

CITY OF MACEDONIA

AUDIT REPORT

FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997

James G. Zupka, Inc.
Certified Public Accountant

CITY OF MACEDONIA

AUDIT REPORT

FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997

CITY OF MACEDONIA
SUMMIT COUNTY
AUDIT REPORT
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997

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SUMMIT COUNTY
AUDIT REPORT
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997

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CITY OF MACEDONIA
SUMMIT COUNTY

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General Fund

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Drug Law Enforcement Fund

Law Enforcement Education Fund

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D.A.R.E. Program Fund

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CITY OF MACEDONIA
SUMMIT COUNTY

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Emergency Reserve Trust Fund

Unclaimed Monies Fund

Agency

Escrow Deposits Fund

Payroll Revolving Fund

O.B.B.C. Fees Fund

Mayor's Court Fund

Emergency Response Billing Fund



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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

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, 1997 to December 31, 1998. 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.



JIM PETRO
Auditor of State

January 3, 2000

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

*Certified Public Accountants
5240 East 98th Street
Garfield Heights, Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475-6136

Ohio Society of Certified Public Accountants

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

INDEPENDENT ACCOUNTANT'S REPORT

We have audited the accompanying financial statements of the City of Macedonia, Ohio, (the City) as of and for the years ended December 31, 1998 and 1997, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 opinion.

Ohio Administrative Code Section 117.6-01 requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the City of Macedonia, Ohio prepared its financial statements on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, can not be determined at this time.

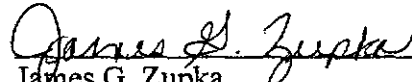
The City of Macedonia has not disclosed in the notes to the accompanying financial statements that it is required by law to prepare its reports in accordance with generally accepted accounting principles and has not done so.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined equity in pooled cash and investments and combined fund cash balances of the City of Macedonia, Ohio, as of December 31, 1998 and 1997, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the years then ended on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 30, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

This report is solely for the information and use of the audit committee, management, members of City Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 1999


James G. Zupka
Certified Public Accountant

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF CASH, INVESTMENTS, AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 1998

	1998
Equity in Pooled Cash and Investments	\$ 9,503,466
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 1,387,100
Special Revenue Funds	289,264
Debt Service Funds	(353,263)
Capital Project Funds	7,741,240
Total	9,064,341
Proprietary Fund:	
Enterprise Fund	29,939
Fiduciary Funds:	
Expendable Trust	209,012
Agency	200,174
Total Fund Cash Balances by Fund Types	\$ 9,503,466

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trust	
REVENUE						
Taxes	\$ 4,886,013	\$ 271,336	\$ 0	\$ 2,069,523	\$ 0	\$ 7,226,872
Intergovernmental Revenue	638,330	351,509	0	0	0	989,839
Special Assessments	0	0	323,976	230,057	0	554,033
Charges for Services	195,481	156,841	0	0	199	352,521
Fines, Licenses, and Permits	295,025	9,872	0	0	0	304,897
Miscellaneous	244,045	74,729	0	82,054	7,190	408,018
Total Revenue	6,258,894	864,287	323,976	2,381,634	7,389	9,836,180
EXPENDITURES						
Security of Persons and Property	2,296,619	184,205	0	7,781	0	2,488,605
Public Health and Welfare	230,555	0	0	0	0	230,555
Leisure Time Activities	15,752	356,789	0	330,509	0	703,050
Community Environment	271,845	0	0	0	0	271,845
Basic Utility Service	512,317	47,337	0	25,508	0	585,162
Transportation	69,573	330,639	0	92,181	0	492,393
General Government	1,711,251	20,864	0	0	0	1,732,115
Capital Outlay	37,880	34,833	0	1,000,804	0	1,073,517
Debt Service:						
Principal Retirement	0	0	5,650,895	3,040,000	0	8,690,895
Interest and Fiscal Charges	0	0	427,008	101,513	0	528,521
Total Expenditures	5,145,792	974,667	6,077,903	4,598,296	0	16,796,658
Total Revenue Over (Under) Expenditures	1,113,102	(110,380)	(5,753,927)	(2,216,662)	7,389	(6,960,478)
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Bonds	0	0	433,000	4,110,000	0	4,543,000
Proceeds from Sale of Notes	0	0	4,054,000	5,295,000	0	9,349,000
Transfers - In	0	289,053	1,033,532	179,719	13,800	1,516,104
Transfers - Out	(345,643)	(67,011)	0	(1,103,450)	0	(1,516,104)
Other Services	0	20,317	0	40,606	272	61,195
Other Uses	(20,317)	(5,100)	0	(35,505)	0	(60,922)
Total Other Financing Sources (Uses)	(365,960)	237,259	5,520,532	8,486,370	14,072	13,892,273
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	747,142	126,879	(233,395)	6,269,708	21,461	6,931,795
Fund Cash Balance - January 1, 1997	639,958	162,385	(119,868)	1,471,532	187,551	2,341,558
Fund Cash Balance - December 31, 1997	\$ 1,387,100	\$ 289,264	\$ (353,263)	\$ 7,741,240	\$ 209,012	\$ 9,273,353

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>	<u>Totals (Memorandum Only)</u>
<u>OPERATING REVENUE</u>			
Miscellaneous	\$ 20,012	\$ 20,149	\$ 40,161
Total Operating Revenues	<u>20,012</u>	<u>20,149</u>	<u>40,161</u>
<u>OPERATING EXPENSES</u>			
Contractual Services	15,046	0	15,046
Supplies and Materials	4,896	0	4,896
Total Operating Expenses	<u>19,942</u>	<u>0</u>	<u>19,942</u>
Excess of Operating Revenues Over(Under)Expenses	<u>70</u>	<u>20,149</u>	<u>20,219</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>			
Non-Operating Revenue	0	1,337,701	1,337,701
Non-Operating Expenses	0	(1,354,556)	(1,354,556)
Total Non-Operating Revenue (Expenses)	<u>0</u>	<u>(16,855)</u>	<u>(16,855)</u>
Net Excess of Operating and Non-Operating Revenues Over (Under) Operating and Non-Operating Expenses	<u>70</u>	<u>3,294</u>	<u>3,364</u>
Fund Cash Balance, January 1, 1998	<u>29,869</u>	<u>196,880</u>	<u>226,749</u>
Fund Cash Balance, December 31, 1998	<u>\$ 29,939</u>	<u>\$ 200,174</u>	<u>\$ 230,113</u>

See notes to the accompanying financial statements.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF REVENUE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 1998

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental			
General	\$ 6,238,063	\$ 6,258,894	\$ 20,831
Special Revenue	6,993,100	6,821,900	(171,200)
Debt Service	9,052,809	5,844,508	(3,208,301)
Capital Projects	4,874,728	12,006,959	7,132,231
Proprietary			
Enterprise	49,869	20,012	(29,857)
Fiduciary			
Expendable Trust	187,551	21,461	(166,090)
Agency	0	1,357,850	1,357,850
Total (Memorandum Only)	<u>\$27,396,120</u>	<u>\$32,331,584</u>	<u>\$ 4,935,464</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF EXPENDITURES AND
ENCUMBRANCES COMPARED WITH EXPENDITURES AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 1998

Fund Types/Funds	Prior Year Encumbrances	1998 Appropriations	Total	Actual 1998 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$ 0	\$ 5,428,596	\$ 5,428,596	\$ 5,496,753	\$ 0	\$ 5,496,753	\$ (68,157)
Special Revenue	0	6,707,494	6,707,494	6,695,021	0	6,695,021	12,473
Debt Service	0	6,077,903	6,077,903	6,077,903	0	6,077,903	0
Capital Projects	0	5,653,605	5,653,605	5,737,251	0	5,737,251	(83,646)
Proprietary							
Enterprise	0	19,942	19,942	19,942	0	19,942	0
Fiduciary							
Expendable Trust	0	0	0	0	0	0	0
Agency	0	0	0	1,354,556	0	1,354,556	(1,354,556)
Total (Memorandum Only)	\$ 0	\$ 23,887,540	\$ 23,887,540	\$ 25,381,426	\$ 0	\$ 25,381,426	\$ (1,493,886)

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF CASH, INVESTMENTS, AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 1997

	<u>1997</u>
Equity in Pooled Cash and Investments	<u>\$ 2,568,308</u>
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 639,958
Special Revenue Fund	162,386
Debt Service	(119,868)
Capital Projects	1,471,532
Total	<u>2,154,008</u>
Proprietary Funds:	
Enterprise Fund	29,869
Fiduciary Funds:	
Expendable Trust	187,551
Agency	196,880
Total Fund Cash Balances by Fund Types	<u>\$ 2,568,308</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY

COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	<u>Totals</u> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Fund Type Expendable Trust</u>	
REVENUE						
Taxes	\$ 4,099,480	\$ 264,779	\$ 0	\$ 1,468,038	\$ 0	\$ 5,832,297
Intergovernmental Revenue	520,029	323,953	0	46,838	0	890,820
Special Assessments	0	0	135,544	42,945	0	178,489
Charges for Services	159,422	187,158	8,035	0	1,191	355,806
Fines, Licenses, and Permits	252,697	11,158	0	0	0	263,855
Miscellaneous	53,840	67,463	0	161,921	6,309	289,533
Total Revenue	5,085,468	854,511	143,579	1,719,742	7,500	7,810,800
EXPENDITURES						
Security of Persons and Property	1,935,955	167,799	0	75,968	0	2,179,722
Public Health	113,969	0	0	0	0	113,969
Leisure Time Activities	6,705	363,688	0	19,215	0	389,608
Community Environment	232,748	0	0	0	0	232,748
Basic Utility Service	425,549	138,993	0	23,543	0	588,085
Transportation	112,799	360,906	0	139,081	0	612,786
General Government	1,455,245	17,818	0	0	0	1,473,063
Capital Outlay	2,273	1,055	0	5,003,932	0	5,007,260
Debt Service:						
Principal Retirement	0	0	1,614,611	4,800,043	0	6,414,654
Interest and Fiscal Charges	0	0	151,687	347,032	0	498,719
Total Expenditures	4,285,243	1,050,259	1,766,298	10,408,814	0	17,510,614
Total Revenue Over (Under) Expenditures	800,225	(195,748)	(1,622,719)	(8,689,072)	7,500	(9,699,814)
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Bonds	0	0	0	300,600	0	300,600
Proceeds from Sale of Notes	0	0	1,045,000	5,545,000	0	6,590,000
Transfers - In	0	246,036	420,816	344,388	10,800	1,022,040
Transfers - Out	(263,336)	(46,700)	(7,202)	(711,302)	0	(1,028,540)
Other Services	0	1,617	0	75,403	33,451	110,471
Other Uses	(1,617)	(5,100)	0	(70,303)	(31,745)	(108,765)
Total Other Financing Sources (Uses)	(264,953)	195,853	1,458,614	5,483,786	12,506	6,885,806
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	535,272	105	(164,105)	(3,205,286)	20,006	(2,814,008)
Fund Cash Balance - January 1, 1997	104,686	162,281	44,237	4,676,818	167,545	5,155,567
Fund Cash Balance - December 31, 1997	\$ 639,958	\$ 162,386	\$ (119,868)	\$ 1,471,532	\$ 187,551	\$ 2,341,559

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

	Proprietary Fund Type Enterprise Fund	Fiduciary Fund Type Agency Fund	Totals (Memorandum Only)
<u>OPERATING REVENUE</u>			
Charges for Services	\$ 0	\$ 0	\$ 0
Miscellaneous	19,030	0	19,030
Total Operating Revenues	<u>19,030</u>	<u>0</u>	<u>19,030</u>
<u>OPERATING EXPENSES</u>			
Contractual Services	15,120	0	15,120
Capital Outlay	7,535	0	7,535
Total Operating Expenses	<u>22,655</u>	<u>0</u>	<u>22,655</u>
Excess of Operating Revenues Over(Under)Expenses	<u>(3,625)</u>	<u>0</u>	<u>(3,625)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>			
Non-Operating Revenue	0	1,149,581	1,149,581
Non-Operating Expenses	0	(1,193,228)	(1,193,228)
Total Non-Operating Revenue (Expenses)	<u>0</u>	<u>(43,647)</u>	<u>(43,647)</u>
Net Excess of Operating and Non-Operating Revenues Over (Under) Operating and Non-Operating Expenses	(3,625)	(43,647)	(47,272)
Transfers In	6,500	0	6,500
Fund Cash Balance, January 1, 1997	<u>26,994</u>	<u>240,527</u>	<u>267,521</u>
Fund Cash Balance, December 31, 1997	<u>\$ 29,869</u>	<u>\$ 196,880</u>	<u>\$ 226,749</u>

See notes to the accompanying financial statements.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF REVENUE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 1997

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental			
General	\$ 4,817,951	\$ 5,100,468	\$ 282,517
Special Revenue	4,819,547	5,411,030	591,483
Debt Service	884,818	1,609,395	724,577
Capital Projects	1,890,704	7,985,133	6,094,429
Proprietary			
Enterprise	46,000	25,530	(20,470)
Fiduciary			
Expendable Trust	153,000	51,751	(101,249)
Agency	0	1,149,581	1,149,581
Total (Memorandum Only)	<u>\$12,612,020</u>	<u>\$21,332,888</u>	<u>\$ 8,720,868</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
COMBINED STATEMENT OF EXPENDITURES AND
ENCUMBRANCES COMPARED WITH EXPENDITURES AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 1997

Fund Types/Funds	Prior Year Encumbrances	1997 Appropriations	Total	Actual 1997 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$ 0	\$ 4,589,250	\$ 4,589,250	\$ 4,565,196	\$ 0	\$ 4,565,196	\$ 24,054
Special Revenue	0	5,404,253	5,404,253	5,410,925	0	5,410,925	(6,672)
Debt Service	0	2,701,010	2,701,010	1,773,500	0	1,773,500	927,510
Capital Projects	0	10,191,127	10,191,127	11,190,419	0	11,190,419	(999,292)
Proprietary							
Enterprise	0	22,479	22,479	22,655	0	22,655	(176)
Fiduciary							
Expendable Trust	0	0	0	31,745	0	31,745	(31,745)
Agency	0	0	0	1,193,228	0	1,193,228	(1,193,228)
Total (Memorandum Only)	\$ 0	\$ 22,908,119	\$ 22,908,119	\$ 24,187,668	\$ 0	\$ 24,187,668	\$ (1,279,549)

The notes to the financial statements are an integral part of this statement.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Description of the Entity**

The City of Macedonia is a body politic and corporate 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 council-mayor form of government.

For financial reporting purposes, the City of Macedonia includes all funds, agencies, boards and commissions over which the City exercises oversight responsibility. GASB 14 and GASB Codification Section 2100 define the reporting entity, which is determined on the basis of the scope of public service and the City's ability to significantly influence operations, select the governing authority, designate management, and participate in fiscal management. On this basis, the reporting entity of the City of Macedonia includes police and fire protection, a municipal court, street maintenance, parks and recreation, health, ambulance, and general administrative services.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials have the ability to exercise direct operating control.

B. **Basis of Accounting**

The City of Macedonia prepares its financial statements on a basis of cash receipts and disbursements. Consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. A general fixed asset group and long-term debt group of accounts are not recorded on the financial statements under the basis of accounting used. By virtue of Ohio law, the City is required to maintain the encumbrance method of accounting and to make appropriations.

C. **Investments**

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Fund Accounting**

The City maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

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.

Special Revenue Funds

To account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds

To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Fund Accounting** (Continued)

Proprietary Funds

Enterprise Funds

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

Fiduciary Fund

Expendable Trust Funds

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement does not require the City to maintain the corpus of the trust, the fund is classified as an expendable trust fund.

Agency Funds

To account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and/or other funds.

E. **Budgetary Process**

1. **Budget**

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

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Budgetary Process** (Continued)

2. **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 receipts of each fund. On or about January 1, this 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 a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 1998 or 1997 unencumbered fund balance. However, these fund balances are available for appropriations.

3. **Appropriations**

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

4. **Encumbrances**

The City is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Budgetary Process** (Continued)

5. **Lapsing of Appropriations**

At the close of each year, the unencumbered balance of each appropriation should revert to the respective fund from which it was appropriated and become subject to future appropriations. At the close of each calendar year, encumbered appropriation balances lapse and are reencumbered and reappropriated to the subsequent fiscal year. However, at the end of 1998 and 1997 the City did not encumber appropriations.

F. **Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. **Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 2: **POOLED CASH AND INVESTMENTS**

The City maintains a cash and investment pool used by all funds except the Municipal Court fund. Each fund type's portion of this pool is displayed on the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances. The cash assets of the Municipal Court Fund are held separately by the City.

Legal Requirements

Ohio law requires the classification of monies held by the City into three categories, which determined the type of investments which can be made.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 2: **POOLED CASH AND INVESTMENTS** (Continued)

Legal Requirements (Continued)

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

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds and other obligations of the State of Ohio; and
6. The State Treasurer's investment pool (STAROhio).

Deposits

At December 31, 1998 and 1997, the carrying amount of the City's deposits was \$9,503,446 and \$2,568,308, respectively, and the bank balances for 1998 and 1997 were \$10,021,061 and \$3,366,554, respectively. Of the bank balances:

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 2: **POOLED CASH AND INVESTMENTS** (Continued)

Deposits (Continued)

1. \$200,000 was covered by federal depository insurance.
2. \$9,821,061 for 1998 and \$3,166,554 for 1997 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

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.
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.

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

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

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 3: **DEBT OBLIGATIONS**

Debt outstanding at December 31, 1998 and 1997 consisted of the following:

	December 31, 1998	December 31, 1997
<u>Special Assessment Bonds</u>		
Highland Pointe Pkwy, 6.5%	\$ 860,000	\$ 0
Driftwood Lane, 4.70%	249,600	300,600
Highland Pointe Pkwy. Bond 4.90%	156,000	312,000
Bavaria Roadway, 4.50%	0	399,000
Highland Road Improvement, 6.25%	280,300	288,600
Total Special Assessment Bonds	1,545,900	1,300,200
<u>General Obligation Bonds</u>		
Recreation Center, 4.65%	3,250,000	0
Safety Service Bldg. Bonds, 6.05%	2,310,000	2,500,000
City Hall Refunding Bond, 5.25%	414,405	0
City Hall Construction, 6.25%	0	483,000
Total General Obligation Bonds	5,974,405	2,983,000
<u>Notes</u>		
State Route 82	200,000	245,000
Fire Apparatus Notes	94,000	141,000
Safety Service Building	3,300,000	3,300,000
Highland Pointe Note	0	950,000
Shepard Road Project	660,000	880,000
Ledge Road	1,050,000	1,050,000
Recreation Center	3,250,000	0
Highland Road	0	24,000
Total Notes	8,554,000	6,590,000
Truck Lease Purchase	0	13,676
Total Debt	\$ 16,074,305	\$ 10,886,876

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 3: **DEBT OBLIGATIONS** (Continued)

The special assessment bond proceeds were used for various street improvements within the City that have been assessed against the affected property owners.

The outstanding general obligation bonds consist of construction issues. General obligation bonds are direct obligations of the City for which its full faith, credit, and resources are pledged and are payable from taxes on all taxable property in the City.

The outstanding bond anticipation note proceeds were used for construction and maintenance of the City's roads, installation of sewer lines, construction of the City's safety service facility, and for the purchase of a fire truck.

Amortization of the above bonded debt, including interest, is scheduled as follows:

	<u>Special Assessment Bonds</u>		<u>General Obligation Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
1999	\$ 223,100	\$ 88,291	\$ 549,348	\$ 305,773	\$ 772,448	\$ 394,064
2000	70,300	81,858	577,324	284,852	647,624	366,710
2001	245,800	78,409	606,619	253,557	852,419	331,966
2002	249,300	63,605	638,255	220,624	887,555	284,229
2003	183,300	48,627	644,859	186,055	828,159	234,682
2004-2008	411,900	97,477	2,958,000	437,747	3,369,900	535,224
2009-2013	92,000	39,887	0	0	92,000	39,887
2014-2018	70,200	8,950	0	0	70,200	8,950
	<u>\$1,545,900</u>	<u>\$ 507,104</u>	<u>\$5,974,405</u>	<u>\$1,688,608</u>	<u>\$7,520,305</u>	<u>\$2,195,712</u>

NOTE 4: **PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed in 1998.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 4: **PROPERTY TAX** (Continued)

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal years ended December 31, 1998 and 1997 was \$8.70 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.53 and \$4.54 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.62 and \$4.59 per \$1,000 of assessed valuation for all other real property.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal years ended December 31, 1998 and 1997 was \$8.70 per \$1,000 of assessed valuation.

	<u>1998</u>	<u>1997</u>
Real Property - Valuation		
Residential/Agricultural	\$ 144,915,228	\$ 138,582,680
Commercial/Industrial	56,657,350	53,596,980
Tangible Personal Property - Valuation		
General	56,179,236	55,122,786
Public Utilities	26,559,020	26,346,370
Total Valuation	<u>\$ 284,310,834</u>	<u>\$ 273,648,816</u>

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

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 5: LOCAL INCOME TAX

This locally levied tax of 2.0% is applied to gross salaries, wages, and other personal service compensation earned by residents both in and out of the City of Macedonia and to earnings of nonresidents (except certain transients) earned in the City. It also applies to the net income of organizations that conduct business within the City of Macedonia. Tax receipts are credited to the City Income Tax fund and amounted to \$5,646,792 and \$4,306,491 in 1998 and 1997, respectively.

NOTE 6: INSURANCE

The City maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured.

Effective May 1, 1992, the City established a self-funded Health Benefit Plan. The plan is administered by Administrative Service Consultants and is funded entirely by the City. The City is responsible for the first \$12,500 of claims per individual. The City is insured by Safeco Life Insurance Company for claims in excess of \$12,500 per individual, effective May 1, 1998 through May 1, 1999. The contract is amended and renewed each year.

NOTE 7: EMPLOYEE RETIREMENT SYSTEMS

A. Public Employees Retirement System

The City of Macedonia contributes to the Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone financial report. That report may be obtained by writing to PERS, 227 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations, while employers are required to contribute 13.55 percent. The City's contributions to PERS for the years ending December 31, 1998, 1997, and 1996 were \$253,750, \$228,128, and \$216,533, respectively, equal required contributions for each year.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 7: **EMPLOYEE RETIREMENT SYSTEMS** (Continued)

B. Police and Firemen's Disability and Pension Fund

The City contributes to the Police and Firemen's Disability and Pension Fund (PFDPF), a cost-sharing, multiple-employer defined benefit pension plan. PFDPF 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 PFDPF 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 PFDPF, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24 percent, respectively, for police officers and firefighters. The City's contributions to PFDPF for the years ending December 31, 1998, 1997, and 1996 were \$209,376, \$197,431, and \$145,525, respectively, equal required contributions for each year.

NOTE 8: **POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 7, Ohio law provides that the City fund post-retirement health care benefits through employer contributions to the Public Employees Retirement System (PERS) of Ohio and the Police and Firemen's Disability and Pension Fund (PFDPF) of Ohio.

A. Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credits and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was 13.55 percent; 4.20 percent was the portion that was used to fund health care in 1998.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 8: **POSTEMPLOYMENT BENEFITS** (Continued)

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB is financed through employer contributions and investments earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. **Police and Firemen's Disability and Pension Fund**

The Police and Firemen's Disability and Pension Fund provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty-two if attending school full-time or on a two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The contribution rate for Police is 19.50 percent and Firemen is 24 percent of covered payroll.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 8: **POSTEMPLOYMENT BENEFITS** (Continued)

B. **Police and Firemen's Disability and Pension Fund** (Continued)

The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. 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.

The number of participants eligible to receive health care benefits as of December 31, 1997 (the latest information available) are 11,239 policemen and 9,025 firemen. The City's actual contributions for the year ended December 31, 1998 that were used to fund postemployment benefits was \$46,615 for police and \$18,805 for firemen. The Fund's total health care expenses for the year ending December 31, 1997 was \$76,459,832.

NOTE 9: **LEGAL COMPLIANCE**

Pursuant to Section 117.11(A) of the Revised Code, we performed tests of compliance with various provisions of local, state, and/or federal laws, as applicable. The auditor's report on the City's compliance with the Ohio Revised Code and internal control structure comments are included in a separate part of this presentation.

NOTE 10: **DEFERRED COMPENSATION ASSETS**

Certain employees may elect to participate in the Ohio Deferred Compensation Program (the Program). Amounts withheld from these employees are tax deferred and are invested by the Program, as directed by the employees. Under Internal Revenue Code Section 457, these assets are contingent assets of the City. However, management believes it is unlikely it will use these assets to satisfy the claims of general creditors. At December 31, 1997, the Program held \$66,379 in deferred compensation assets for the City.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 10: **DEFERRED COMPENSATION ASSETS** (Continued)

For December 31, 1998, the City adopted GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan*. Under GASB Statement 32, the City is not required to report its Section 457 Deferred Compensation Plan. As required by the Internal Revenue Code, the City established a trust for the assets and income of the Plan with an independent trustee for the exclusive benefit of participants and their beneficiaries and no longer holds the assets in a trustee capacity.

NOTE 11: **FUND BALANCE DEFICIT**

As of December 31, 1998 and 1997, the debt service fund had a deficit of \$353,263 and \$119,868, respectively. The deficit was due to the special assessments debt retirement. The general fund provides operating transfer when cash is required. Such a transfer to recover the deficit was not made.

NOTE 12: **SUBSEQUENT EVENTS**

On April 8, 1999, the City issued \$800,000 in bond anticipation notes and on May 13, 1999, the City issued \$4,090,000 in bond anticipation notes.

NOTE 13: **YEAR 2000 ISSUE**

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as 1999.

The City has completed an inventory of its computer systems and other equipment necessary to conducting City operations and has identified the following systems requiring Year 2000 remediation:

Financial reporting and employee benefit systems remediation is done through Micro Arizala Systems, Inc. Tax collection and utility billing remediation is done through Computer Planning Systems. The City has remediated its financial reporting, tax collection, and employee benefit systems and validation and testing of these systems was completed as of December 31, 1998. Management believes these systems are Year 2000 compliant. The utility billing system remains to be validated and tested.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 13: YEAR 2000 ISSUE (Continued)

The City of Macedonia services the 911 police and fire emergency reporting system. The 911 police and fire reporting system has data interchanges with other systems, some of which have been not been tested and validated as of December 31, 1998. As of August, 1999, the system remains to be tested and validated.

A vendor of the City, Signal Service Company, was remediating the traffic control system at December 31, 1998. Validating and testing of this system was completed as of December 31, 1998 and is Year 2000 compliant, as certified by the vendor.

Summit County collects property taxes for distribution to the City. Summit County is responsible for remediating its tax collection system.

ADP provides pay roll services to the City. ADP is responsible for remediating the payroll system.

The City of Cleveland provides water and the Northeast Ohio Regional Sewer District (NEORS) provides sewer services to the City. The City of Cleveland is responsible for remediating its distribution system.

First Energy provides electricity to the City. First Energy is responsible for remediating this system.

Because of the unprecedented nature of the Year 2000 Issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that the parties with whom the City does business will be Year 2000 ready.

NOTE 14: BUDGETARY RECONCILIATION - SPECIAL REVENUE FUND

Differences between budgetary and operating statements are due to the income tax special revenue fund. Income tax is budgeted into the special revenue fund and then monies are transferred between the general fund (62.5 percent) and capital projects fund (37.5 percent). On the statement of revenues, expenditures, and changes in fund balance, the tax revenue in the special revenue income tax fund has been eliminated as well as the related fines and other operating expense which is shown below.

CITY OF MACEDONIA
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND 1997
(CONTINUED)

NOTE 14: BUDGETARY RECONCILIATION - SPECIAL REVENUE FUND (Continued)

	<u>1998 Special Revenue</u>		
	<u>Budgetary</u>		<u>Operating</u>
	<u>Statement</u>	<u>Adjustment</u>	<u>Statement</u>
Total Revenue	\$ (6,821,900)	\$ 5,648,243	\$ (1,173,657)
Total Expenses	6,695,021	(5,648,243)	1,046,778
	<u>1997 Special Revenue</u>		
	<u>Budgetary</u>		<u>Operating</u>
	<u>Statement</u>	<u>Adjustment</u>	<u>Statement</u>
Total Revenue	\$ (5,411,030)	\$ 4,308,866	\$ (1,102,164)
Total Expenses	5,410,925	(4,308,866)	1,102,059

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

Certified Public Accountants

5240 East 98th Street

Garfield Heights, Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475-6136

Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of the City of Macedonia, Ohio (the City) as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated August 30, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described below.

1. Authorized Expenditures

Ohio Revised Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless attached thereto is the certificate of the fiscal officer. The fiscal officer must certify that the amount required to meet such obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances.

The required fiscal officer's certificate was not attached to any of the purchase or contract transactions examined for the years ended December 31, 1998 and 1997.

Recommendation

We recommend the Finance Director to certify that any expenditure of money required to meet such commitments has been fully appropriated and is in the treasury or in the process of collection, free from any previous encumbrances.

2. **Expenditures vs. Appropriations**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making any expenditures unless they have been properly appropriated. The following funds were found to have expenditures which exceeded the authorized appropriations:

1998 General Fund

1998 Special Revenue Funds:
SCMR

1998 Capital Projects Funds:
Capital Improvement
Highland Road Widening
Driftwood Lane Special Assessment
97/98 Road Resurface
Safety Building
Highland Pointe Parkway

1997 Capital Projects Funds:
Highland Road Widening
Brookepoint Storm Water
Highland Point Parkway

1997 Enterprise Funds:
Nordonia Hills Fun Fest

Recommendation

We recommend the Finance Director to review the budget variances throughout the year and determine whether a supplemental appropriation measure should be obtained.

3. **Budget Variances**

Ohio Revised Code Section 5705.39 provides that total appropriations from each fund shall not exceed the total estimated resources certified by the County Budget Commission. Contrary to this requirement, the City's appropriations exceeded the total estimated resources in the following funds:

<u>Funds</u>	<u>Amount</u>
1998 Capital Projects Funds:	
State Route 82 Widening	\$ 49,949
1997 Special Revenue Funds:	
Parks and Recreation Fund	34,535
Fire Levy Fund	2,982
Income Tax Fund	578,367
Mayor's Court Computer Fund	14,749
Leaf/Branch Management Fund	82,718
FAIR Program Fund	1,017

3. **Budget Variances**

1997 Debt Service Fund:	
Highland Pointe Parkway	1,115,458
Highland Road Widening	23,626
Highland Road Sewers	23,898
97/98 Road Resurface	879,873
Fire Apparatus Acquisition	140,711
1997 Capital Projects Funds:	
97 Road Resurface	585,457
Highland Road Widening	25,586
Driftwood Lane Special Assessment	396,124
State Route 82 Widening	309,085
95/96 Road Resurface	69,930
Safety Service Facility	7,617,431
BrookPoint Storm Sewer	14,000
Natatorium/Recreation Facility	18,562

The actual receipts of the City were sufficient to apply for and obtain an amended certificate of estimated resources equal to or greater than the appropriation amount pursuant to Ohio Revised Code Section 5705.36. However, the City neither applied for nor obtained an amended certificate of estimated resources from the Budget Commission prior to making these expenditures.

Recommendation

We recommend the Finance Director analyze the budget variances throughout the year and determine whether an amended certificate should be obtained.

4. **Revenue Derived from the General Levy for a Current Expense**

Ohio Revised Code Section 5705.10 provides that money paid into any fund shall be used only for the purpose for which the fund was established.

Contrary to the aforementioned authority, the City maintained a deficit of \$353,263 and \$119,868 as of December 31, 1998 and 1997, respectively, in the debt service fund. The deficit balance indicates that cash from another fund was used to pay the obligations of the debt service fund. The majority of the deficit balance related to the City's portion of the special assessment project expenditures. The City failed to transfer monies to recover the deficit at year end.

Recommendation

We recommend that the City determine the cost and method of financing the project prior to inception of the project. Also, the City should transfer monies from the general fund to recover the deficit at year-end, with approval of Council.

5. **GAAP Reporting**

Ohio Admin. Code Section 117-6-01 states that cities are required to report in accordance with generally accepted accounting principles.

The City elected not to report in accordance with generally accepted accounting principles as of and for the years ended December 31, 1998 and 1997.

Recommendation

We recommend the City report in accordance with generally accepted accounting principles.

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated August 30, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Macedonia, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 of Macedonia, Ohio's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described below.

Encumbrances

For the years ended December 31, 1998 and 1997, purchase order amounts were not posted against appropriations or entered into the system until the time of payment. This could result in expenditures exceeding appropriations.

Purchase orders should be posted against appropriations at the time the City incurs an obligation to purchase goods or services and not at the time of payment. This provides financial decision makers with current, accurate information about the unappropriated balances of each fund.

Recommendation

We recommend the City post purchase orders at the time the City incurs the obligation.

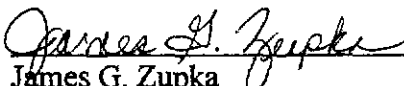
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We noted other matters involving the internal control over financial reporting which we have reported to the management of the City in a separate letter dated August 30, 1999.

This report is solely for the information and use of the audit committee, management, members of City Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 1999


James G. Zupka
Certified Public Accountant



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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.

By: Susan Babbitt

Date: JANUARY 13, 2000