



**CITY OF MACEDONIA
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**CITY OF MACEDONIA
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Macedonia
Summit County
9691 Valley View Road
Macedonia, Ohio 44056

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, (the City) as of and for the year ended December 31, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and other capital assets, net of depreciation are recorded in the governmental activities in the accompanying statement of net assets at December 31, 2004 (stated at \$1,169,147 and \$36,280,610, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities for the year then ended (stated at \$11,314,341 and \$1,459,632, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amount recorded as invested in capital assets, net of related debt for the governmental activities (stated at \$24,648,551). We were unable to satisfy ourselves regarding land and other capital assets net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt, for the governmental activities, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Macedonia, Summit County, Ohio, as of December 31, 2004, and the changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information for the City of Macedonia, Summit County, Ohio, as of December 31, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General and Family Recreation Funds and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City restated its December 31, 2003 Net Assets of the Governmental Activities Fund and Fund Balances of the General, Family Recreation Center, General Capital Improvement, and Other Governmental Funds to reflect the correction of errors from prior years.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit and do not express an opinion on this information.



Betty Montgomery
Auditor of State

January 26, 2006

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The management's 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, 2004. The intent of this discussion and analyses is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are:

- City income tax totaled \$5,317,586. This is a decrease of \$381,111 from 2003. The City expected a decline due to the transition to the Regional Income Tax Agency as the collection agency for future income tax collections. The transition occurred in October of 2004. As a result of the transition, one month of income tax collections were not received until later in fiscal year 2005.
- Total assets increased by \$481,429, a 1.07 percent increase from 2003.
- Total net assets decreased by \$176,853, a .63 percent decrease from 2003.
- Total capital assets net of depreciation increased \$124,531; .33 percent more than 2003.
- Total outstanding long term liabilities decreased \$141,004, a decrease of 1.02 percent from 2003. The decrease is mainly attributed to the City continuing to pay off outstanding debt.
- The governmental fund balances for the City increased by \$88,518 to \$1,789,220. The general fund ended the year with a fund balance of \$84,290.

Using This Annual Financial Report

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

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 longer-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, 2004
Unaudited

Reporting the City of Macedonia as a Whole

Statement of Net Assets and 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 the City do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this 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 assets. The changes in net assets are 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.

The *Statement of Net Assets* and the *Statement of Activities* are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and Year's End

Reporting the City of Macedonia's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 8. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds to account for the services, facilities and infrastructure provided to our residents. These fund financial statements focus on the City's most significant funds. In the case of the City of Macedonia, the major funds are the general, family recreation center, special assessment bond retirement, capital improvements and north freeway drive funds.

Governmental Funds

Most 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. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government 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 our 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.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Fiduciary Funds

The City uses fiduciary funds 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. 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 22-52 of this report.

The City of Macedonia as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

NET ASSETS
TABLE 1

	Governmental Activities	
	2004	2003
Current and Other Assets	\$7,964,189	\$7,607,291
Capital Assets, Net	37,449,757	37,325,226
<i>Total Assets</i>	<u>45,413,946</u>	<u>44,932,517</u>
Current and Other Liabilities	3,764,763	2,965,477
Long-Term Liabilities:		
Due within One Year	898,094	1,191,566
Due in More than One Year	12,824,283	12,671,815
<i>Total Liabilities</i>	<u>17,487,140</u>	<u>16,828,858</u>
Invested in Capital Assets, Net of Related Debt	24,680,303	24,265,324
Restricted for:		
Capital Projects	1,143,525	898,659
Debt Service	1,437,256	1,838,995
Street Construction and Maintenance	231,415	115,827
Recreation Services and Programs	675,332	377,681
Police Services and Programs	31,564	13,553
Fire Services	19,890	0
Water Line Maintenance	264,886	232,338
JEDD	42,828	25,191
Admission Taxes	56,933	24,768
Other Purposes	63,751	109,150
Unrestricted	(720,877)	202,173
<i>Total Net Assets</i>	<u>\$27,926,806</u>	<u>\$28,103,659</u>

City of Macedonia, Ohio
Management's Discussion and Analysis
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Unaudited

The largest portion of the City's net assets (88.4 percent) reflects investments in capital assets (e.g. land, buildings, improvements, machinery and equipment, furniture and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$481,429 from 2003 to 2004, while the City's total liabilities increased by \$658,282. The most significant changes in assets were increases in cash available at year end due to careful spending and in intergovernmental receivable due to additional grant monies available. The increase in total liabilities is attributed to the short-term notes payable received in the North Freeway Drive capital projects fund for project expenses.

Table 2 shows the changes in net assets for the years ended December 31, 2004 and 2003.

CHANGES IN NET ASSETS
TABLE 2

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$2,468,328	\$2,770,798
Operating Grants and Contributions	654,411	546,087
Capital Grants and Contributions	4,935	593,460
<i>Total Program Revenues</i>	<u>3,127,674</u>	<u>3,910,345</u>
General Revenues:		
Property and Other Local Taxes	1,767,458	2,121,152
Municipal Income Taxes	5,317,586	5,698,697
Grants and Entitlements	892,325	1,107,416
Interest	16,585	32,012
Gain on Sale of Capital Assets	666,575	0
Other	105,134	7,950
<i>Total General Revenues</i>	<u>8,765,663</u>	<u>8,967,227</u>
<i>Total Revenues</i>	<u>11,893,337</u>	<u>12,877,572</u>
Program Expenses		
General Government	2,365,186	2,486,228
Security of Persons and Property	4,772,285	4,506,784
Public Health Services	171,735	171,777
Transportation	1,345,194	1,907,495
Community Environment	420,896	445,799
Basic Utility Services	967,421	905,381
Leisure Time Activities	1,494,888	1,634,776
Interest and Fiscal Charges	532,585	563,812
<i>Total Program Expenses</i>	<u>12,070,190</u>	<u>12,622,052</u>
Change in Net Assets	(176,853)	255,520
Net Assets Beginning of Year	<u>28,103,659</u>	<u>27,848,139</u>
Net Assets End of Year	<u>\$27,926,806</u>	<u>\$28,103,659</u>

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Activities

Governmental activities decreased the City's net assets by \$176,853 during 2004. The primary reason for the difference between 2004 and 2003 relates to the large decrease in capital grants and contributions program revenue and the decrease in overall expenses, the largest being in transportation expenses.

Several types of revenues fund our governmental activities, with the City income tax as the largest revenue source for the City. The income tax rate was 2.0 percent for 2004, the same as the prior year. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 2.0 percent for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

The income tax revenue for 2004 was \$5,317,586 a decrease of \$381,111 or 6.69% percent from 2003. Of the \$11,893,337 in total revenues, income tax accounts for 44.71 percent of the total governmental revenues, as compared to 44.25 percent of that total for 2003. Property taxes for 2004 were \$1,767,458. Collections decreased by \$353,694 or 16.67 percent decrease from 2003.

Capital grants and contributions declined \$588,525 during 2004 due to the decrease in special assessment revenue as the outstanding debt is being paid down. General revenues from grants and entitlements, such as local government funds, are also revenue generators. General revenues from grants and entitlements decreased by \$215,091 or 19.42 percent in 2004. The City's total general revenues decreased for 2004 in part due to the above mentioned decreases in revenue off set by the sale of old city hall which brought in \$666,575 in one-time capital gains for the City.

During 2004, the City experienced a 4.36 percent decrease in its program expenses. The largest program function for the City relates to security of persons and property which include police and fire services. Expenses in this area increased by 5.89 percent. General government which accounts for the basic operations of the City including council, mayor, finance, law, purchasing, civil service, engineering, building maintenance among other departments and services is the next largest program expense for 2004, with a 4.87 percent decrease in overall expenses. Transportation expenses saw the largest decrease for 2004 at 29.48 percent due to various maintenance/repair projects that were completed in 2003.

The City's Funds

The City of Macedonia uses fund accounting as mandated by governmental legal requirements. The importance of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Funds

Information about the City's governmental funds begins on page 14.

These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,749,393 and expenditures of \$13,951,847. Income tax is the City's largest revenue source. Collections were not growing from 2003 levels during the first three quarters. In October, the City discontinued in-house tax collections in favor of using the Regional Income Tax Agency (RITA). This change resulted in the deferral of one month of income tax collections during the month of October. As a result, total income tax collections were down for the year.

The largest fund for the City is the general fund. The year-end fund balance for the general fund was \$84,290 on a modified accrual basis. This is a decline of \$348,541 from the 2003 ending balance. The City had 27 pay dates in 2004 instead of the normal 26 pay dates.

Expenditures in the special assessment bond retirement fund exceeded revenues by \$182,408. This was the result of uncollected assessments on the Highland Pointe Project. The City received a parcel of property as a part of a tax settlement and has chosen to let the outstanding special assessment on the property accumulate until the parcel can be sold.

In the capital improvements fund, expenditures exceeded revenues by \$348,089, this is in part due to project expenses for roads, water mains, and storm sewers. The fund balance in capital improvements fund at the end of 2004 was \$288,225. For all funds, the end of year balances increased for the year by \$88,518. Total fund balances moved from \$1,700,702 in 2003 to \$1,789,220 in 2004. The available fund balance for all funds is slightly more than 12 percent of the amount spent in total in 2004.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. Recommendations and requests for budget changes are referred to the Finance Committee before going to the formal Council Meeting for ordinance enactment on the change. The Finance Director provides the administration and City Council with monthly reports on revenue and expenditure level. This provides all parties with information on revenue and expenditure levels, trends, budgeted versus actual and recommendations on any changes in policy or execution that may be required.

The general fund supports most of the City's major activities such as the police, fire, building, and service departments as well as the legislative and most executive activities. For the general fund, the original budgeted revenues were \$9,573,617 and the final budgeted amount was \$9,565,414. Actual revenues of \$7,066,331 were \$2,499,083 lower than the final projection. Most revenue sources produced less revenue than was anticipated. Income tax revenue was significantly lower than expected due to the switch to RITA and a substantial refund of net profits taxes in January of 2004.

The original budget estimate pegged expenditures at \$7,620,676. The final budgeted amount of \$7,598,449 changed minimally. Actual expenditures were \$7,932,524. Expenditures were \$334,075 more than budgeted. Actual expenditures were about 4.40 percent over budget.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Capital Assets and Long-Term Obligations

Capital Assets

Table 3
 Capital Assets
 (Net of Depreciation)

	Governmental	
	2004	2003
Land	\$1,169,147	\$1,169,147
Buildings	10,717,127	11,003,678
Improvements	54,410	58,307
Machinery and Equipment	1,002,280	963,492
Furniture and Equipment	8,802	9,500
Vehicles	1,594,326	1,260,992
Infrastructure		
Roads	9,664,220	9,871,465
Storm Sewers	8,689,450	8,492,867
Water Mains	4,243,651	4,164,345
Traffic Signals	213,944	236,833
Bridges	92,400	94,600
Total	\$37,449,757	\$37,325,226

The City of Macedonia takes care to maintain its equipment and infrastructure. Twenty-five percent of City income taxes are distributed to the capital improvements fund to ensure this outcome. For 2004, this meant that \$1,224,210 of the income tax revenue went to the capital improvements fund. The City spent slightly more on capital projects than the revenues taken in during 2004. See note 9 of the basic financial statements for additional information on capital assets.

Long-term Obligations

On December 31, 2004, the City of Macedonia had \$9,569,452 in general obligation bonds, \$1,605,100 in special assessment bonds, \$1,050,000 in long-term notes and \$539,000 in capital leases outstanding. The City paid principal of \$1,882,649 in 2004. Table 4 summarizes bonds, notes, capital leases and compensated absences outstanding.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Table 4
 Outstanding Long-Term Obligations at End of Year

	Governmental	
	2004	2003
General Obligation Bonds	\$9,569,452	\$10,003,573
Special Assessment Bonds	1,605,100	1,834,100
Long-Term Notes	1,050,000	1,200,000
Capital Leases	539,000	0
Compensated Absences Payable	958,825	825,708
Totals	\$13,722,377	\$13,863,381

The City has one general obligation bond issue originally sold in 2001 and refinanced in 2003 for Recreation Center and the City Hall/Safety Center. There is \$9,580,000 outstanding on the bonds. The special assessment bonds are for street construction on Highland Road and Highland Pointe Parkway.

Three long-term notes were for a combination of the 1997/1998 road improvement program, fire department apparatus and the 2000/2001 road improvement program. Compensated absences represent the amount of sick and vacation liability the City has for its employees. The capital lease was for a new fire engine.

The City's overall legal ten and one-half percent debt limitation (voted and unvoted) on December 31, 2004 was \$40,330,568. The aggregate outstanding debt after issuance of bonds subject to the ten and one-half percent limitation is \$10,425,358. The difference of \$29,905,210 between the maximum issuable amount and the outstanding amount represents the aggregate principal amount of additional voted and unvoted nonexempt debt which the City may issue without exceeding the ten and one-half percent limitation. All ratios for debt have had a positive trend for the last ten years. The City does not have a current bond rating. See note 15 of the basic financial statements for additional information on debt.

Current Financial Related Activities

Outstanding debt is being systematically reduced. The City considers it prudent to have fund balances that are about 16 percent of annual expenditures. As stated earlier, the unrestricted balances at year end comprise 12 percent of annual expenditures. The administration and City Council are aware of the need to, and the difficulty of, maintaining the City's financial position.

The administration and City Council work hard at keeping the City's debt obligations at a minimum. Outstanding debt is well below the City's debt capacity and debt is being aggressively paid off. The City has a ten year capital improvement plan in place.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact the Director of Finance, Steven C. Brunot, 9691 Valley View Road, Macedonia, Ohio 44056, telephone (330) 468-8351 or the City website at www.Macedonia.oh.us.

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City of Macedonia, Ohio

Statement of Net Assets

December 31, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,107,019
Cash and Cash Equivalents in Segregated Accounts	28,889
Materials and Supplies Inventory	1,553
Accounts Receivable	17,397
Intergovernmental Receivable	741,088
Prepaid Items	7,326
Municipal Income Taxes Receivable	1,164,596
Property Taxes Receivable	2,026,340
Special Assessments Receivable	1,845,297
Deferred Charges	24,684
Nondepreciable Capital Assets	1,169,147
Depreciable Capital Assets, Net	<u>36,280,610</u>
<i>Total Assets</i>	<u>45,413,946</u>
Liabilities	
Accounts Payable	295,059
Accrued Wages and Benefits	196,692
Intergovernmental Payable	398,577
Vacation Benefits Payable	240
Matured Compensated Absences Payable	12,835
Deferred Revenue	1,927,021
Accrued Interest Payable	50,450
Claims Payable	28,889
Notes Payable	855,000
Long-Term Liabilities:	
Due Within One Year	898,094
Due In More Than One Year	<u>12,824,283</u>
<i>Total Liabilities</i>	<u>17,487,140</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	24,680,303
Restricted for:	
Capital Projects	1,143,525
Debt Service	1,437,256
Street Construction and Maintenance	231,415
Recreation Services and Programs	675,332
Police Services and Programs	31,564
Fire Services	19,890
Water Line Maintenance	264,886
JEDD	42,828
Admission Taxes	56,933
Other Purposes	63,751
Unrestricted (Deficit)	<u>(720,877)</u>
<i>Total Net Assets</i>	<u>\$27,926,806</u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Family Recreation Center</u>	<u>Special Assessment Bond Retirement</u>	<u>Capital Improvements</u>	<u>North Freeway Drive</u>
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$0	\$463,346	\$0	\$0	\$834,962
Cash and Cash Equivalents					
in Segregated Accounts	28,889	0	0	0	0
Materials and Supplies Inventory	1,553	0	0	0	0
Accounts Receivable	12,774	4,623	0	0	0
Interfund Receivable	0	0	0	36,273	0
Intergovernmental Receivable	510,898	0	0	0	0
Prepaid Items	6,682	644	0	0	0
Municipal Income Taxes Receivable	727,872	137,422	0	274,845	0
Property Taxes Receivable	1,749,196	0	0	0	0
Special Assessments Receivable	0	0	1,845,297	0	0
<i>Total Assets</i>	<u>\$3,037,864</u>	<u>\$606,035</u>	<u>\$1,845,297</u>	<u>\$311,118</u>	<u>\$834,962</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$115,804	\$24,123	\$0	\$4,599	\$1,968
Accrued Wages and Benefits	164,257	14,159	0	0	0
Intergovernmental Payable	259,801	36,367	0	1,000	0
Interfund Payable	275,933	0	361,068	0	0
Matured Compensated Absences Payable	12,835	0	0	0	0
Deferred Revenue	2,096,055	8,647	1,845,297	17,294	0
Claims Payable	28,889	0	0	0	0
Accrued Interest Payable	0	0	0	0	903
Notes Payable	0	0	0	0	855,000
<i>Total Liabilities</i>	<u>2,953,574</u>	<u>83,296</u>	<u>2,206,365</u>	<u>22,893</u>	<u>857,871</u>
Fund Balances					
Reserved for Encumbrances	44,948	7,555	0	22,783	0
Undesignated (Deficit), Reported in:					
General Fund	39,342	0	0	0	0
Special Revenue Funds	0	515,184	0	0	0
Debt Service Funds	0	0	(361,068)	0	0
Capital Projects Funds	0	0	0	265,442	(22,909)
<i>Total Fund Balances (Deficit)</i>	<u>84,290</u>	<u>522,739</u>	<u>(361,068)</u>	<u>288,225</u>	<u>(22,909)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,037,864</u>	<u>\$606,035</u>	<u>\$1,845,297</u>	<u>\$311,118</u>	<u>\$834,962</u>

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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$1,789,222
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$808,711	\$2,107,019	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	37,449,757
0	28,889		
0	1,553		
0	17,397		
822,853	859,126	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
230,190	741,088	Property and Other Taxes	60,376
0	7,326	Municipal Income Tax	73,280
24,457	1,164,596	Intergovernmental	456,354
277,144	2,026,340	Special Assessments	<u>1,845,297</u>
0	1,845,297	Total	2,435,307
<u>\$2,163,355</u>	<u>\$8,798,631</u>	Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	24,684
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(49,547)
\$148,565	\$295,059	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(240)
18,276	196,692		
101,409	398,577	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
222,125	859,126	General Obligation Bonds	(9,569,452)
0	12,835	Special Assessment Bonds	(1,605,100)
395,035	4,362,328	Long Term Notes	(1,050,000)
0	28,889	Capital Lease Obligation Payable	(539,000)
0	903	Compensated Absences Payable	<u>(958,825)</u>
0	855,000	Total	<u>(13,722,377)</u>
<u>885,410</u>	<u>7,009,409</u>	Net Assets of Governmental Activities	<u>\$27,926,806</u>
21,779	97,065		
0	39,342		
732,560	1,247,744		
9,642	(351,426)		
<u>513,964</u>	<u>756,497</u>		
<u>1,277,945</u>	<u>1,789,222</u>		
<u>\$2,163,355</u>	<u>\$8,798,631</u>		

City of Macedonia, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Family Recreation Center	Special Assessment Bond Retirement	Capital Improvements	North Freeway Drive
Revenues					
Property and Other Local Taxes	\$1,659,768	\$0	\$0	\$0	\$0
Municipal Income Taxes	3,506,042	748,227	0	1,224,210	0
Charges for Services	478,623	689,745	0	0	0
Licenses, Permits and Fees	868,347	0	0	0	0
Intergovernmental	745,490	0	0	0	0
Special Assessments	0	0	126,067	0	0
Interest	4,186	4,972	0	7,427	0
Rentals	44,095	30,661	0	0	0
Donations	39,167	0	0	0	0
Miscellaneous	25,165	1,123	0	46,350	0
<i>Total Revenues</i>	<u>7,370,883</u>	<u>1,474,728</u>	<u>126,067</u>	<u>1,277,987</u>	<u>0</u>
Expenditures					
Current:					
General Government	2,556,167	0	0	0	0
Security of Persons and Property	3,721,968	0	0	0	0
Public Health Services	171,735	0	0	0	0
Transportation	242,360	0	0	0	0
Community Environment	363,704	0	0	0	0
Basic Utility Services	632,953	0	0	0	0
Leisure Time Activities	5,604	920,940	0	0	0
Capital Outlay	0	0	0	1,393,549	22,006
Debt Service:					
Principal Retirement	0	0	229,000	0	0
Interest and Fiscal Charges	0	0	79,475	0	903
<i>Total Expenditures</i>	<u>7,694,491</u>	<u>920,940</u>	<u>308,475</u>	<u>1,393,549</u>	<u>22,909</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(323,608)</u>	<u>553,788</u>	<u>(182,408)</u>	<u>(115,562)</u>	<u>(22,909)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	0	0	0	0	0
Notes Issued	0	0	0	0	0
Inceptions of Capital Lease	0	0	0	539,000	0
Transfers In	355,067	50,000	0	0	0
Transfers Out	(380,000)	(379,853)	0	(771,527)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(24,933)</u>	<u>(329,853)</u>	<u>0</u>	<u>(232,527)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(348,541)</u>	<u>223,935</u>	<u>(182,408)</u>	<u>(348,089)</u>	<u>(22,909)</u>
<i>Fund Balances (Deficit)</i>					
<i>Beginning of Year - Restated (See Note 3)</i>	<u>432,831</u>	<u>298,804</u>	<u>(178,660)</u>	<u>636,314</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$84,290</u></u>	<u><u>\$522,739</u></u>	<u><u>(\$361,068)</u></u>	<u><u>\$288,225</u></u>	<u><u>(\$22,909)</u></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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$88,518
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$360,772	\$2,020,540	Governmental funds report capital outlays 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 is the current period.	
120,931	5,599,410	Capital Asset Additions	1,619,560
236,405	1,404,773	Current Year Depreciation	<u>(1,459,632)</u>
31,761	900,108	Total	159,928
605,704	1,351,194	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(35,397)
462	126,529		
0	16,585	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues	
88,229	162,985	Delinquent Property Taxes	(253,082)
22,968	62,135	Municipal Income Tax	(281,824)
32,496	105,134	Intergovernmental	133,407
		Special Assessments	<u>(121,132)</u>
1,499,728	11,749,393	Total	(522,631)
		Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,864,000
		In the statement of activities, interest accrued on outstanding bonds, bond premium, bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds expenditure is reported when the bonds are issued.	
		Annual Accretion	(5,978)
		Amortization of Loss on Refunding	(2,057)
		Amortization of Issuance Costs	(1,468)
		Amortization of Premium on Bonds	<u>589</u>
		Total	(8,914)
		Other financing sources in the governmental funds increased long-term liabilities in the statement of net assets.	
		Notes Issued	(1,050,000)
		Inception of Capital Leases	<u>(539,000)</u>
		Total	(1,589,000)
		Some expenses reported in the statement of activities, such as compensated absences and landfill costs do not require the use of current financial resources and therefore are not reported as expenditures.	
		Compensated Absences	(133,117)
		Vacation Benefits Payable	<u>(240)</u>
		Total	<u>(133,357)</u>
		Change in Net Assets of Governmental Activities	<u>(\$176,853)</u>

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Local Taxes	\$1,740,434	\$1,738,943	\$1,679,935	(\$59,008)
Municipal Income Taxes	5,529,537	5,524,799	3,237,786	(2,287,013)
Charges for Services	490,977	490,556	461,670	(28,886)
Licenses, Permits and Fees	937,328	936,525	861,122	(75,403)
Intergovernmental	766,834	766,177	712,399	(53,778)
Interest	3,960	3,957	4,186	229
Rentals	46,894	46,854	44,095	(2,759)
Donations	30,033	30,007	39,167	9,160
Miscellaneous	27,620	27,596	25,971	(1,625)
<i>Total Revenues</i>	<u>9,573,617</u>	<u>9,565,414</u>	<u>7,066,331</u>	<u>(2,499,083)</u>
Expenditures				
Current:				
General Government	2,296,016	2,271,241	2,657,048	(385,807)
Security of Persons and Property	3,809,092	3,789,308	3,787,201	2,107
Public Health Services	174,287	174,576	171,735	2,841
Transportation	334,050	280,919	272,954	7,965
Community Environment	385,337	401,195	396,611	4,584
Basic Utility Services	615,530	647,246	641,155	6,091
Leisure Time Activities	6,364	6,364	5,820	544
<i>Total Expenditures</i>	<u>7,620,676</u>	<u>7,570,849</u>	<u>7,932,524</u>	<u>(361,675)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,952,941</u>	<u>1,994,565</u>	<u>(866,193)</u>	<u>(2,860,758)</u>
Other Financing Sources (Uses)				
Transfers In	418,560	418,560	355,067	(63,493)
Transfers Out	(2,574,315)	(1,921,015)	(380,000)	1,541,015
<i>Total Other Financing Sources (Uses)</i>	<u>(2,155,755)</u>	<u>(1,502,455)</u>	<u>(24,933)</u>	<u>1,477,522</u>
<i>Net Change in Fund Balance</i>	(202,814)	492,110	(891,126)	(1,383,236)
<i>Fund Balance Beginning of Year</i>	475,358	475,358	475,358	0
Prior Year Encumbrances Appropriated	38,412	38,412	38,412	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$310,956</u>	<u>\$1,005,880</u>	<u>(\$377,356)</u>	<u>(\$1,383,236)</u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Family Recreation Center Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Municipal Income Taxes	\$703,400	\$703,400	\$702,215	(\$1,185)
Charges for Services	647,509	647,509	685,122	37,613
Interest	4,014	4,014	4,972	958
Rentals	28,981	28,981	30,661	1,680
Miscellaneous	9,096	9,096	9,623	527
<i>Total Revenues</i>	<u>1,393,000</u>	<u>1,393,000</u>	<u>1,432,593</u>	<u>39,593</u>
Expenditures				
Current:				
Leisure Time Activities	<u>1,039,577</u>	<u>984,836</u>	<u>935,936</u>	<u>48,900</u>
<i>Excess of Revenues Over Expenditures</i>	<u>353,423</u>	<u>408,164</u>	<u>496,657</u>	<u>88,493</u>
Other Financing Sources (Uses)				
Transfers In	0	0	50,000	50,000
Transfers Out	<u>(379,853)</u>	<u>(379,853)</u>	<u>(379,853)</u>	<u>0</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(379,853)</u>	<u>(379,853)</u>	<u>(329,853)</u>	<u>50,000</u>
<i>Net Change in Fund Balance</i>	(26,430)	28,311	166,804	138,493
<i>Fund Balance Beginning of Year</i>	265,241	265,241	265,241	0
Prior Year Encumbrances Appropriated	<u>20,890</u>	<u>20,890</u>	<u>20,890</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$259,701</u></u>	<u><u>\$314,442</u></u>	<u><u>\$452,935</u></u>	<u><u>\$138,493</u></u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Private Purpose Trust	
	Petroleum UST Fund	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,000	\$221,074
Accounts Receivable	0	9,489
<i>Total Assets</i>	11,000	\$230,563
Liabilities		
Accounts Payable	0	\$30,627
Deposits Held and Due to Others	0	199,936
<i>Total Liabilities</i>	0	\$230,563
Net Assets		
Held in Trust for Clean Up of Underground Storage Tank	\$11,000	

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2004

	<u>Petroleum UST Fund</u>
Additions	\$0
Deductions	<u>0</u>
<i>Change in Net Assets</i>	0
<i>Net Assets Beginning of Year</i>	<u>11,000</u>
<i>Net Assets End of Year</i>	<u><u>\$11,000</u></u>

See accompanying notes to the basic financial statements

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City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 1 - Description of the City and Reporting Entity

The City of Macedonia (the "City") is a charter municipal corporation duly organized and existing under the constitution and laws of the State of Ohio. The City may exercise all powers of local self-government and police powers to the extent not in conflict with applicable general laws. A charter was first adopted by the electorate at a general election held in 1972. The City operates under its own charter and is governed by a Mayor-Council form of government with the Council appointing the Finance Director and Clerk of Council. Officials include six council members and a mayor elected to two-year terms.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Macedonia this includes the departments and agencies that provide the following services: police, fire, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, general administrative services and Mayor's court.

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; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. The City has no component units.

The City is associated with one jointly governed organization, the Northeast Ohio Public Energy Council and one joint venture, Joint Economic Development District. These organizations are presented in notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Macedonia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

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. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. However, the City has only governmental activities, therefore no business-type activities are presented.

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. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or 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 function 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. The City reports two categories of funds: governmental and fiduciary.

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 purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

Family Recreation Center Fund The family recreation center fund accounts for income tax revenues, membership and program fees to be used for the operation and maintenance of the family recreational center.

Special Assessment Bond Retirement Fund The special assessment bond retirement fund accounts for accumulation of resources to pay principal and interest on special assessment debt.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Capital Improvements Fund The capital improvements fund accounts for income tax revenues and interest expended for various capital projects of the City.

North Freeway Drive Fund The north freeway fund accounts for note proceeds to be used for the north freeway drive improvement project.

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only trust fund is a private purpose trust fund established to pay for costs of third party damages and corrective actions necessary to clean up a petroleum release from the City's underground storage tank. The City's agency funds account for deposits pledged by contractors and citizens, payroll costs, building assessment fees collected for the Ohio Board of Building Standards and emergency response billings.

C. Measurement Focus

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

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

The private purpose trust fund is reported using a flow of economic resources measurement focus.

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 and the statement presented for fiduciary funds are prepared using 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 in the presentation of expenses versus expenditures.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the 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. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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), interest, grants, fees and rentals.

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, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at the personal services and other expenditures object level within each department for the general fund and at the personal services and other expenditures object level by fund for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

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

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

F. Cash and Cash Equivalents

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

During 2004, the City's investments were limited 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, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the capital improvements fund during 2004 amounted to \$7,427.

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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 the services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

I. Capital Assets

The City's only capital assets are general capital assets. General capital assets are those 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars (\$500). 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.

All reported capital assets are depreciated except for land. 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>Estimated Lives</u>
Land	N/A
Buildings	50 years
Improvements	20 - 50 years
Machinery and Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	5 - 10 years
Infrastructure	15 - 50 years

The City's infrastructure consists of roads, sanitary sewers, storm sewers, water lines, traffic signals and bridges, and includes infrastructure acquired prior to December 31, 1980.

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for those employees who qualify for retirement under Ohio Public Employees Retirement guidelines and for those employees considered probable to retire who have least ten years of service with the City.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences 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, long-term notes, and capital leases are recognized as a liability on the governmental fund financial statements when due.

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. Unreserved fund balance indicates that portion of fund equity which is available for appropriations in future periods. Fund balance reserves have been established for encumbrances.

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 on enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government wide statement of net assets report \$3,974,448 of restricted net assets of which \$593,389 is restricted by enabling legislation. Net assets restricted for other purposes include the operations of FAIR program.

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water system. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as nonoperating.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. 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.

R. 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.

Note 3 - Changes in Accounting Principles and Restatement of Prior Year's Fund Balances/Net Assets

Changes in Accounting Principles For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 state that entities for which a primary government is not financially accountable may still be reported as a component unit based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how legal enforceability should be applied for restricted net assets.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

Restatement of Fund Balances/Net Assets During 2004, it was determined that restatements were needed to reclassify the enterprise fund as a special revenue fund, to reclassify interfund activity and to report the notes payable as a long-term liability. These restatements had the following effect on fund balance at December 31, 2003:

	General	Family Recreation Center	Special Assessment Bond Retirement
Fund Balance (Deficit), December 31, 2003	\$259,703	\$348,804	(\$178,660)
Interfund Receivable	(105,317)	(50,000)	0
Interfund Payable	278,445	0	0
Notes Payable	0	0	0
Fund Reclassification	0	0	0
Restated Fund Balance (Deficit), December 31, 2003	<u>\$432,831</u>	<u>\$298,804</u>	<u>(\$178,660)</u>

(continued)

	Capital Improvements	Other Governmental Funds	Total
Fund Balance (Deficit), December 31, 2003	\$768,164	(\$700,536)	\$497,475
Interfund Receivable	(142,950)	(126,100)	(424,367)
Interfund Payable	11,100	134,822	424,367
Notes Payable	0	1,200,000	1,200,000
Fund Reclassification	0	3,227	3,227
Restated Fund Balance (Deficit), December 31, 2003	<u>\$636,314</u>	<u>\$511,413</u>	<u>\$1,700,702</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

The effect of net assets from the above adjustments, as well as adjustments to deferred revenue and long-term debt was as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Assets, December 31, 2003	\$29,150,692	\$3,227
Deferred Revenue	(1,088,428)	0
Fund Reclassification	3,227	(3,227)
Deferred Charges	26,741	0
Unamortized Premium	(7,657)	0
Unamortized Gain on Refunding	19,084	0
Restated Net Assets, December 31, 2003	<u>\$28,103,659</u>	<u>\$0</u>

Note 4 - Compliance and Accountability

A. Legal Compliance

The City had negative cash balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10:

	<u>Negative Cash Balances</u>
<i>General Fund</i>	\$377,356
<i>Special Revenue Funds:</i>	
Community Development Block Grant	1,973
Sub-Division Tree	610
<i>Debt Service Fund:</i>	
Special Assessment Bond Retirement	361,068
<i>Capital Projects Funds:</i>	
Highland Road	219,542

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Contrary to Section 5709.39, Ohio Revised Code, the following funds had original appropriations in excess of original certifications plus beginning balances:

	Original Certifications Plus <u>Beginning Balances</u>	Original <u>Appropriations</u>	<u>Excess</u>
<i>Special Revenue Funds</i>			
JEDD	\$41,925	\$150,000	(\$108,075)
Community Development Block Grant	0	9,600	(9,600)
Sub-Division Tree	0	20,860	(20,860)
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(36,691)	308,444	(345,135)
<i>Capital Projects Funds</i>			
North Freeway Drive	0	10,332	(10,332)
Highland Road	(219,542)	0	(219,542)

Contrary to Section 5709.39, Ohio Revised Code, the following funds had final appropriations in excess of final certifications plus beginning balances:

	Final Certifications Plus <u>Beginning Balances</u>	Final <u>Appropriations</u>	<u>Excess</u>
<i>Special Revenue Funds</i>			
Street Maintenance and Repair	\$345,337	\$408,294	(\$62,957)
Motor Vehicle License	90,009	90,975	(966)
JEDD	41,925	99,179	(57,254)
Community Development Block Grant	0	9,600	(9,600)
Sub-Division Tree	0	20,860	(20,860)
Nordonia Home Days	18,227	22,436	(4,209)
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(36,691)	308,475	(345,166)
<i>Capital Projects Funds</i>			
Capital Improvements	1,972,623	2,130,973	(158,350)
North Freeway Drive	0	10,332	(10,332)
Highland Road	(219,542)	0	(219,542)

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Contrary to Section 5705.41B, Ohio Revised Code, the following accounts had expenditures plus encumbrances in excess of final appropriations:

	Final Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Funds</i>			
Income Tax			
Other Expenses	\$59,229	\$102,784	(\$43,555)
Street Maintenance and Repair			
Other Expenses	209,487	219,302	(9,815)
Community Block Development Grant			
Other Expenses	9,600	9,781	(181)
<i>Capital Projects Fund</i>			
North Freeway Drive			
Other Expenses	10,332	20,038	(9,706)

Although these budgetary violations were not corrected by year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

Contrary to Ohio Revised Code 9.38, the Building Department and Recreation Center failed to deposit receipts with the Finance Director of the City or to a designated depository on the business day following the day of receipt.

Contrary to Ohio Revised Code 5705.41(D), the City did not encumber all commitments required by Ohio law.

B. Fund Deficits

The following funds had deficit fund balances at December 31, 2004:

	Deficits
<i>Special Revenue Funds:</i>	
Police Pension	\$13,422
CDBG Grant	2,765
Valley View Rental	124
Sub-Division Tree	610
 <i>Debt Service Fund:</i>	
Special Assessment Bond Retirement	361,068
 <i>Capital Projects Funds:</i>	
North Freeway Drive	22,909
Route 8	104,500
Highland Road	219,542

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

The City will review its operations to determine the steps needed to be taken to eliminate the situation in the future.

The deficits in the police pension, CDBG grant and Valley View rental special revenue funds and the Route 8 capital projects fund are the result of adjustments for accrued liabilities. The deficit in the north freeway drive capital projects fund is due to the recording of short-term notes payable in the fund. The deficits in the sub-division tree special revenue fund, the special assessment bond retirement debt service fund and Highland Road capital projects fund are the result of expenditures in excess of revenues. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund and the family recreation center special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budget basis statements for the general fund and the family recreation center special revenue fund.

Net Change in Fund Balance

	General	Family Recreation Center
GAAP Basis	(\$348,541)	\$223,935
Net Adjustment for Revenue Accruals	(304,552)	(42,135)
Net Adjustment for Expenditure Accruals	(136,609)	(4,585)
Encumbrances	(101,424)	(10,411)
Budget Basis	(\$891,126)	\$166,804

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 6 - Deposits and Investments

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 Council 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.

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

Interim monies may be 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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).

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

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. Payment for investments may be made only upon delivery of the securities representing the investments to the finance director or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements."

Deposits At year-end, the carrying amount of the City's deposits was \$2,367,982 and the bank balance was \$2,376,419. Of the bank balance:

1. \$329,643 was covered by federal depository insurance.
2. \$2,046,776 was uncollateralized and uninsured. Although the securities were held by the pledging institutions in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments Investments are categorized to give an indication of the level of risk assumed by the City at 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. The City's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The balance of the City's STAROhio account as of December 31, 2004 was \$57,385, which is reported at cost.

The classification of cash and cash equivalents and investments on the basic financial statement is based on criteria set forth in GASB Statement No. 9 "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting". Cash and equivalents are defined to include investments with original maturities of three months or less at the time of their purchase by the City.

A reconciliation between the classification of cash and investments on the basic financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,425,367	\$0
STAROhio	(57,385)	57,385
GASB Statement No. 3	\$2,367,982	\$57,385

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 7 - Receivables

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, special assessments, accounts (billings for user charged services and court fines), and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$1,370,400 in the special assessment bond retirement fund. At December 31, 2004 the amount of delinquent special assessments was \$137,264.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$8.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based as follows:

Real Estate	
Residential/Agriculture	\$320,865,410
Tangible Personal Property	
Public Utility	19,714,160
General Tangible Personal Property	43,521,081
	<hr/>
Total Valuation	<u>\$384,100,651</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

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

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Macedonia. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the general, fire operating levy and police pension funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies a two percent municipal income tax on substantially all income earned within the City. In addition, City residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed two percent of taxable income.

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

The Regional Income Tax Agency (RITA) administers and collects income taxes for the City as of October 1, 2004. Payments are remitted monthly net of collection fees of five percent.

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Local Government	\$306,453
Gasoline Excise Tax	97,449
Homestead and Rollback	79,733
Gasoline Tax	78,894
Permissive License Tax	42,711
Emergency Medical Service Charges	32,634
Joint Economic Development District	31,269
Local Government Revenue Assistance	28,716
Court Fines	18,282
Grants	14,103
Liquor Permits	3,639
Prisoner Housing	7,205
	7,205
<i>Total Governmental Activities</i>	\$741,088

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 8 - Compensated Absences

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. Employees earn ten to twenty-five days of vacation per year, depending upon length of service. Normally, all vacation is to be taken in the year available unless written approval for carryover of vacation is obtained by the appropriate supervisor or department head, in which it is to be used in the first quarter of the following year. All accumulated unused vacation time is paid upon termination of employment. The vacation benefits liability at year-end is reported on the government-wide financial statements.

Employees earn sick leave at a rate of 1 1/4 days per month. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of forty percent of accumulated, unused sick leave up to 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 up to a maximum of 240 hours.

Note 9 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2004, the City contracted with several companies for various types of insurance as follows:

Type of Coverage	Coverage	Deductible
Cincinnati Insurance Company		
Blanket Property, and Contents, Replacement	\$15,436,950	\$1,000
General Liability	1,000,000	0
Automobile Liability	500,000	500
Equipment Fltr	1,082,114	500
Umbrella Liability	3,000,000	0
Employer Liability	1,000,000	0
Electronic Data Protection Liability	120,000	500
Miscellaneous Equipment Fltr	60,000	500
United National Insurance Company		
Public Officials Liability	2,000,000	25,000
Scottsdale Insurance Company		
Law Enforcement	2,000,000	25,000
American Alternative		
EMT and Management Liability	2,000,000	0
EMT and Management Umbrella Liability	5,000,000	0

The City carries commercial insurance coverage for all risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there were no significant reductions in coverage from the prior year.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

B. Workers' Compensation

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

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Restated Balance 12/31/03	Additions	Deletions	Balance 12/31/04
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,169,147	\$0	\$0	\$1,169,147
<i>Capital Assets Being Depreciated</i>				
Buildings	12,902,003	0	(117,990)	12,784,013
Improvements	76,835	0	0	76,835
Machinery and Equipment	1,283,669	150,418	0	1,434,087
Furniture and Fixtures	12,787	0	0	12,787
Vehicles	1,662,659	476,872	0	2,139,531
Infrastructure				
Roads	14,713,515	417,983	0	15,131,498
Water Mains	4,932,811	177,962	0	5,110,773
Storm Sewers	9,987,102	396,325	0	10,383,427
Traffic Signals	412,000	0	0	412,000
Bridges	110,000	0	0	110,000
<i>Total Capital Assets, Being Depreciated</i>	<u>46,093,381</u>	<u>1,619,560</u>	<u>(117,990)</u>	<u>47,594,951</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,898,325)	(251,154)	82,593	(2,066,886)
Improvements	(18,528)	(3,897)	0	(22,425)
Machinery and Equipment	(320,177)	(111,630)	0	(431,807)
Furniture and Fixtures	(3,287)	(698)	0	(3,985)
Vehicles	(401,667)	(143,538)	0	(545,205)
Infrastructure				
Roads	(4,842,050)	(625,228)	0	(5,467,278)
Water Mains	(768,466)	(98,656)	0	(867,122)
Storm Sewers	(1,494,235)	(199,742)	0	(1,693,977)
Traffic Signals	(175,167)	(22,889)	0	(198,056)
Bridges	(15,400)	(2,200)	0	(17,600)
<i>Total Accumulated Depreciation</i>	<u>(9,937,302)</u>	<u>(1,459,632)</u>	<u>82,593</u>	<u>(11,314,341)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>36,156,079</u>	<u>159,928</u>	<u>(35,397)</u>	<u>36,280,610</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$37,325,226</u>	<u>\$159,928</u>	<u>(\$35,397)</u>	<u>\$37,449,757</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

* Depreciation expense was charged to governmental functions as follow:

General Government	\$103,735
Security of Persons and Property	188,099
Transportation	699,277
Community Environment	9,631
Basic Utility Services	299,110
Leisure Time Activities	<u>159,780</u>
Total	<u><u>\$1,459,632</u></u>

Note 11 - Contingencies

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

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

C. Property Tax Collection

The City of Macedonia has determined that there is a possibility that a portion of property taxes collected from property previously annexed by the City may be payable to Northfield Center Township. The amount of the property tax owed to Northfield Center Township, if any, cannot be determined as of the date of this report.

Note 12 - Interfund Transfers and Balances

A. Interfund Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to provide additional resources for current operations or debt service; and to segregate money for anticipated capital projects.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Interfund transfers for the year ended December 31, 2004 consisted of the following:

Transfer To	Transfer From			
	General	Family Recreation Center	Capital Improvements	JEDD
General Fund	\$0	\$0	\$113,445	\$17,622
Family Recreation Center	50,000	0	0	0
Other Governmental Funds:				
Parks and Recreation	330,000	0	0	0
General Obligation Bonds	0	379,853	492,569	0
Road Resurfacing	0	0	132,410	0
Fire Apparatus	0	0	33,103	0
Total Other Governmental Funds	330,000	379,853	658,082	0
Total	\$380,000	\$379,853	\$771,527	\$17,622

Transfer To	Transfer From			
	Admissions Tax	Valley View Rental	Total Other Governmental Funds	Total Governmental Funds
General Fund	\$116,000	\$108,000	\$241,622	\$355,067
Family Recreation Center	0	0	0	50,000
Other Governmental Funds:				
Parks and Recreation	0	0	0	330,000
General Obligation Bonds	0	0	0	872,422
Road Resurfacing	0	0	0	132,410
Fire Apparatus	0	0	0	33,103
Total Other Governmental Funds	0	0	0	1,367,935
Total	\$116,000	\$108,000	\$241,622	\$1,773,002

B. Interfund Balances

Interfund receivables and payables are due to the elimination of negative cash balances. Interfund balances at December 31, 2004 consist of the following:

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

	Interfund Receivable			
	Capital Improvements	Route 82 Widening	Municipal Property	Longwood Park Improvements
Interfund Payable				
General Fund	\$36,273	\$82,183	\$118,779	\$11,428
Special Assessment Bond Retirement	0	0	361,068	0
Other Governmental Funds:				
CDBG Grant	0	0	1,973	0
Subdivision Tree	0	0	610	0
Highland Road	0	0	219,542	0
Total Other Governmental Funds	0	0	222,125	0
Total	<u>\$36,273</u>	<u>\$82,183</u>	<u>\$701,972</u>	<u>\$11,428</u>

	Interfund Receivable		
	Brookpointe Storm Water	Total Other Governmental Funds	Total Governmental Funds
Interfund Payable			
General Fund	\$27,270	\$239,660	\$275,933
Special Assessment Bond Retirement	0	361,068	361,068
Other Governmental Funds:			
CDBG Grant	0	1,973	1,973
Subdivision Tree	0	610	610
Highland Road	0	219,542	219,542
Total Other Governmental Funds	0	222,125	222,125
Total	<u>\$27,270</u>	<u>\$822,853</u>	<u>\$859,126</u>

Note 13 - Defined Benefit Pension Plans

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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. 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, 2004, 2003, and 2002 were \$265,229, \$379,502 and \$377,179, respectively; 75.50 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$191 made by the City and \$120 made by the 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. 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. 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 \$127,381 and \$107,865 for the year ended December 31, 2004, \$169,233 and \$95,875 for the year ended December 31, 2003, and \$128,259 and \$87,532 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 69.73 percent for police and 71.10 percent for firefighters have been contributed for 2004.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 14 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement 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 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 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's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$111,091. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement 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 2/3 basis.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

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 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 OP&F shall be included in the employer's contribution rate. Health care funding and accounting is 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 2004 and 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.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$84,017 for police and \$51,443 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$150,853,148 which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 15 - Notes Payable

Note activity for the year ended December 31, 2004, consisted of the following:

	Outstanding 12/31/03	Issued	Retired	Outstanding 12/31/04
Capital Projects Funds				
North Freeway Drive Improvements	\$0	\$855,000	\$0	\$855,000

All the notes are backed by the full faith and credit of the City of Macedonia. The note liability is reflected in the fund which received the proceeds.

Note 16 - Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds and loans follows:

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities:			
General Obligation Bonds			
Various Purpose, 2001	3.45-4.90 %	\$8,355,000	December 1, 2016
Recreation Center, 2003	2.00-4.00	2,215,000	December 1, 2016
Special Assessments			
Highland Pointe Parkway, 1998	6.50	860,000	December 1, 2005
Highland Road Improvement Variance, 2003	2.00-4.00	1,260,000	December 1, 2023
Highland Road Improvement, 1996	6.25	294,100	December 1, 2016
Long Term Notes Payable			
Pumper Fire Truck Project	1.82	210,000	June 4, 2005
Street Resurfacing Project	1.82	840,000	June 4, 2005

Changes in long-term obligations of the City during 2004 are as follows:

	Balance 12/31/03	Increase	Decrease	Balance 12/31/04	Amounts Due in One Year
General Obligation Bonds					
Various Purpose Bonds, 2001	\$7,800,000	\$0	\$290,000	\$7,510,000	300,000
Recreation Center, 2003					
Serial and Term Bonds	2,215,000	0	145,000	2,070,000	150,000
Premium	7,657	0	589	7,068	0
Deferred Gain on Refunding	(19,084)	0	(1,468)	(17,616)	0
<i>Total General Obligation Bonds</i>	<u>10,003,573</u>	<u>0</u>	<u>434,121</u>	<u>9,569,452</u>	<u>450,000</u>
Special Assessment Bonds					
Highland Pointe Parkway	344,000	0	172,000	172,000	172,000
Highland Road Improvement Variance	1,260,000	0	45,000	1,215,000	50,000
Highland Road Improvement	230,100	0	12,000	218,100	12,700
<i>Total Special Assessment Bonds</i>	<u>1,834,100</u>	<u>0</u>	<u>229,000</u>	<u>1,605,100</u>	<u>234,700</u>
Long Term Notes					
Pumper Fire Truck Project	240,000	210,000	240,000	210,000	0
Street Resurfacing Project	960,000	840,000	960,000	840,000	0
<i>Total Long Term Notes</i>	<u>1,200,000</u>	<u>1,050,000</u>	<u>1,200,000</u>	<u>1,050,000</u>	<u>0</u>
Capital Leases	0	539,000	0	539,000	100,510
Compensated Absences Payable	825,708	151,766	18,649	958,825	112,884
Total Governmental Long-Term Liabilities	<u>\$13,863,381</u>	<u>\$1,740,766</u>	<u>\$1,881,770</u>	<u>\$13,722,377</u>	<u>\$898,094</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

General obligation bonds are the direct obligation of the City and will be paid from the collection of income taxes.

Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued have been reported in the government wide statements. The notes are backed by the full faith of the City of Macedonia.

Compensated absences will be paid from the general fund and the street maintenance and repair, parks and recreation and family recreation center special revenue funds.

On July 23, 2003, the City issued \$2,215,000 in general obligation bonds with interest rates varying from 2.0 percent to 4.0 percent, for the purpose of advance refunding \$2,099,000 of 1998 various purpose refunded bonds. As of December 31, 2003, the refunded various purpose improvement bonds were considered fully defeased. The balance outstanding for the bonds is \$2,070,000 as of December 31, 2004.

The City's overall legal debt margin was \$29,905,210 at December 31, 2004. The unvoted legal debt margin was \$10,700,178. Principal and interest requirements to retire the long-term obligations as of December 31, 2004, are as follows:

	General Obligation Bonds		Special Assessment Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$450,000	\$413,280	\$234,700	\$66,613	\$684,700	\$479,893
2006	465,000	398,281	63,500	53,640	528,500	451,921
2007	480,000	382,681	64,400	51,796	544,400	434,477
2008	500,000	364,954	65,300	49,897	565,300	414,851
2009	865,000	344,856	71,200	47,440	936,200	392,296
2010-2014	4,655,000	1,152,553	387,800	195,098	5,042,800	1,347,651
2015-2019	2,165,000	153,035	393,200	111,637	2,558,200	264,672
2020-2023	0	0	325,000	33,200	325,000	33,200
Total	<u>\$9,580,000</u>	<u>\$3,209,640</u>	<u>\$1,605,100</u>	<u>\$609,321</u>	<u>\$11,185,100</u>	<u>\$3,818,961</u>

Note 17 - Capital Leases

In 2004, the City entered into lease agreements for a rescue vehicle and two snow plows. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases", and has been recorded on the government-wide statements.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Capital assets acquired by lease have been capitalized and depreciated as follows as of December 31, 2004:

Governmental Activities	
<i>Capital Assets, being depreciated:</i>	
Vehicles	\$539,000
Less Accumulated Depreciation:	
Vehicles	(8,983)
<i>Capital Assets, Net</i>	<u><u>\$530,017</u></u>

The following is a schedule of the future long-term lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

Year Ending December 30,	Governmental Activities
2005	\$118,357
2006	118,357
2007	118,357
2008	118,357
2009	118,357
Total	<u>591,785</u>
Less: Amount Representing Interest	<u>(52,785)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$539,000</u></u>

Note 18 - Jointly Governed Organization

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Macedonia did not contribute to NOPEC during 2004. Financial information can be obtained by contacting the Joseph Migliorini, Board Chairman at 175 South Main Street, Akron, Ohio 44308.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2004

Note 19 – Joint Venture

The City participates in the Northfield Center Township-Macedonia Joint Economic Development District (JEDD) which is a statutorily created subdivision of the State. The purpose of JEDD is to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the State, the Township and the City. The City and the Township shall work together to provide or cause to be provided, water, sewer, storm sewer, street lighting, roads, sidewalks and other local government services to the area. These services are funded by a predetermined percentage of income tax revenue. The Board of Directors consists of six members, three from each the City and the Township. The Township members of the Board are the Township Trustees. The City members are the Mayor and two elected members of Council who are appointed to the Board by the Mayor and approved by Council. The Board adopted an annual budget for JEDD and estimated the revenues and expenses of the operation of JEDD. They also established the distribution of the income tax revenues. The Board is authorized to take such necessary and appropriate actions, or establish such programs to facilitate economic development in the JEDD area. Continued existence of JEDD is dependent on the City's continued participation; however, the City does not have an equity interest in JEDD. JEDD is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. In 2004, the City contributed \$120,931 which represents 50 percent of the total contributions. Complete financial statements can be obtained from the Northfield Center Township-Macedonia Joint Economic Development District, Northfield Center, Ohio.

Note 20 – Related Party Transaction

During the year related party transactions occurred between the City and the Sunoco gas station which is owned by the City's Mayor. Payments of \$44,188 were made and there was a payable of \$6,356 outstanding at the end of the year.

Note 21 - Subsequent Event

On June 3, 2005, the City retired \$1,050,000 in general obligation bond anticipation notes and issued \$1,000,000 in new notes with a maturity date of June 3, 2006, and an interest rate of 3.18 percent. The following table summarizes the activity.

Note Issuance	Retired	Issued
Pumper Fire Truck Project Notes	\$210,000	\$190,000
Street Resurfacing Project Notes	840,000	810,000
<i>Total Notes</i>	\$1,050,000	\$1,000,000

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Auditor of State Betty Montgomery

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

City of Macedonia
Summit County
9691 Valley View Road
Macedonia, Ohio 44056

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 26, 2006, in which we noted that we were unable to obtain assurance regarding land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt. We also noted the City restated December 31, 2003 Net Asset Balances of the Governmental Type Activities and Fund Balances of the General, Family Recreation Center, General Capital Improvement, and Other Governmental Funds to reflect the correction of errors from prior years. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-001, 2004-007 through 2004-010.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. 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 material weaknesses. We consider reportable condition 2004-007 listed above to be a material weakness. In a separate letter to the City's management dated January, 26, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-002 through 2004-006. In a separate letter to the City's management dated January 26, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and City Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 26, 2006

**CITY OF MACEDONIA
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2004-001

Reportable Condition

Sunoco Contract

The City's Mayor is the owner of a Sunoco gas station located within the City limits. The City has made expenditures during the year of \$44,188 and an accounts payable amount of \$6,356 exists at year end to this gas station for gas services for the City's police department. We have not found any evidence that City Council entered into a contract with this service station authorizing the purchase of gasoline for the City. Our office has referred this issue to the Ohio Ethics Commission.

The City should ensure that any elected official or appointed employee of the City does not have an apparent conflict of interest in any contract consummated with the City. If the City were to enter into a contract with a business that is related to an employee or elected official, the contract should be approved by City Council and the employee/official should not be involved with contract negotiations or approving the contract.

Finding Number 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the 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. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

Finding Number 2004-002 (Continued)

Noncompliance Citation (Continued)

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2004, 54 of 88 (61.4%) expenditures tested were not certified by the Finance Director prior to incurring the obligation. It was also found that none of the exceptions were utilized for the items found to be in noncompliance.

The City should certify the availability of funds for expenditures and also implement the use of “Then and Now” certificates as further means to certify funds pursuant to Ohio Revised Code Section 5705.41(D).

Finding Number 2004-003

Noncompliance Citation

Ohio Rev. Code Section 9.38 states that public money must be deposited with the Finance Director of the City or to a designated depository on the business day following the day of receipt. If daily receipts do not exceed \$1,000 and the receipts can be safeguarded, the public office may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

The City has a Cash Controls and Handling Policy which states “Employees shall deposit all public monies received to the properly designated depository (Bank) or the Finance Department on the next business day following the day of receipt.”

During our testing we noted 28 of 60 (46.7%) Building Department Receipts and 8 of 60 (13.3%) Recreation Center receipts were not deposited with the Finance Department or designated depository for a period ranging between 2 to 5 business days and 5 to 14 business days, respectively, after initial receipt of the money. Delays of this nature could cause City receipts to be lost or misplaced without being detected in a timely manner.

The City should properly safeguard receipts and follow their approved policy or amend the policy in accordance with Ohio Revised Code Section 9.38 relative to depositing requirements and procedures.

Finding Number 2004-004

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated resources from each fund. This section also requires the City to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

Total Appropriations exceeded estimated resources in the following funds during the following months tested:

December Fund	Estimated Resources	Appropriations	Variance
Capital Improvement-14C	\$ 1,969,738	\$ 2,128,088	\$ (158,350)
Street Repair & Maintenance-12A	345,337	408,294	(62,957)
Motor Vehicle License Tax-12G	90,009	90,975	(966)
JEDD-12I	41,925	99,179	(57,254)
CDBG-12N		9,600	(9,600)
Subdivision Tree-12V		20,860	(20,860)
Special Assessment Bond-13B	(36,691)	308,475	(345,166)
North Freeway Drive-14G		10,332	(10,332)
Highland Road-14Z	(219,542)		(219,542)
Nordonia Home Days-25B	18,227	22,436	(4,209)
July			
Fire Operating Levy-12F	121,015	124,942	(3,927)
JEDD-12I	41,925	150,000	(108,075)
CDBG-12N	(3,555)	9,600	(13,155)
Special Assessment Bond-13B	(36,691)	308,444	(345,135)
Highland Road-14Z	(219,542)		(219,542)
April			
Capital Improvement-14C	1,591,872	1,789,421	(197,549)
Street Repair & Maintenance-12A	327,892	345,337	(17,445)
State Highway-12B	18,129	35,000	(16,871)
Water Maintenance-12E	295,000	310,000	(15,000)
JEDD-12I	30,288	150,000	(119,712)
Drug Law Enforcement-12K	565	800	(235)
Police Education-12M	2,400	10,000	(7,600)
CDBG-12N		9,600	(9,600)
DARE Program-12P	2,880	3,476	(596)
Mayor's Court Computer-12Q	25,000	34,000	(9,000)
FAIR Program-12S	26,000	47,000	(21,000)
Admission Tax-12T	114,711	116,000	(1,289)
Valley View Rental-12U	120,171	139,000	(18,829)
Special Assessment Bond-13B	(48,146)	308,444	(356,590)
Capital Park and Recreation-14M		11,428	(11,428)
Manor House-14V		272	(272)

Finding Number 2004-004 (Continued)

Noncompliance Citation (Continued)

The City should monitor appropriations versus estimated resources to help avoid overspending. In addition, the City should obtain the required certificate from the County Fiscal Officer when amending appropriations and estimated resources.

Finding Number 2004-005

Noncompliance Citation

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 state that no transfer can be made from one fund of a subdivision to any other fund, except as follows:

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable.
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located.
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund.
- Money may be transferred from the general fund to any other fund of the subdivision by resolution or the taxing authority.
- Moneys retained or received by a municipal corporation under Ohio Revised Code § 4501.04 (motor vehicle license tax), or division (A)(1) or (2) of Ohio Revised Code § 5735.27 (motor vehicle fuel excise taxes), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable.
- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution is required).

Finding Number 2004-005 (Continued)

Noncompliance Citation (Continued)

In addition to the transfers listed above, which are authorized in Ohio Revised Code § 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, except the proceeds or balances of:

- Loans,
- Bond issues,
- Special levies for the payment of loans or bond issues,
- The proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and
- The proceeds or balances of any license fees imposed by law for a specified purpose.

The transfers documented below were not approved by the City Council with a separate ordinance during the fiscal year, did not meet any of the exceptions noted above, and were not approved by the Tax Commissioner or the Court of Common Pleas:

<u>Fund Transferring Out</u>	<u>Date</u>	<u>Amount</u>	<u>Fund Transferring In</u>
General-11A	06/30/04	\$ (25,000)	Parks and Recreation-12D
Capital Improvement-14C	12/31/04	100,000	General-11A
Capital Improvement-14C	06/30/04	62,000	General-11A
Parks and Recreation-12D	12/31/04	100,000	General-11A
Petroleum UST-31B	03/31/04	7,596	General-11A

The City's financial statements were adjusted to reflect these corrections.

The City should obtain proper authorization for transfers from funds other than the General Fund and ensure all other transfers are in compliance with the Ohio Revised Code.

Finding Number 2004-006

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The City had negative fund balances in the following funds at fiscal year end:

General-11A	\$ 377,356
CDBG-12N	1,973
Subdivision Tree-12V	610
Special Assessment Bond-13B	361,068
Highland Road-14Z	219,542
Mayor's Court	246

The City should monitor fund activity to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code and Auditor of State Bulletin 97-003.

Finding Number 2004-007

Material Weakness

Capital Assets

The City does not maintain a comprehensive written capital asset policy nor maintain comprehensive records to account for capital asset balances, additions, deletions and accumulated depreciation. The City has numerous differences between the capital asset inventory lists kept by the various departments and the capital asset listing maintained by the Finance Department indicating that purchases and deletions are not always recorded by the City. Failure to update the capital asset listing when assets are purchased or deleted eliminates the ability of the City to accurately present the value of its capital assets. In addition, the City's depreciation methods and useful lives are not applied consistently to all recorded depreciable assets. These conditions could result in the overstatement or understatement of capital assets, related accumulated depreciation, depreciation expense and investment in capital assets, net of related debt.

We recommend the City:

- Develop a centralized capital asset policy that includes a capital asset recording threshold; a method for recording depreciation which includes the date the asset was placed in service and the point at which depreciation will begin (i.e., half year, full year, month or day) whenever an item is placed into service, salvage value (if any), and useful life.
- Appropriate documentation forms for the addition, deletion or movement of an asset from one department/function to another with approval for deletions by City Council recorded in the City's minute records.
- Maintain a detailed capital asset list by asset class (i.e., buildings, vehicles, etc) and by department/function which will assist in the preparation of the City's basic financial statements. The list should also accurately reflect all current and accumulated depreciation, City affixed tag numbers, serial numbers (where applicable), asset placed into service date, salvage value, market value, etc.
- Perform a physical count of capital assets to ensure all appropriate assets are properly included or excluded on the capital asset list and then perform periodic physical counts, at least bi-annually, to ensure the capital asset list properly reflects the City's capital assets and department utilizing the asset.

Finding Number 2004-008

Reportable Condition

Building Department Permit Fees

The City uses a software system to record its various building permits and fees. The system has the capability of providing a printed and consecutively numbered receipt. However, the system also allows permit records to be permanently deleted from the system with no evidence of the permit being deleted/voided. There are also no monitoring procedures in place by management to review/approve deleted/voided transactions. Also, building inspectors do not maintain a list of permit number(s) referenced to parcel numbers to help ensure all permits issued are recorded on the City's system.

Finding Number 2004-008 (Continued)

Reportable Condition (Continued)

The City should maintain supporting documentation for every transaction recorded in the permit system including approvals for any voided permits. The City should not delete any permits from the system. A list of permits with the corresponding parcel number should be prepared by the building inspectors and utilized to ensure the proper permits were obtained and recorded by the City.

Finding Number 2004-009

Reportable Condition

Posting Estimated Resources and Appropriations

Budgeted revenues posted to the City's Revenue Report did not agree to the City's Amended Certificate of estimated resources within the following funds at December 31, 2004:

<u>December Fund</u>	<u>Certificate of Estimated Resources</u>	<u>System Budgeted Revenues</u>	<u>Variance</u>
General-11A, 12J, 31C, 31D, 38A	\$ 13,558,859	\$7,607,987	\$ 5,950,872
GO Bond Retirement-13C, 13D	2,078,380	3,211,550	(1,133,170)
Capital Improvement-14C	1,501,836	1,441,600	60,236
Street Maintenance & Repair-12A	325,000	316,200	8,800
State Highway-12B	18,000	17,340	660
Permissive Tax-12C	48,000	48,960	(960)
Parks and Recreation-12D	470,000	415,560	54,440
Water Maintenance-12E	75,000	76,500	(1,500)
Fire Operating Levy-12F	121,015	127,460	(6,445)
Motor Vehicle License-12G	90,000	89,760	240
Police Pension-12H	118,323	118,680	(357)
JEDD-12I	30,000	150,000	(120,000)
Drug Law Enforcement-12K	500	510	(10)
Police Education-12M	1,000	2,040	(1,040)
CDBG-12N		21,220	(21,220)
DARE Program-12P	2,800	3,570	(770)
Mayor's Court Computer-12Q	16,000	12,240	3,760
FAIR Program-12S	17,000	15,300	1,700
Admission Tax-12T	114,000	116,280	(2,280)
Valley View Rental-12U	107,328	109,480	(2,152)
Family Recreation-14N	1,393,000	1,446,898	(53,898)
Special Assessment Bond-13B	141,969	236,640	(94,671)
SR 82 Widening-14E	200,000		200,000
Highland Road-14Z		1,425,200	(1,425,200)
Road Resurfacing-13K, 13W		1,111,680	(1,111,680)
FD Apparatus-13U		277,920	(277,920)
Nordonia Home Days-25B	15,000	15,300	(300)

Finding Number 2004-009 (Continued)

Reportable Condition (Continued)

In addition, appropriations posted to the City's Expense Report did not agree to the City's actual Annual Appropriation Measure plus appropriation amendments as follows:

December Fund	Appropriations	System Budgeted Expenditures	Variance
General-11A, 12J, 31C, 31D, 38A	\$ 13,055,936	\$ 13,754,775	\$ (698,839)
Capital Improvement-14C	2,128,088	1,935,973	192,115
Street Maintenance & Repair-12A	408,294	375,839	32,455
State Highway-12B	12,085	35,000	(22,915)
Permissive Tax-12C	48,000		48,000
Parks and Recreation-12D	479,971	458,926	21,045
Water Maintenance-12E	38,760	309,590	(270,830)
Fire Operating Levy-12F	107,957	124,942	(16,985)
Motor Vehicle License-12G	90,975	90,000	975
Police Pension-12H	107,613	116,345	(8,732)
JEDD-12I	99,179	150,000	(50,821)
DARE Program-12P	3,128	3,476	(348)
Mayor's Court Computer-12Q	4,320	34,000	(29,680)
FAIR Program-12S	11,555	47,099	(35,544)
Valley View Rental-12U	117,267	139,000	(21,733)
Subdivision Tree-12V	20,860		20,860
Family Recreation-14N	1,343,799	1,419,429	(75,630)
Special Assessment Bond-13B	308,475	263,444	45,031
SR 82 Widening-14E	37,997	111,095	(73,098)
North Freeway Drive-14G	10,332		10,332
Manor House-14V		272	(272)
Nordonia Home Days-25B	22,436	18,000	4,436
July			
General-11A, 12J, 31C, 31D, 38A	\$ 13,731,464	\$ 13,754,775	\$ (23,311)
GO Bond Retirement-13C, 13D	2,078,380	862,780	1,215,600
Capital Improvement-14C	1,789,421	1,935,973	(146,552)
Street Maintenance & Repair-12A	345,337	375,839	(30,502)
Permissive Tax-12C	48,000		48,000
Parks and Recreation-12D	441,935	458,926	(16,991)
Water Maintenance-12E	310,000	309,590	410
Family Recreation-14N	1,398,540	1,051,424	347,116
Special Assessment Bond-13B	308,444	263,444	45,000
Road Resurfacing-13K, 13W		972,480	(972,480)
FD Apparatus-13U		243,120	(243,120)

Finding Number 2004-009 (Continued)

Reportable Condition (Continued)

April Fund	Appropriations	System Budgeted Expenditures	Variance
General-11A, 12J, 31C, 31D, 38A	\$13,731,464	\$13,754,775	(\$23,311)
GO Bond Retirement-13C, 13D	2,078,380	862,780	1,215,600
Capital Improvement-14C	1,789,421	1,792,306	(2,885)
Street Maintenance & Repair-12A	345,337	375,839	(30,502)
Permissive Tax-12C	48,000		48,000
Parks and Recreation-12D	441,935	458,926	(16,991)
Water Maintenance-12E	310,000	309,590	410
Family Recreation-14N	1,398,540	842,791	555,749
Special Assessment Bond-13B	308,444	263,444	45,000
Road Resurfacing-13K, 13W		972,480	(972,480)
FD Apparatus-13U		243,120	(243,120)

The City should periodically review their Revenue and Expense Reports to ensure estimated resources and appropriation amounts are posted accurately and timely. Ensuring the correct and actual amount of estimated resources and appropriations are posted to the Revenue and Expense reports will help allow management to make appropriate decisions when conducting City business.

Finding Number 2004-010

Reportable Condition

Cash/Bank Reconciliations

We noted the following conditions related to the cash function during our audit:

- The City's bank reconciliations were not balanced from October through December, 2004. A proof of cash was performed and an amount of \$9,402 was posted to the City's Revenue Report.
- Several outstanding checks dated from 1998 through 2004 remained as a reconciling item on the bank reconciliation.
- The City uses a manually prepared Excel spreadsheet to prepare its general account outstanding check list instead of the Fund Balance System generated report.
- The Courts general account and EMS outstanding check lists could not be located for the December 31, 2004 bank reconciliation.
- The City uses Paycor Inc., a payroll service company, to process its payroll; however, individual employee paychecks are processed through the City's general checking account. This resulted in two completely different check number sequences on the bank statement.
- A tree replacement bank account with a bank balance of \$534 was not included on the City's books.
- The high balance savings account did not have an updated signatory card on file with the bank. One of the authorized signatories on the account was the previous Finance Director.

Finding Number 2004-010 (Continued)

Reportable Condition (Continued)

The City should ensure:

- Bank reconciliations are completed timely and bank balance should be reconciled exactly to book balance.
- After six months period, outstanding checks should be investigated, and if a liability is still valid, a new check should be issued. If the liability is no longer valid or the payee can not be located, the amount of the check should be transferred to the Unclaimed Monies, Fund 31D, per Auditor of State Bulletin 91-011. After a period of five years, if still unclaimed, the funds should be paid to the General Fund and would be recorded as miscellaneous revenue. If after the five year period, the payee claims the unclaimed money, a check will be repaid from the General Fund.
- Fully utilize the capabilities of their accounting software to perform monthly reconciliations and produce outstanding check lists.
- All bank statements, deposits in transit, reconciling items and outstanding check detail should be maintained with each month's reconciliation.
- Payroll checks processed by the Paycor payroll service company should be paid either by a Paycor check after the City deposits the gross payroll amount with Paycor, or through a separate city imprest payroll account which is restricted to only payroll payments.
- The tree replacement account should be added to the City's books. The City should also consider expending this account for its intended purpose and close out the bank account due to the minimal activity involved with this account.
- All of the City's signature cards should be properly updated and maintained for all of the City's bank accounts when there is a change in authorized users. This will help ensure only authorized transactions are being performed.

**CITY OF MACEDONIA
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-1	Inadequate Capital Asset System	No	Significantly Different: Qualified Opinion. See Finding 2004-007.



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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
APRIL 4, 2006**