)** the City is legally entitled to or can otherwise access the organization’s resources; or **(3)** the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organizations. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

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

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

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**A. Basis of Presentation**

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

B. **Fund Accounting** (Continued)

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

**General Fund** - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Macedonia and/or the general laws of Ohio.

**Bond Retirement Fund** - The bond retirement fund accounts for the accumulation of resources for and the payment of interest and principal on general obligation bonds and special assessment bonds issued to finance various City projects.

**Capital Improvement Fund** - This fund accounts for various capital projects and equipment financed by income tax receipts, interest, and sale of capital assets.

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

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have internal service funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's only enterprise fund accounts for Nordonia Home Days activities. The City has no major enterprise funds.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**B. Fund Accounting** (Continued)

***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, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is a private purpose trust fund established for the purpose of paying the costs of third party damages and corrective actions necessary to clean up a petroleum release from a City's underground storage tank. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

**C. Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

***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. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**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; fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expense versus expenditures.

***Revenues – Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

D. **Basis of Accounting** (Continued)

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2003 but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. **Pooled Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2003, the portfolio of the City was limited to the State Treasury Asset Reserve of Ohio (STAROhio). 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 December 31, 2003.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

E. **Pooled Cash and Cash Equivalents** (Continued)

The City's policy is to hold investments until maturity or until market values equal or exceeds cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, during fiscal year 2003 amounted to \$10,618, which includes \$5,379 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements to be cash equivalents.

F. **Receivables**

Receivables at December 31, 2003 consist of taxes, amounts due from other governments, accounts (billings for user charged services), and special assessments. All are deemed collectible.

G. **Materials and Supplies Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory of the proprietary funds are expensed when used. As of December 31, 2003, there is no inventory of proprietary funds.



**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**I. Capital Assets**

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds. As of December 31, 2003, there are no capital assets utilized by the proprietary fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's infrastructure consists of roads, water mains, storm sewers, culverts, traffic signals and bridges. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvement	50 years
Land Improvements	20 years
Machinery and Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	5-10 years
Infrastructure	20 - 50 years

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**J. Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “due to/from other funds”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**K. Compensated Absences**

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

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are currently eligible to receive termination payments, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**M. Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, prepaids, and debt service.

**N. Net Assets**

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

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

**O. Interfund Activity**

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. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

Q. **Estimates**

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

R. **Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the major level within each department in the general fund. Budgetary control for all other funds is at the fund level (i.e., personal services and other operations). Budgetary modifications may only be made by ordinance of the City Council.

The City's budgetary process is as follows:

*Budget* - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

*Estimated Resources* - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

R. **Budgetary Data** (Continued)

*Appropriations* - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by March 31 and may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed the estimated resources.

*Budgeted Level of Expenditures* - The City is required by Ohio law to establish annual appropriations for all necessary funds. These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level.

*Encumbrances* - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used as an extension of the formal budgetary control.

*Lapsing of Appropriations* - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. At the close of each fiscal year, the encumbered appropriation balances lapse and are reencumbered and reappropriated to the subsequent fiscal year.

*Budgetary Basis of Accounting*

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are recorded as the equivalent of expenditures for budget purposes as opposed to reservation of fund balances for GAAP purposes;
4. Short term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

R. **Budgetary Data** (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budget basis statements for the general fund.

Net Change in Fund Balance	General Fund
GAAP Basis	\$(539,689)
Net Adjustment for Revenue Accruals	191,884
Net Adjustment for Expenditure Accruals	258,122
Encumbrances	<u>(38,411)</u>
<b>Budget Basis</b>	<b><u>\$ (128,094)</u></b>

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Changes in Accounting Principles**

For 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

The government-wide financial statements split the City’s program between business-type and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003 caused by the conversion to the accrual basis of accounting.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)**

**A. Changes in Accounting Principles (Continued)**

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the MD&A, the classification of program revenues, and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the fund liability of compensated absences that matured during fiscal year 2002.

**B. Restatement of Fund Balance**

The implementation of these statements had the following effects on fund balances of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>General Capital Improvements</u>	<u>Nonmajor Funds</u>	<u>Total Governmental</u>
Fund Balances 12/31/02	\$ 665,448	\$ 763,480	\$ (2,252,444)	\$ (823,516)
Fund Reclassification *	90,000	0	0	90,000
Compensated Absences Payable	<u>41,861</u>	<u>0</u>	<u>7,672</u>	<u>49,533</u>
Adjusted Fund Balances - (Deficit) December 31, 2002	<u>\$ 797,309</u>	<u>\$ 763,480</u>	<u>\$ (2,244,772)</u>	<u>(683,983)</u>
GASB 34 Adjustments:				
Capital Assets				\$ 37,269,437
Long-term Liabilities				(11,439,674)
Accrued Interest Payable				(38,961)
Long-term Assets				<u>2,730,795</u>
Net Assets - December 31, 2002				<u>\$ 27,837,614</u>

\* The emergency reserve fund was reclassified as a general fund, because funds were originally transferred from the general fund without a trust agreement.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY** (Continued)

B. **Restatement of Fund Balance** (Continued)

The implementation of GASB Statement No. 37, GASB Statement No. 41, and GASB Interpretation No. 6 did not materially affect the presentation of the basic financial statements of the City.

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

**Fund Deficits**

Fund balance/retained earnings at December 31, 2003 included the following individual fund deficits:

Special Revenue:	
Fire Operating Levy	\$ 42,387
CDBG Grant	20,640
Capital Projects:	
Road Resurfacing 97-98	320,000
Road Resurfacing 2000	640,000
Fire Apparatus Acquisition	240,000
Highland Road Phase II & III	219,542
Debt Service:	
Bond Retirement	178,660

The fund deficits in the special revenue funds and debt service fund result from the recognition of expenditures on the modified accrual basis of accounting that are greater than expenditures recognized on the cash basis.

The fund deficits in the capital projects funds are the result of recording notes payable in the individual fund balance sheets and from the recognition of contracts and retainage payables on the modified accrual basis of accounting that are not recognized on the cash basis. The general fund provides operating transfers when cash is required, not when accruals occur.



**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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**NOTE 5: CASH AND CASH EQUIVALENTS**

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal national mortgage association, Federal home loan bank, Federal farm credit bank, Federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 5: **CASH AND CASH EQUIVALENTS** (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

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 City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or instrumentality of such county, municipal corporations, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements)*

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 5: **CASH AND CASH EQUIVALENTS** (Continued)

*and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The following information classifies deposits and investments by categories of risk, as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. The GASB has established risk categories for deposits and investments as follows:

**Deposits**

*Category 1* - Insured or collateralized with securities held by the City or by its agent in the City's name.

*Category 2* - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

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

**Investments**

*Category 1* - Insured or registered, with securities held by the City or by its agent in the City's name.

*Category 2* - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

**A. Deposits**

At year end, the carrying amount of the City's deposits was \$1,980,352, including \$1,675 of cash on hand, and the bank balance was \$2,085,163. \$392,836 of the bank balance was covered by federal depository insurance and \$1,692,327 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 5: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

**B. Investments**

GASB Statement No. 3 requires the City's investments be categorized to give an indication of the level of risk assumed by the City at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

Investments as of December 31, 2003 are summarized below.

<u>Category</u>		<u>Cost</u>	<u>Fair Value</u>
(Non Categorized)	STAROhio	\$ 56,661	\$ 56,661
		<u>\$ 56,661</u>	<u>\$ 56,661</u>

All of the investments are carried at cost or amortized cost.

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

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash &amp; Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$2,037,013	\$ 0
Investments:		
STAROhio	<u>(56,661)</u>	<u>56,661</u>
GASB Statement No. 3	<u>\$ 1,980,352</u>	<u>\$ 56,661</u>

Certificate of deposits with an original maturity of three months or less are treated as cash equivalents (as defined by GASB 9).

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayor's Court Bond fund and the Tree Replacement fund, which are fully insured and maintained separately.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 6: **RECEIVABLES**

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for utility services, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2003 levy was based was approximately \$379 million (per the Summit County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 2002.

Real property taxes, excluding public utility property, are all assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2003, the percentage used to determine taxable value of personal property and inventory was 25 percent. Pertinent tangible personal property tax dates are:

Collection Dates	April 30 and September 30 of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 100 percent of its true value except for rural electric companies (50 percent) and railroads (25 percent). Pertinent public utility tangible personal property tax dates are:

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2003 was \$13.10 per \$1,000 of assessed value. The assessed value upon which the 2003 tax receipts were based was \$378,952,555. This amount constitutes \$305,964,640 in real property assessed value, \$20,104,480 in public utility assessed value and \$52,883,435 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2003. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue

B. **Municipal Income Taxes**

The City levies an income tax of 2.0 percent on gross salaries, and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City.

C. **Special Assessments**

Special assessments include assessments for debt obligations. Special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's special assessments are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$3,054,857 in the special assessment bond retirement fund.

D. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<b><u>Governmental Activities</u></b>	
Estate Tax	\$ 6,836
Gasoline Tax	123,565
Local Government	180,261
Homestead and Rollback	74,215
Grants	4,000
Utility Property Tax Loss Reimbursement	38,575
Auto Registration	62,186
Permissive Tax	5,796
<b>Total Governmental Activities</b>	<b><u>\$ 495,434</u></b>

NOTE 7: **INTERFUND TRANSFERS AND BALANCES**

Interfund balances at December 31, 2003 consist of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 283,977	\$ 278,445
General Capital Improvements Fund	142,950	11,100
General Bond Retirement Fund	0	178,660
Nonmajor Governmental Funds	<u>176,100</u>	<u>134,822</u>
Total	<u>\$ 603,027</u>	<u>\$ 603,027</u>

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 7: **INTERFUND TRANSFERS AND BALANCES** (Continued)

Monies were advanced from one fund to another to cover operating expenses until additional monies are received. Interfund balances were eliminated since they were within governmental activities.

As of December 31, 2003, interfund transfers were as follows:

<u>Transfer To</u>	<u>General Fund</u>	<u>Transfer From</u>		<u>Total</u>
		<u>General Capital Improvements Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ 0	\$ 0	\$ 121,000	\$ 121,000
General Bond Retirement Fund	0	9,548	0	9,548
Nonmajor Governmental Funds	<u>280,000</u>	<u>930,413</u>	<u>296,939</u>	<u>1,507,352</u>
	<u>\$ 280,000</u>	<u>\$ 939,961</u>	<u>\$ 417,939</u>	<u>\$ 1,637,900</u>

All transfers were made to provide additional resources for current operations during 2003.



**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 8: CAPITAL ASSETS**

A summary of changes in capital assets during 2003 follows:

	Restated Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,169,147	\$ 0	\$ 0	\$ 1,169,147
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,169,147</u>	<u>0</u>	<u>0</u>	<u>1,169,147</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	12,902,003	0	0	12,902,003
Improvements	76,835	0	0	76,835
Machinery and Equipment	1,007,099	277,269	(699)	1,283,669
Furniture and Fixtures	12,787	0	0	12,787
Vehicles	1,657,501	113,701	(108,543)	1,662,659
Infrastructure				
Roads	14,492,038	221,477	0	14,713,515
Water Mains	4,815,602	117,209	0	4,932,811
Storm Sewers	9,207,059	780,043	0	9,987,102
Traffic Signals	412,000	0	0	412,000
Bridges	110,000	0	0	110,000
<i>Total Capital Assets Being Depreciated</i>	<u>44,692,924</u>	<u>1,509,699</u>	<u>(109,242)</u>	<u>46,093,381</u>
Less Accumulated Depreciation:				
Buildings	(1,647,171)	(251,154)	0	(1,898,325)
Improvements	(14,631)	(3,897)	0	(18,528)
Machinery and Equipment	(232,310)	(87,867)	0	(320,177)
Furniture and Fixtures	(2,589)	(698)	0	(3,287)
Vehicles	(322,253)	(124,588)	45,174	(401,667)
Infrastructure				
Roads	(4,225,954)	(616,096)	0	(4,842,050)
Water Mains	(672,154)	(96,312)	0	(768,466)
Storm Sewers	(1,310,094)	(184,141)	0	(1,494,235)
Traffic Signals	(152,278)	(22,889)	0	(175,167)
Bridges	(13,200)	(2,200)	0	(15,400)
Total Accumulated Depreciation	<u>(8,592,634)</u>	<u>* (1,389,842)</u>	<u>45,174</u>	<u>(9,937,302)</u>
<i>Total Capital Assets Being Depreciated</i>	<u>36,100,290</u>	<u>119,857</u>	<u>(64,068)</u>	<u>36,156,079</u>
<b>Total Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 37,269,437</u>	<u>\$ 119,857</u>	<u>\$ (64,068)</u>	<u>\$ 37,325,226</u>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 85,516
Security of Persons and Property	149,907
Public Health	7,876
Basic Utilities	281,866
Leisure Time Utilities	155,509
Transportation	709,168
<b>Total</b>	<u>\$ 1,389,842</u>

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 9: **COMPENSATED ABSENCES**

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of 1 1/4 days per month for continuous service. Sick leave accumulates on a monthly basis and is fully vested when earned. Normally, all vacation is to be taken in the year available unless written approval for carryover of vacation is obtain, in which it is to be used in the first quarter of the following year.

An employee, at the time of retirement or disability retirement from service active with the City, is paid in cash 40 percent of the value of his accrued sick leave to a limit of a maximum of 384 hours. An employee with less than 10 years of service with the City who is terminated other than retirement is entitled to be paid 25 percent of their accrued unused sick leave to a limit of a maximum of 240 hours.

NOTE 10: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

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

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The City's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$379,502, \$377,179, and \$368,954, respectively; 71 percent has been contributed for 2003 and 100 percent for 2002 and 2001. There were no contributions to the member-directed plan for 2003 made by the City or by plan members.

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

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$169,233 and \$95,875 for the year ended December 31, 2003, \$128,259 and \$87,532 for the year ended December 31, 2002, and \$126,932 and \$87,532 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 82 percent for police and 80 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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**NOTE 11: POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$140,036. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

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

In December 2001, the Board adopted the Health Care “Choices” Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care plan. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

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

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

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund’s Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer’s contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

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

The City's annual contributions for 2003 that were used to fund postemployment benefits were \$111,622 for police and \$63,237 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 12: **BOND ANTICIPATION NOTES PAYABLE**

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than the principal maturities required if the bonds had been issued at the expiration of the initial five year period.

The following bond anticipation notes were payable at December 31, 2003:

	Balance January 1, 2003	Issued	Retired	Balance December 31, 2003
Capital Projects Bond				
Anticipation Notes Payable:				
Street Resurfacing 3.72%	\$ 1,500,000	\$ 0	\$(1,500,000)	\$ 0
Highland Rd. Phase III 2.94%	1,000,000	0	(1,000,000)	0
Pumper Fire Truck Project 21.3%	0	240,000	0	240,000
Street Resurfacing April 2003 Project 31.3%	0	960,000	0	960,000
Total Bond Anticipation Notes Payable	<u>\$ 2,500,000</u>	<u>\$ 1,200,000</u>	<u>\$(2,500,000)</u>	<u>\$ 1,200,000</u>

All outstanding notes at December 31, 2003 were issued for one year or less. These notes were of the bond anticipation type and will be renewed. Proceeds from the notes were used for street improvements and equipment purchases.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 13: LONG-TERM OBLIGATIONS**

The original issue date, maturity date, interest rate, and original issuance amount for each of the City's bonds is as follows:

	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<b>Governmental Activities:</b>				
<b>General Obligation Bonds</b>				
Macedonia City Center, 2001	2001	2016	3.45%-4.90%	\$ 5,155,000
Recreation Center, 2001	2001	2016	3.45%-4.90%	3,200,000
Recreation Center Refunded	1998	2008	4.65%	3,250,000
City Hall Construction	1998	2003	6.25%	433,000
Recreation Center, 2003 Series	2003	2016	2.0%-4.0%	2,215,000
<b>Special Assessment Commitment Bonds</b>				
Highland Pointe Parkway	1998	2005	6.5%	860,000
Highland Road Improvement Variance	2003	2023	2.0%-4.0%	1,260,000
Highland Road Improvement	1996	2016	6.25%	294,100

Changes in the long-term obligations of the City during 2003 were as follows:

	<u>January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2003</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>General Obligation Bonds</b>					
Macedonia City Center, 2001	\$ 4,900,000	\$ 0	\$ 260,000	\$ 4,640,000	\$ 270,000
Recreation Center, 2001	3,180,000	0	20,000	3,160,000	20,000
Recreation Center Refunded	2,099,000	0	2,099,000	0	0
City Hall Construction	73,857	0	73,857	0	0
Recreation Center 2003 Series	0	2,215,000	0	2,215,000	145,000
<b>Total General Obligation Bonds</b>	<u>10,252,857</u>	<u>2,215,000</u>	<u>2,452,857</u>	<u>10,015,000</u>	<u>435,000</u>
<b>Special Assessment Commitment Bonds</b>					
Highland Pointe Parkway	516,000	0	172,000	344,000	172,000
Highland Road Improvement Variance	0	1,260,000	0	1,260,000	45,000
Highland Road Improvement	241,400	0	11,300	230,100	12,000
<b>Total Special Assessment Commitment Bonds</b>	<u>757,400</u>	<u>1,260,000</u>	<u>183,300</u>	<u>1,834,100</u>	<u>229,000</u>
<b>Other Obligations</b>					
Compensated Absences	429,417	396,291	0	825,708	527,566
<b>Total Other Obligations</b>	<u>429,417</u>	<u>396,291</u>	<u>0</u>	<u>825,708</u>	<u>527,566</u>
<b>Total Governmental Activities</b>	<u>\$ 11,439,674</u>	<u>\$ 3,871,291</u>	<u>\$ 2,636,157</u>	<u>\$ 12,674,808</u>	<u>\$ 1,191,566</u>

**Defeased Debt**

On July 23, 2003, the City of Macedonia issued general obligation bonds of \$2,215,000 with interest rates ranging from 2.0 to 4 percent to advance refunded general obligation bond of \$2,099,000 with an interest rate of 4.65 percent and retire short-term notes of \$1,260,000 due in 2003. The general obligation bonds were issued at a premium of \$7,950 and, after paying issuance costs of \$27,774, the net proceeds were \$2,195,177. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the defeased bond matures.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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

**Defeased Debt** (Continued)

on December 1, 2008. The advance refunding met the requirements of an in-substance debt defeasance and the defeased general obligation bonds were removed from the City's government-wide financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by \$314,862, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$54,945.

Outstanding general obligation bonds consist of the construction of the new safety building and recreation center which are payable from proceeds received from the collection of City income tax.

Outstanding special assessment commitment bonds consist of street improvements which are payable from the proceeds of tax assessments against individual property owners.

Compensated absences will be paid by the fund from which the employee's salary is paid.

**Principal and Interest Requirements**

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2003 follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Commitment Bonds</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 435,000	\$ 427,780	\$ 229,000	\$ 79,444	\$ 664,000	\$ 507,224
2005	450,000	413,280	234,700	66,614	684,700	479,894
2006	465,000	398,280	63,500	53,640	528,500	451,920
2007	480,000	382,680	64,400	51,796	544,400	434,476
2008	500,000	364,955	65,300	49,896	565,300	414,851
2009-2013	4,510,000	1,349,257	377,000	209,635	4,887,000	1,558,892
2014-2018	3,175,000	301,185	400,200	128,540	3,575,200	429,725
2019-2023	0	0	400,000	49,200	400,000	49,200
Totals	<u>\$10,015,000</u>	<u>\$3,637,417</u>	<u>\$1,834,100</u>	<u>\$ 688,765</u>	<u>\$11,849,100</u>	<u>\$ 4,326,182</u>



**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 14: **CONTINGENCIES AND COMMITMENTS**

A. **Litigation**

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

B. **Income Tax Refund**

A company in the City recently implemented a change in their method of reporting income relative to outside sales. As a result of this change, the Company claimed they were entitled to a tax refund of \$569,000 from taxes paid in 2002. After much investigation by the City's tax and law departments, it was concluded that a tax refund in the amount of \$523,025 would be paid to the company in two equal installments of \$261,512.50. The first was paid in December 2003 and the second installment will be paid in February 2004.

C. **Federal and State Grants**

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 15: RISK MANAGEMENT**

**A. Property and Liability**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with several companies for various types of insurance as follows:

<u>Policy Type</u>	<u>Company</u>	<u>Deductible</u>	<u>Coverage Amount</u>
Property	Cincinnati Insurance Co.	\$ 1,000	\$ 16,203,950
G.L.	Cincinnati Insurance Co.	\$ 0	\$ 1,000,000
			Aggregate
Auto	Cincinnati Insurance Co.	\$ 1,000	\$ 500,000
Equipment Fltr	Cincinnati Insurance Co.	\$ 500	\$ 1,040,360
Comm Umbrella:			
Terrorism	Cincinnati Insurance Co.	\$ 0	\$ 3,000,000
Law Enforcement	Scottsdale Insurance Co.	\$ 10,000	\$ 2,000,000
Public Officials:			
Employment Practices	Scottsdale Insurance Co.	\$ 10,000	\$ 2,000,000
Terrorism			
Fire Department:			
EMT and Management			
Liability	American Alternative	\$ 250	\$ 2,000,000
Umbrella	American Alternative	\$ 0	\$ 5,000,000
Accident and Sickness	National Union		Schedule of Coverage

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**B. Workers' Compensation**

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

**C. Employee Medical Benefits**

The City has elected to cover its full-time employees with a medical plan which provides hospital, medical, prescription, dental, and vision insurance benefits. These benefits are provided through a partially self-insured program. The City pays a premium for specific stop loss coverage of \$25,000 per individual and annual aggregate coverage. The City maintains a claims account which is available to pay claims and administrative costs of the program. A third party administrator reviews

**CITY OF MACEDONIA, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 15: **RISK MANAGEMENT** (Continued)

C. **Employee Medical Benefits** (Continued)

and processes claims and then notifies the City when the claims account requires money to release claims. The City maintains this account by making deposits to it from the appropriate funds to cover the actual costs of employee claims and premiums. The City also requires an employee contribution towards health coverage. Employee contributions totaled \$53,738 in 2003.

The claims liability of \$93,805 at December 31, 2003 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses (GASB Statement No. 30).

Changes in claims activity for the past three fiscal years are as follows:

	Balance at of Beginning <u>of Year</u>	Current Year Claims	Claim <u>Payments</u>	Balance at <u>End of Year</u>
2001	\$ 97,146	\$ 643,048	\$ 620,922	\$ 119,272
2002	\$ 119,272	\$ 705,840	\$ 735,626	\$ 89,486
2003	\$ 89,486	\$ 776,342	\$ 772,023	\$ 93,805

As of May 2004, the City has switched to a fully insured employee health benefit insurance program.

**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
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Garfield Hts., Ohio 44125

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Ohio Society of Certified Public Accountants

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

The Honorable Mayor, Finance Director, and  
and Members of City Council  
City of Macedonia, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Macedonia, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City of Macedonia, Ohio's basic financial statements and have issued our report thereon dated July 21, 2004. The City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2003. This resulted in a change to the City's method of accounting for certain nonexchange revenues and capital assets long-term liabilities, and changes in the format and content of the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Macedonia, Ohio, in a separate letter dated July 21, 2004.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1 - City's Fixed Asset System.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Macedonia, Ohio in a separate letter dated July 21, 2004.

This report is intended solely for the information and use of members of City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

July 21, 2004

**CITY OF MACEDONIA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2003**

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2003-1    **City's Fixed Asset System**

Condition and Criteria

The City's fixed assets are tracked on an Excel spreadsheet. The listing includes the original cost, the acquisition date (the date placed in service), and accumulated depreciation. During the year ended December 31, 2003, the City disposed of certain equipment. In addition, the City reported equipment that was below the capitalization threshold. However, these items were not removed from the fixed asset listing.

Cause

The City's capital asset additions and deletions are not monitored and maintained on a regular basis. The City is not using a fixed assets account module.

Effect

The City's fixed assets are over/understated.

Recommendation

Instead of an integrated accounting system that includes a fixed asset accounting module, the City's fixed assets are entered on an Excel spreadsheet. Depreciation for the year is manually calculated for financial reporting purposes. As new assets are placed in service, they are entered into the spreadsheet.

We recommend that the City consider acquiring a fixed assets system to account for and monitor its physical and related depreciation. The City should take a physical inventory of its fixed assets on a regular basis, such as every two to three years, to ensure that only active, in-service machinery and equipment included on the City's financial statements and review its current capitalization policy. We also recommend that, as new assets are acquired, they are added to the listing and when assets are disposed of, they are removed from the listing. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing.

**CITY OF MACEDONIA**  
**SUMMARY SCHEDULE OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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**Prior Recommendations**

The prior audit report, as of December 31, 2002, included management letter recommendations. These have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.







**Auditor of State  
Betty Montgomery**

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**CITY OF MACEDONIA**

**SUMMIT 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  
OCTOBER 5, 2004**