



**Mary Taylor, CPA**  
Auditor of State



CITY OF MACEDONIA  
SUMMIT COUNTY

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# Mary Taylor, CPA

Auditor of State

## 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, 2006, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, as of December 31, 2006, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Family Recreation Center Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 3 to the basic financial statements, the City restated net assets of its Governmental Activities to correct a prior year overstatement of intergovernmental receivables/revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

November 16, 2007

**City of Macedonia, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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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, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are:

- City income tax revenue totaled \$7,959,792. This is an increase of \$1,193,466 from 2005. The increase of 17.64 percent exceeded the City's projected increase of 5 to 8 percent.
- Total assets increased by \$1,446,798, a 3.06 percent increase from 2005.
- Total net assets increased by \$1,445,009, a 4.76 percent increase from 2005.
- Total capital assets net of depreciation increased \$1,172,051; 3.07 percent more than 2005.
- Total outstanding long-term liabilities increased \$572,318. The City is in the right-of-way acquisition phase of the State Route 82 widening project.
- The governmental fund balances for the City decreased by \$140,810 to \$2,490,671. The general fund ended the year with a fund balance of \$1,428,012.

**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.

**Reporting the City of Macedonia as a Whole**

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

This document contains information about the funds used by the City to provide services to our citizens. The *Statement of Net Assets* and the *Statement of Activities* answer the question, "How did the City do financially during 2006?" These statements include all assets and liabilities, except fiduciary funds, 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.

**City of Macedonia, Ohio**  
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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 the financial position of the City as a whole 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***

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 its 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, State Route 82 widening and capital improvement 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.

#### ***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.

#### ***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.

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**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 2006 compared to 2005.

**NET ASSETS**  
**TABLE 1**

	Governmental Activities		
	2006	2005	Change
Current and Other Assets	\$9,390,094	\$9,115,347	\$274,747
Capital Assets, Net	39,391,235	38,219,184	1,172,051
<i>Total Assets</i>	<u>48,781,329</u>	<u>47,334,531</u>	<u>1,446,798</u>
Current and Other Liabilities	3,531,290	4,101,819	(570,529)
Long-Term Liabilities:			
Due within One Year	772,482	710,142	62,340
Due in More than One Year	12,449,980	11,940,002	509,978
<i>Total Liabilities</i>	<u>16,753,752</u>	<u>16,751,963</u>	<u>1,789</u>
Invested in Capital Assets, Net of Related Debt	26,525,868	25,045,130	1,480,738
Restricted for:			
Capital Projects	1,391,540	1,137,726	253,814
Debt Service	1,808,332	1,139,851	668,481
Street Construction and Maintenance	782,764	463,307	319,457
Recreation Services and Programs	1,275,257	937,072	338,185
Police Services and Programs	134,862	29,415	105,447
Fire and EMS Services	123,338	44,832	78,506
Water Line Maintenance	0	170,002	(170,002)
JEDD	101,871	22,079	79,792
Other Purposes	90,941	133,832	(42,891)
Unrestricted (Deficit)	<u>(207,196)</u>	<u>1,459,322</u>	<u>(1,666,518)</u>
<i>Total Net Assets</i>	<u><u>\$32,027,577</u></u>	<u><u>\$30,582,568</u></u>	<u><u>\$1,445,009</u></u>

The largest portion of the City's net assets (82.9 percent) reflects investments in capital assets (e.g. land, buildings, improvements, machinery and equipment, furniture and fixtures, 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 \$1,446,798, from 2005 to 2006. The City's total liabilities increased by \$1,789 for the same period. The most significant change in assets was the increase in Capital Assets of more than \$1 million. The City conducted an inventory of its capital assets in 2006 and implemented new tracking software. As a result, capital assets have been restated and updated. The City is also in the right-a-way acquisition phase of a construction project and added over \$1.2 million in land during 2006.

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Table 2 shows the changes in net assets for the years ended December 31, 2006 and 2005.

**CHANGES IN NET ASSETS**  
**TABLE 2**

	Governmental Activities		Change
	2006	2005	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$3,051,425	\$2,508,702	\$542,723
Operating Grants and Contributions	705,496	1,138,236	(432,740)
Capital Grants and Contributions	1,325,039	129,301	1,195,738
<i>Total Program Revenues</i>	<u>5,081,960</u>	<u>3,776,239</u>	<u>1,305,721</u>
General Revenues:			
Property and Other Local Taxes	2,166,586	2,123,162	43,424
Municipal Income Taxes	7,959,792	6,766,326	1,193,466
Grants and Entitlements, not restricted	1,045,944	745,151	300,793
Interest	270,663	58,662	212,001
Gain on Sale of Capital Assets	0	31,733	(31,733)
Other	107,013	382,331	(275,318)
<i>Total General Revenues</i>	<u>11,549,998</u>	<u>10,107,365</u>	<u>1,442,633</u>
<i>Total Revenues</i>	<u>16,631,958</u>	<u>13,883,604</u>	<u>2,748,354</u>
<b>Program Expenses</b>			
General Government	2,974,211	1,774,063	1,200,148
Security of Persons and Property	4,814,045	3,817,694	996,351
Public Health Services	125,222	183,253	(58,031)
Transportation	4,145,911	3,030,213	1,115,698
Community Environment	433,960	399,195	34,765
Basic Utility Services	475,090	470,214	4,876
Leisure Time Activities	1,669,917	1,475,330	194,587
Interest and Fiscal Charges	548,593	534,696	13,897
<i>Total Program Expenses</i>	<u>15,186,949</u>	<u>11,684,658</u>	<u>3,502,291</u>
Change in Net Assets	1,445,009	2,198,946	(753,937)
Net Assets Beginning of Year	<u>30,582,568</u>	<u>28,383,622</u>	<u>2,198,946</u>
Net Assets End of Year	<u>\$32,027,577</u>	<u>\$30,582,568</u>	<u>\$1,445,009</u>

***Governmental Activities***

The City's net assets for Governmental Activities increased by \$1,445,009 during 2006. The primary reason for the difference between 2006 and 2005 relates to the increase in capital grants and contributions along with the increase in income tax revenues. A portion of the increase in revenues was offset by the increase in expenses. The City conducted numerous maintenance and repairs to roads in 2006 and began right-of-way acquisition for the State Route 82 widening project. The City also had engineering expenses for the Highland Road Bridge project and maintained its annual road maintenance program. Transportation program expenses increased by \$1,115,698 in 2006.

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 2006, 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.

**City of Macedonia, Ohio**  
*Management's Discussion and Analysis*  
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The income tax revenue for 2006 was \$7,959,792, an increase of \$1,193,466 or 17.6 percent from 2005. Increases in wages account for part of this large increase. The remaining increase is due in part to several new businesses in the area and increased tax collections from one business that paid out larger than normal bonuses to its employees. As a result 2006 receivables were \$700,000 over 2005 receivables. Once this difference is accounted for, remaining collections were approximately 8 percent over 2005 figures. Of the \$16,631,958 in total revenues, income tax accounts for 47.9 percent of the total governmental revenues. Property taxes for 2006 were \$2,166,586.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. General revenues from grants and entitlements increased \$300,793. The City has been on the receiving end of new grant money for various projects in the City. The City's total revenues increased for 2006 by \$2,748,354 or 19.8 percent.

During 2006, the City experienced a 30.0 percent increase in its program expenses. The largest program function for the City normally relates to security of persons and property which include police and fire services. Expenses in this area increased by more than 26 percent in 2006 due to increases in wages and benefits. 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 had expenses of \$2,974,211 for 2006. Transportation expenses saw one of the largest increases for 2006 at 36.82 percent due to various maintenance/repair projects that were conducted in 2006.

## **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.

### ***Governmental Funds***

These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,661,222 and expenditures of \$16,882,350. Income tax is the City's largest revenue source. Collections consistently exceeded 2005 levels during 2006.

The largest fund for the City is the general fund. The year-end fund balance for the general fund was \$1,428,012 on a modified accrual basis. This is a decrease of \$336,916 from the 2005 ending balance.

The family recreation center fund ended the year with a fund balance of \$1,075,180. This is up \$272,086 from the year-end balance in 2005.

Revenues in the special assessment bond retirement fund exceeded expenditures by \$4,355. The City transferred \$511,286 into the fund from the general fund to eliminate a negative fund balance that had accumulated due to unpaid assessments on the Highland Pointe Project.

The Route 82 widening project began right-of-way acquisition at the end of 2006. The expenditures in this fund are reimbursable from a federal grant and loans from the State Infrastructure Bank. These reimbursements were not received by year-end.

The capital improvement fund ended the year with a fund balance of \$886,773. This is up \$319,945 from the year-end balance in 2005.

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*Management's Discussion and Analysis*  
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For all governmental funds, the end of year balances decreased for the year by \$140,810 from \$2,631,481 in 2005 to \$2,490,671 in 2006. The available fund balance for all funds is 14.75 percent of the amount spent in total in 2006.

***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 revenues and expenditures. 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 \$8,302,137 and the final budgeted amount was \$8,628,724. Actual revenues of \$9,222,302 were \$593,578 more than the final amended budget, due to the City receiving more in licenses, permits and fees than anticipated.

The original budget estimated expenditures at \$6,953,180. The final budgeted amount of \$7,217,477 was increased from the original appropriation to ensure that specific departments did not exceed Council's authorization. Actual expenditures were \$7,734,696. Expenditures were \$517,219 or 7.2 percent more than the final budget, mainly due to unforeseen costs in the Mayor's Court.

**Capital Assets and Long-Term Obligations**

***Capital Assets***

**Table 3**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$2,417,605	\$1,156,020
Buildings	10,198,828	10,421,900
Improvements	118,252	43,854
Machinery and Equipment	1,088,799	1,068,796
Furniture and Fixtures	8,974	9,818
Vehicles	2,160,816	2,159,613
Infrastructure		
Roads	9,567,413	9,784,957
Water Mains	4,685,718	4,628,727
Storm Sewers	8,773,240	8,664,243
Traffic Signals	168,167	191,056
Bridges	203,423	90,200
<i>Totals</i>	\$39,391,235	\$38,219,184

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

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Total capital assets net of depreciation for governmental activities of the City for 2006 were \$39,391,235, a \$1,172,051 increase from 2005. The increase is primarily due to \$1.2 million addition of land purchased for right-a-ways and to the almost \$890,000 restatement of prior year capital assets. The increase was then offset by current year depreciation of over \$1.3 million. See note 10 of the basic financial statements for additional information on capital assets.

***Long-Term Obligations***

On December 31, 2006, the City of Macedonia had \$8,656,210 in general obligation bonds, \$1,850,200 in special assessment bonds, \$705,000 in long-term various purpose notes, \$407,000 in state infrastructure bank loans, \$678,957 in OPWC loans and \$334,460 in capital leases outstanding.

**Table 4**  
 Outstanding Long-Term Obligations at End of Year

	Governmental	
	2006	2005
General Obligation Bonds	\$8,656,210	\$9,120,331
Special Assessment Bonds	1,850,200	1,370,400
Long-Term Notes	705,000	760,000
State Infrastructure Bank Loans	407,000	0
OPWC Loan	678,957	493,939
Capital Leases	334,460	438,490
Compensated Absences Payable	590,635	466,984
Totals	\$13,222,462	\$12,650,144

The City has issued general obligation bonds for various purposes and for the Recreation Center and City Hall/Safety Center. There is \$8,656,210 outstanding on the bonds. The special assessment bonds are for street construction on Highland Road and North Freeway Drive.

The \$705,000 in long term notes are for street improvements from 2000 and 2001 and for Shepard Road. The State Infrastructure Bank loans are for the Highland Road Grade Separation. The OPWC loan is for the North Freeway Drive project.

The capital lease was for a new fire engine.

See note 14 and 15 of the basic financial statements for additional information on debt.

**City of Macedonia, Ohio**  
*Management's Discussion and Analysis*  
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**Current Financial Related Activities**

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 13.4 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 five 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 additional 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](http://www.Macedonia.oh.us).

**City of Macedonia, Ohio**  
*Statement of Net Assets*  
*December 31, 2006*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,947,138
Cash and Cash Equivalents in Segregated Accounts	7,687
Materials and Supplies Inventory	910
Accrued Interest	24,094
Accounts Receivable	159,093
Intergovernmental Receivable	1,381,118
Prepaid Items	37,226
Municipal Income Taxes Receivable	1,745,536
Property Taxes Receivable	2,208,677
Special Assessments Receivable	1,858,045
Deferred Charges	20,570
Nondepreciable Capital Assets	2,417,605
Depreciable Capital Assets, Net	36,973,630
<i>Total Assets</i>	48,781,329
<b>Liabilities</b>	
Accounts Payable	315,606
Contracts Payable	108,421
Accrued Wages and Benefits	209,089
Intergovernmental Payable	486,186
Vacation Benefits Payable	9,759
Matured Compensated Absences Payable	644
Deferred Revenue	2,079,947
Accrued Interest Payable	61,638
Notes Payable	260,000
Long-Term Liabilities:	
Due Within One Year	772,482
Due In More Than One Year	12,449,980
<i>Total Liabilities</i>	16,753,752
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	26,525,868
Restricted for:	
Capital Projects	1,391,540
Debt Service	1,808,332
Street Construction and Maintenance	782,764
Recreation Services and Programs	1,275,257
Police Services and Programs	134,862
Fire and EMS Services	123,338
JEDD	101,871
Other Purposes	90,941
Unrestricted (Deficit)	(207,196)
<i>Total Net Assets</i>	\$32,027,577

See accompanying notes to the basic financial statements

**City of Macedonia, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
General Government	\$2,974,211	\$969,909	\$12,486	\$7,717	(\$1,984,099)
Security of Persons and Property	4,814,045	843,262	31,161	0	(3,939,622)
Public Health Services	125,222	0	0	0	(125,222)
Transportation	4,145,911	0	660,583	1,317,322	(2,168,006)
Community Environment	433,960	55,077	1,252	0	(377,631)
Basic Utility Services	475,090	29,084	0	0	(446,006)
Leisure Time Activities	1,669,917	1,154,093	14	0	(515,810)
Interest and Fiscal Charges	548,593	0	0	0	(548,593)
<i>Total Governmental Activities</i>	<u>\$15,186,949</u>	<u>\$3,051,425</u>	<u>\$705,496</u>	<u>\$1,325,039</u>	<u>(10,104,989)</u>
<b>General Revenues</b>					
Property and Other Local Taxes Levied for:					
				1,937,123	
				109,984	
				119,479	
Municipal Income Taxes Levied for:					
				4,841,280	
				164,548	
				864,717	
				2,089,247	
Grants and Entitlements not Restricted to Specific Programs					
				1,045,944	
Investment Earnings					
				270,663	
Miscellaneous					
				107,013	
				<u>11,549,998</u>	
				1,445,009	
				<u>30,582,568</u>	
				<u>\$32,027,577</u>	

See accompanying notes to the basic financial statements

**City of Macedonia, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2006*

	General	Family Recreation Center	Special Assessment Bond Retirement	Route 82 Widening	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Equity in Pooled Cash and Cash Equivalents	\$0	\$0	\$4,355	\$0	\$55,879	\$1,886,904	\$1,947,138
Cash and Cash Equivalents in Segregated Accounts	7,687	0	0	0	0	0	7,687
Materials and Supplies Inventory	910	0	0	0	0	0	910
Accrued Interest Receivable	24,094	0	0	0	0	0	24,094
Accounts Receivable	134,762	9,536	0	0	0	14,795	159,093
Interfund Receivable	729,197	1,020,893	0	0	702,936	0	2,453,026
Intergovernmental Receivable	422,295	0	0	408,488	0	550,335	1,381,118
Prepaid Items	25,851	4,622	0	0	0	6,753	37,226
Municipal Income Taxes Receivable	1,244,567	146,625	0	0	326,415	27,929	1,745,536
Property Taxes Receivable	1,950,254	0	0	0	0	258,423	2,208,677
Special Assessments Receivable	0	0	1,858,045	0	0	0	1,858,045
<i>Total Assets</i>	<u>\$4,539,617</u>	<u>\$1,181,676</u>	<u>\$1,862,400</u>	<u>\$408,488</u>	<u>\$1,085,230</u>	<u>\$2,745,139</u>	<u>\$11,822,550</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts Payable	\$49,324	\$8,815	\$0	\$8,889	\$16,813	\$231,765	\$315,606
Contracts Payable	0	0	0	0	108,421	0	108,421
Accrued Wages and Benefits	158,944	19,488	0	0	0	30,657	209,089
Intergovernmental Payable	366,285	44,657	0	492	0	74,752	486,186
Interfund Payable	0	0	0	1,880,116	0	572,910	2,453,026
Matured Compensated Absences Payable	0	644	0	0	0	0	644
Deferred Revenue	2,537,052	32,892	1,858,045	408,488	73,223	582,944	5,492,644
Accrued Interest Payable	0	0	0	0	0	6,263	6,263
Notes Payable	0	0	0	0	0	260,000	260,000
<i>Total Liabilities</i>	<u>3,111,605</u>	<u>106,496</u>	<u>1,858,045</u>	<u>2,297,985</u>	<u>198,457</u>	<u>1,759,291</u>	<u>9,331,879</u>
<b>Fund Balances</b>							
Reserved for Encumbrances	128,274	5,911	0	192,635	217,124	491,845	1,035,789
Undesignated (Deficit), Reported in:							
General Fund	1,299,738	0	0	0	0	0	1,299,738
Special Revenue Funds	0	1,069,269	0	0	0	1,035,791	2,105,060
Debt Service Funds	0	0	4,355	0	0	7,197	11,552
Capital Projects Funds	0	0	0	(2,082,132)	669,649	(548,985)	(1,961,468)
<i>Total Fund Balances (Deficit)</i>	<u>1,428,012</u>	<u>1,075,180</u>	<u>4,355</u>	<u>(1,889,497)</u>	<u>886,773</u>	<u>985,848</u>	<u>2,490,671</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,539,617</u>	<u>\$1,181,676</u>	<u>\$1,862,400</u>	<u>\$408,488</u>	<u>\$1,085,230</u>	<u>\$2,745,139</u>	<u>\$11,822,550</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, 2006*

<b>Total Governmental Fund Balances</b>	<b>\$2,490,671</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	39,391,235
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property and Other Taxes	103,387
Municipal Income Tax	391,565
Charges for Services	89,349
Intergovernmental	970,351
Special Assessments	<u>1,858,045</u>
Total	3,412,697
Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(9,759)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	20,570
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(55,375)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(8,656,210)
Special Assessment Bonds	(1,850,200)
Long Term Notes	(705,000)
Capital Lease Obligation Payable	(334,460)
SIB Loans Payable	(407,000)
OPWC Loans Payable	(678,957)
Compensated Absences Payable	<u>(590,635)</u>
Total	<u>(13,222,462)</u>
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$32,027,577</u></u></b>

**City of Macedonia, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2006*

	General	Family Recreation Center	Special Assessment Bond Retirement	Route 82 Widening	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property and Other Local Taxes	\$1,913,284	\$0	\$0	\$0	\$0	\$226,387	\$2,139,671
Municipal Income Taxes	4,571,441	833,257	0	0	2,017,235	158,528	7,580,461
Charges for Services	494,452	811,599	0	0	0	463,179	1,769,230
Licenses, Permits and Fees	1,055,166	0	0	0	0	60,054	1,115,220
Intergovernmental	1,091,878	0	0	0	7,717	1,378,448	2,478,043
Special Assessments	0	0	63,500	0	0	56,513	120,013
Interest	195,628	0	59,282	0	0	15,753	270,663
Rentals	24,021	42,437	0	0	0	10,720	77,178
Donations	3,716	14	0	0	0	0	3,730
Miscellaneous	90,608	0	0	0	805	15,600	107,013
<i>Total Revenues</i>	<u>9,440,194</u>	<u>1,687,307</u>	<u>122,782</u>	<u>0</u>	<u>2,025,757</u>	<u>2,385,182</u>	<u>15,661,222</u>
<b>Expenditures</b>							
Current:							
General Government	2,630,456	0	0	0	17,671	130,225	2,778,352
Security of Persons and Property	4,337,179	0	0	0	0	316,278	4,653,457
Public Health Services	125,222	0	0	0	0	0	125,222
Transportation	57,049	0	0	0	0	1,550,935	1,607,984
Community Environment	415,295	0	0	0	0	0	415,295
Basic Utility Services	103,486	0	0	0	0	43,506	146,992
Leisure Time Activities	3,743	1,034,321	0	0	0	458,639	1,496,703
Capital Outlay	0	0	0	1,820,928	920,584	1,752,559	4,494,071
Debt Service:							
Principal Retirement	0	0	63,500	0	104,030	465,000	632,530
Interest and Fiscal Charges	0	0	54,927	0	14,327	462,490	531,744
<i>Total Expenditures</i>	<u>7,672,430</u>	<u>1,034,321</u>	<u>118,427</u>	<u>1,820,928</u>	<u>1,056,612</u>	<u>5,179,632</u>	<u>16,882,350</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,767,764</u>	<u>652,986</u>	<u>4,355</u>	<u>(1,820,928)</u>	<u>969,145</u>	<u>(2,794,450)</u>	<u>(1,221,128)</u>
<b>Other Financing Sources (Uses)</b>							
Bonds Issued	0	0	0	0	0	543,300	543,300
Notes Issued	0	0	0	0	0	705,000	705,000
Loans Issued	0	0	0	5,000	0	587,018	592,018
Current Refunding	0	0	0	0	0	(760,000)	(760,000)
Transfers In	35,741	0	511,286	0	0	3,067,143	3,614,170
Transfers Out	(2,140,421)	(380,900)	0	0	(649,200)	(443,649)	(3,614,170)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,104,680)</u>	<u>(380,900)</u>	<u>511,286</u>	<u>5,000</u>	<u>(649,200)</u>	<u>3,698,812</u>	<u>1,080,318</u>
<i>Net Change in Fund Balances</i>	<u>(336,916)</u>	<u>272,086</u>	<u>515,641</u>	<u>(1,815,928)</u>	<u>319,945</u>	<u>904,362</u>	<u>(140,810)</u>
<i>Fund Balances (Deficit)</i>							
<i>Beginning of Year - Restated (See Note 3)</i>	<u>1,764,928</u>	<u>803,094</u>	<u>(511,286)</u>	<u>(73,569)</u>	<u>566,828</u>	<u>81,486</u>	<u>2,631,481</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,428,012</u>	<u>\$1,075,180</u>	<u>\$4,355</u>	<u>(\$1,889,497)</u>	<u>\$886,773</u>	<u>\$985,848</u>	<u>\$2,490,671</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, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** (\$140,810)

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

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

Capital Asset Additions	2,746,690	
Current Year Depreciation	(1,536,072)	
Total		1,210,618

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. (38,567)

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

Delinquent Property Taxes	26,915	
Municipal Income Tax	379,331	
Charges for Services	89,349	
Intergovernmental	311,297	
Special Assessments	163,844	
Total		970,736

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,392,530

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.

Accrued Interest	(13,913)	
Amortization of Deferred Gain on Refunding	(2,057)	
Amortization of Issuance Costs	(1,468)	
Amortization of Premium on Bonds	589	
Total		(16,849)

Other financing sources in the governmental funds increased long-term liabilities in the statement of net assets.

Bonds Issued	(543,300)	
Notes Issued	(705,000)	
Loans Issued	(592,018)	
Total		(1,840,318)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures.

Compensated Absences	(123,651)	
Vacation Benefits Payable	31,320	
Total		(92,331)

Change in Net Assets of Governmental Activities \$1,445,009

**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, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property and Other Local Taxes	\$1,896,900	\$1,896,900	\$1,905,445	\$8,545
Municipal Income Taxes	4,277,200	4,277,200	4,434,552	157,352
Charges for Services	486,800	486,799	519,050	32,251
Licenses, Permits and Fees	521,300	521,300	1,025,449	504,149
Intergovernmental	1,038,737	1,201,843	1,049,435	(152,408)
Interest	30,000	30,000	172,199	142,199
Rentals	24,200	24,200	24,021	(179)
Donations	800	800	3,716	2,916
Miscellaneous	26,200	189,682	88,435	(101,247)
<i>Total Revenues</i>	<u>8,302,137</u>	<u>8,628,724</u>	<u>9,222,302</u>	<u>593,578</u>
<b>Expenditures</b>				
Current:				
General Government	1,835,740	2,143,312	2,664,308	(520,996)
Security of Persons and Property	4,194,250	4,181,850	4,222,291	(40,441)
Public Health Services	247,300	209,625	209,376	249
Transportation	52,318	52,318	57,049	(4,731)
Community Environment	430,175	430,175	417,809	12,366
Basic Utility Services	186,297	196,297	160,120	36,177
Leisure Time Activities	7,100	3,900	3,743	157
<i>Total Expenditures</i>	<u>6,953,180</u>	<u>7,217,477</u>	<u>7,734,696</u>	<u>(517,219)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,348,957</u>	<u>1,411,247</u>	<u>1,487,606</u>	<u>76,359</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	235,741	35,741	(200,000)
Transfers Out	(1,605,100)	(2,343,421)	(2,140,421)	203,000
<i>Total Other Financing Sources (Uses)</i>	<u>(1,605,100)</u>	<u>(2,107,680)</u>	<u>(2,104,680)</u>	<u>3,000</u>
<i>Net Change in Fund Balance</i>	(256,143)	(696,433)	(617,074)	79,359
<i>Fund Balance Beginning of Year</i>	1,072,049	1,072,049	1,072,049	0
Prior Year Encumbrances Appropriated	114,180	114,180	114,180	0
<i>Fund Balance End of Year</i>	<u>\$930,086</u>	<u>\$489,796</u>	<u>\$569,155</u>	<u>\$79,359</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, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Municipal Income Tax	\$846,400	\$846,400	\$846,400	\$0
Charges for Services	696,600	696,600	820,053	123,453
Rentals	31,000	31,000	42,437	11,437
Donations	0	0	14	14
<i>Total Revenues</i>	1,574,000	1,574,000	1,708,904	134,904
<b>Expenditures</b>				
Current:				
Leisure Time Activities	1,152,266	1,152,266	1,051,756	100,510
<i>Excess of Revenues Over Expenditures</i>	421,734	421,734	657,148	235,414
<b>Other Financing Uses</b>				
Transfers Out	(380,900)	(380,900)	(380,900)	0
<i>Net Change in Fund Balance</i>	40,834	40,834	276,248	235,414
<i>Fund Balance Beginning of Year</i>	708,357	708,357	708,357	0
Prior Year Encumbrances Appropriated	23,965	23,965	23,965	0
<i>Fund Balance End of Year</i>	\$773,156	\$773,156	\$1,008,570	\$235,414

See accompanying notes to the basic financial statements

**City of Macedonia, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$62,937</u>
<b>Liabilities</b>	
Funds on Deposit	<u>\$62,937</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, 2006*

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**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 Mayor appointing the Finance Director with Council approval and Council appointing the 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, the Northfield Center Township – Macedonia 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, 2006*

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***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. The City, however, has no business-type activities.

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 membership and program fees to be used for the operation and maintenance of the family recreational center.

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

***Route 82 Widening Fund*** The route 82 widening fund accounts for Ohio Public Works Commission loans for widening State route 82.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Capital Improvement Fund** The capital improvement fund accounts for municipal tax revenues to be used for major improvements to, acquisition of and maintenance of the City's capital assets and infrastructure.

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 agency funds account for deposits pledged by contractors and citizens and building assessment fees collected for the Ohio Board of Building Standards.

**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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**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 statements 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.

**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,

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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, 2006, but which were levied to finance year 2007 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.

***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 department level for the General, Capital Improvements, Street Construction Maintenance and Repair, and Parks and Recreation funds, and at the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. More detailed allocations beyond the legal level of appropriations passed by Council may be made by the Finance Director.

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.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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."

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

During 2006, the City's investments were limited to STAROhio, Federal Farm Credit Bank discount notes, Federal National Mortgage Association bonds and discount notes, Federal Home Loan Mortgage Corporation bonds and discount notes and United States Treasury notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$195,628, which includes \$1,031 assigned from other City funds.

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.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2006, 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.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
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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. 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 and construction work in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land	N/A
Building and Improvement	50 years
Land Improvements	20 years
Machinery and Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	5 - 10 years
Infrastructure	20 - 50 years

The City's infrastructure consists of roads and sidewalks, sanitary sewers, storm sewers, water lines, bridges and traffic signals. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amount acquired after 1987. The City plans to phase in the prior year amounts by 2007.

***J. Interfund Balances***

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

***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 time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulation 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 employees after one year of service with the City.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***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, capital leases, loans and long-term notes 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 City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Net assets restricted for other purposes include the operations of the FAIR program, community development block grant program, and subdivision trees.

The government wide statement of net assets report \$5,708,905 of restricted net assets, none of which is restricted by enabling legislation.

***O. Interfund Activity***

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence.

**Q. Estimates**

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

**Note 3 - Changes in Accounting Principle and Restatement of Fund Balance/Net Assets**

For 2006, the City has implemented GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the City.

During 2006, it was determined that intergovernmental receivable was overstated and deferred revenue was understated at December 31, 2005. Also during 2006, it was determined that both of the private purpose trust funds and one agency fund should be reported as special revenue funds. The fund balance of the governmental funds was restated from \$2,595,478 to \$2,631,481.

These adjustments, along with an understatement in capital assets and an overstatement in intergovernmental revenue/receivable had the following effects on net assets as they were previously reported.

	Governmental Activities
Net Assets	
December 31, 2005	\$32,384,596
<b>Restatement:</b>	
Reclassification of Funds	36,003
Intergovernmental Receivable	(2,728,000)
Capital Assets	889,969
Restated Net Assets,	
December 31, 2005	\$30,582,568

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
For the Year Ended December 31, 2006

**Note 4 - Compliance and Accountability**

**A. Legal Compliance**

Contrary to Section 5705.41(B), Ohio Revised Code, the following fund/project had expenditures plus encumbrances in excess of final appropriations:

	Final Appropriations	Expenditures Plus Encumbrances	Excess
<b>General Fund</b>			
General Government			
City Center Maintenance	\$320,171	\$325,019	\$4,848
Finance	352,117	356,358	4,241
Council	85,050	85,081	31
Mayor's Court	182,101	681,166	499,065
Service Building and Grounds	237,407	237,871	464
Auditor's Deductions	73,700	76,568	2,868
Administration	488,237	505,441	17,204
<i>Security of Persons and Property</i>			
Police Law Enforcement	2,092,428	2,144,178	51,750
Street Lighting	104,000	110,935	6,935
<i>Transportation</i>			
Snow Removal	52,318	57,049	4,731
<i>Community Environment</i>			
Board of Zoning	150,504	151,359	855
<i>Basic Utility Services</i>			
Garbage and Refuse	10,340	16,515	6,175
<b>Special Revenue Fund</b>			
<i>Street Construction, Maintenance and Repair</i>			
<i>Transportation</i>			
Street Construction and Maintenance	1,017,645	1,026,035	8,390
Traffic Signals	22,100	22,492	392
Equipment Maintenance	310,450	320,798	10,348
<b>Debt Service Fund</b>			
Special Assesment			
Debt Service	118,200	118,427	227
<b>Capital Projects Fund</b>			
Capital Improvements			
Capital Outlay			
Utility Body Truck	46,000	46,224	224
Streets, Right of Way Ditches	49,000	54,335	5,335
Annual Road	175,801	188,087	12,286
Culvert Replacement	163,400	174,570	11,170

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

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

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
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	Original Estimated Resources Plus Beginning Balances	Original Appropriations	Excess
<i>Special Revenue Funds</i>			
Community Development Block Grant	\$5,764	\$13,945	\$8,181
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(211,286)	118,200	329,486
<i>Capital Projects Funds</i>			
North Freeway Drive	1,792,692	2,006,838	214,146
Highland Bridge	270,101	400,000	129,899
Highland Road	(219,542)	0	219,542
Shepard Road Sanitary Sewers	19,000	306,500	287,500
Route 82 and Highland Road	343,914	381,213	37,299

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

	Final Estimated Resources Plus Beginning Balances	Final Appropriations	Excess
<i>Special Revenue Funds</i>			
Community Development Block Grant	\$12,727	\$13,945	\$1,218
<i>Capital Projects Funds</i>			
North Freeway Drive	1,792,692	2,006,838	214,146
Route 8 and Highland Road	685,529	958,023	272,494
Shepard Road	306,500	492,500	186,000
Highland Road	(219,542)	0	219,542

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

The City had negative cash fund 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:

<i>Special Revenue Fund:</i>	
Water and Maintenance	\$19,049
<i>Capital Projects Funds:</i>	
Route 82 Widening	1,880,116
Route 8 and Highland Road	540,953
Road Resurfacing	12,908

In order to eliminate future negative cash, the City will make cash advances during the year.

**City of Macedonia, Ohio**  
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**B. Fund Deficits**

The following funds had deficit fund balances at December 31, 2006:

<b>Special Revenue Funds:</b>	
Water Maintenance and Expansion	\$18,219
<b>Capital Projects Funds:</b>	
State Route 82 Widening	1,889,497
Route 8 Widening	414,886
Road Resurfacing	171,642
Fire Apparatus Note	86,982

The deficits in the water maintenance and expansion special revenue fund and route 8 capital projects fund resulted from expenditures exceeding revenues. The City will review its operations to determine the steps needed to be taken to eliminate the situation.

The deficit in the state route 82 widening capital projects fund resulted from expenditures exceeding revenues. The City was in the process of purchasing land for right-a-ways and expected monies had not yet been received.

The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

The deficits in the road resurfacing and fire apparatus note capital projects funds are the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued.

**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 basis), 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 Balances - 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.

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Net Change in Fund Balance

	General	Family Recreation Center
GAAP Basis	(\$336,916)	\$272,086
Net Adjustment for Revenue Accruals	(217,892)	21,597
Net Adjustment for Expenditure Accruals	92,300	(5,114)
Encumbrances	(154,566)	(12,321)
Budget Basis	(\$617,074)	\$276,248

**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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**City of Macedonia, Ohio**  
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3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);

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

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

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

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$753,458 of the City's bank balance of \$1,024,045 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all 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.

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

### ***Investments***

Investments are reported at fair value. All investments are in an internal investment pool. As of December 31, 2006, the City had the following investments:

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	Fair Value	Average Maturity
Fifth Third Bank Investment Account		
Federal Farm Credit Bank Discount Notes	\$95,830	306 days
Federal Home Loan Mortgage Discount Notes	49,885	732 days
Federal Home Loan Mortgage Corporation Bonds	98,520	107 days
Federal National Mortgage Association Discount Notes	996,483	364 days
Federal National Mortgage Association Bonds	648,705	433 days
United States Treasury Notes	298,214	314 days
STAROhio	62,125	33 days
	\$2,249,762	

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk** All investments of the City carry a rating of AAA by Standard and Poor's, and STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

**Concentration of Credit Risk** is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The City's investment policy places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2006:

Investment	Percentage of Investment
Fifth Third Bank Investment Account	
Federal Farm Credit Bank Discount Notes	4.26%
Federal Home Loan Mortgage Discount Notes	2.22%
Federal Home Loan Mortgage Corporation Bonds	2.38%
Federal National Mortgage Association Discount Notes	44.29%
Federal National Mortgage Association Bonds	28.83%
United States Treasury Notes	13.26%
STAROhio	2.76%

**Note 7 - Receivables**

Receivables at December 31, 2006, 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.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
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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 \$1,858,045 in the special assessment bond retirement fund. At December 31, 2006 the amount of delinquent special assessments was \$7,845.

**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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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.

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. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments 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 by September 20.

The full tax rate for all City operations for the year ended December 31, 2006, was \$8.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based as follows:

Real Estate	
Residential/Agriculture	\$380,139,740
Tangible Personal Property	
Public Utility	17,277,840
General Tangible Personal Property	27,964,077
	<hr/>
Total Valuation	<u>\$425,381,657</u>

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

**City of Macedonia, Ohio**  
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collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general, fire operating levy and police pension transfer funds the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 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. Intergovernmental Receivable***

A summary of the principal items of intergovernmental receivables follows:

<b>Governmental Activities</b>	
Local Government	\$221,722
Homestead and Rollback	60,033
Public Utility	33,663
Personal Property Reimbursement	34,302
Grants	6,719
Inheritance Tax	58,175
Other	7,681
Street Construction, Maintenance and Repair	272,228
State Highway	11,168
Fire Operating	10,054
Motor Vehicle License	31,868
Police Pension	7,626
Route 8 Widening	408,488
Route 8 and Highland Road	217,391
<i>Total Governmental Activities</i>	\$1,381,118

***C. 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 administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of three percent.

**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, 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.

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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 payment 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 payment 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. As of December 31, 2006, the City contracted with the St. Paul Travelers Insurance Company, as follows:

Type of Coverage	Coverage	Deductible
St. Paul Travelers Insurance		
Blanket Property, and Contents, Replacement	\$15,456,950	\$1,000
General Liability	1,000,000	0
Automobile Liability	1,000,000	500
Umbrella Liability	4,000,000	10,000
Employer Liability	1,000,000	0
Computers	100,000	1,000
Computers in Transit	24,000	1,000
Miscellaneous Equipment (Scheduled)	923,989	1,000
Miscellaneous Equipment (Unscheduled)	60,000	250
Tower and Antenna	20,000	1,000
Public Officials Liability	1,000,000	25,000
Law Enforcement	1,000,000	25,000
Employee Benefits Liability (per act)	1,000,000/3,000,000	1,000
Employment Practices Liability	5,000,000	25,000

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.

***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.

**City of Macedonia, Ohio**  
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**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Restated Balance 12/31/05	Additions	Deletions	Balance 12/31/06
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$1,156,020	\$1,261,585	\$0	\$2,417,605
<i>Capital Assets Being Depreciated</i>				
Buildings	12,381,169	0	(205,987)	12,175,182
Improvements	63,900	77,995	0	141,895
Machinery and Equipment	1,521,611	158,433	(15,143)	1,664,901
Furniture and Fixtures	14,247	0	0	14,247
Vehicles	3,064,118	179,060	0	3,243,178
Infrastructure				
Roads	15,933,476	464,580	0	16,398,056
Water Mains	5,604,378	168,989	0	5,773,367
Storm Sewers	10,561,524	319,459	0	10,880,983
Traffic Signals	412,000	0	0	412,000
Bridges	110,000	116,589	0	226,589
<i>Total Capital Assets Being Depreciated</i>	<u>49,666,423</u>	<u>1,485,105</u>	<u>(221,130)</u>	<u>50,930,398</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(1,959,269)	(188,097)	171,012	(1,976,354)
Improvements	(20,046)	(3,597)	0	(23,643)
Machinery and Equipment	(452,815)	(134,838)	11,551	(576,102)
Furniture and Fixtures	(4,429)	(844)	0	(5,273)
Vehicles	(904,505)	(177,857)	0	(1,082,362)
Infrastructure				
Roads	(6,148,519)	(682,124)	0	(6,830,643)
Water Mains	(975,651)	(111,998)	0	(1,087,649)
Storm Sewers	(1,897,281)	(210,462)	0	(2,107,743)
Traffic Signals	(220,944)	(22,889)	0	(243,833)
Bridges	(19,800)	(3,366)	0	(23,166)
<i>Total Accumulated Depreciation</i>	<u>(12,603,259)</u>	<u>(1,536,072) *</u>	<u>182,563</u>	<u>(13,956,768)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>37,063,164</u>	<u>(50,967)</u>	<u>(38,567)</u>	<u>36,973,630</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$38,219,184</u>	<u>\$1,210,618</u>	<u>(\$38,567)</u>	<u>\$39,391,235</u>

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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

General Government	\$84,260
Security of Persons and Property	181,340
Transportation	773,270
Community Environment	782
Basic Utility Services	326,345
Leisure Time Activities	170,075
	<hr/>
Total	<u>\$1,536,072</u>

**Note 11 - 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.

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, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 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. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 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, 2006, 2005, and 2004 were \$262,659 \$262,513 and \$265,229, respectively; 72.02 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$3,703 made by the City and \$2,433 made by the plan members.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***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 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$145,594 and \$113,180 for the year ended December 31, 2006, \$146,450 and \$114,271 for the year ended December 31, 2005, and \$127,381 and \$107,865 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 68.79 percent for police and 71.05 percent for firefighters has been contributed for 2006.

**Note 12 - 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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 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 costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$128,475. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

***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.

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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors 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 2006 that were used to fund postemployment benefits were \$96,030 for police and \$53,978 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**Note 13 - Capital Leases**

The City entered into lease agreements for a rescue vehicle and two snow plows in a prior year. The City's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized and depreciated as follows as of December 31, 2006:

<b>Governmental Activities</b>	
<b><i>Capital Assets, being depreciated:</i></b>	
Vehicles	\$539,000
Less Accumulated Depreciation	<u>(116,783)</u>
<i>Capital Assets, Net</i>	<u><u>\$422,217</u></u>

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
For the Year Ended December 31, 2006

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006.

Year Ending December 31,	Governmental Activities
2007	\$118,357
2008	118,357
2009	118,357
Total	355,071
Less: Amount Representing Interest	(20,611)
Present Value of Net Minimum Lease Payments	\$334,460

**Note 14 - Notes Payable**

Note activity for the year ended December 31, 2006, consisted of the following:

	Outstanding 12/31/05	Issued	Retired	Outstanding 12/31/06
Various Purpose Improvement Note Series 2006	\$0	\$260,000	\$0	\$260,000
Various Purpose Improvement Note Series 2005	240,000	0	240,000	0
North Freeway Drive Improvement Note Series 2005	780,000	0	780,000	0
<i>Total</i>	\$1,020,000	\$260,000	\$1,020,000	\$260,000

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.

On June 2, 2006, the City paid \$240,000 (\$85,000 from the fire apparatus fund and \$155,000 from the road resurfacing fund) against the \$1,000,000 note and issued the remaining \$760,000 in a new note. The 2006 note has a maturity date of June 1, 2007. Of the note proceeds, \$105,000 was receipted into the fire apparatus fund and \$655,000 was receipted into the road resurfacing fund. \$500,000 of the 2006 note has been presented as a long-term liability. The remaining \$260,000 has been reported as a fund obligation.

On September 28, 2006 the City paid off the \$780,000 North Freeway Drive note issued in 2005.

**Note 15 - 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, 2006

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities:</b>			
<b>General Obligation Bonds</b>			
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
<b>Special Assessments</b>			
Highland Road Improvement Variance, 2003	2.00	1,260,000	December 1, 2023
Highland Road Improvement, 1996	6.25	294,100	December 1, 2016
North Freeway Drive, 2006	5.38	543,300	December 1, 2026
<b>State Infrastructure Bank Loan</b>			
Highland Road Grade Separation, 2006	3.00	407,000	December 1, 2016
<b>Ohio Public Works Commission Loan</b>			
North Freeway Drive Project, 2005	0.00	678,957	December 1, 2027
<b>Long Term Notes Payable</b>			
Various Purpose Improvement Note, 2006	4.13	500,000	June 4, 2007
Shepard Road Note, 2006	4.18	205,000	September 17, 2007

Changes in long-term obligations of the City during 2006 are as follows:

	Balance 12/31/05	Increase	Decrease	Balance 12/31/06	Amounts Due in One Year
<b>General Obligation Bonds</b>					
Various Purpose Bonds, 2001	\$7,210,000	\$0	\$315,000	\$6,895,000	\$325,000
Recreation Center, 2003					
Serial and Term Bonds	1,920,000	0	150,000	1,770,000	155,000
Premium	6,479	0	589	5,890	0
Deferred Gain on Refunding	(16,148)	0	(1,468)	(14,680)	0
<i>Total General Obligation Bonds</i>	<u>9,120,331</u>	<u>0</u>	<u>464,121</u>	<u>8,656,210</u>	<u>480,000</u>
<b>Special Assessment Bonds with Governmental Commitment</b>					
Highland Road Improvement Variance, 2003	1,165,000	0	50,000	1,115,000	50,000
Highland Road Improvement, 1996	205,400	0	13,500	191,900	14,400
North Freeway Drive, 2006	0	543,300	0	543,300	15,600
<i>Total Special Assessment Bonds</i>	<u>1,370,400</u>	<u>543,300</u>	<u>63,500</u>	<u>1,850,200</u>	<u>80,000</u>
<b>State Infrastructure Bank Loans</b>					
Highland Road Grade Separation, 2006	0	407,000	0	407,000	0
<b>Ohio Public Works Commission Loan (OPWC)</b>					
North Freeway Drive Project, 2005	493,939	185,018	0	678,957	0
<b>Long Term Notes</b>					
Various Purpose Improvement Note, 2005	760,000	0	760,000	0	0
Various Purpose Improvement Note, 2006	0	500,000	0	500,000	0
Shepard Road Note, 2006	0	205,000	0	205,000	0
<i>Total Long Term Notes</i>	<u>760,000</u>	<u>705,000</u>	<u>760,000</u>	<u>705,000</u>	<u>0</u>
Capital Leases	438,490	0	104,030	334,460	107,672
Compensated Absences Payable	466,984	160,791	37,140	590,635	104,810
Total Governmental Long-Term Liabilities	<u>\$12,650,144</u>	<u>\$2,001,109</u>	<u>\$1,428,791</u>	<u>\$13,222,462</u>	<u>\$772,482</u>

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

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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.

The State Infrastructure Loan for Highland Road Grade Separation has not been finalized and therefore a repayment schedule is not included in the schedule of debt requirements.

The Ohio Public Works Commission (OPWC) loan for North Freeway Drive Project will be paid from special assessments.

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 are considered fully defeased. The balance outstanding for the bonds is \$1,770,000 as of December 31, 2006.

The various purpose note was issued for road resurfacing. The note was issued in anticipation of long-term bond financing and will be refinanced until such bonds are issued. The note matures in June, 2007. The note proceeds have been spent as of December 31, 2006.

On December 12, 2006, the City issued \$205,000 in notes for Shepard Road improvements. These notes were issued at a rate of 4.18 percent and will mature in September, 2007.

**Redemption Provisions**

***Optional Redemption*** The bonds maturing on or after December 1, 2012, shall be subject to redemption, by and at the option of the City, on or after December 1, 2011, in whole or in part on any date, in the integral multiples of \$5,000, at the redemption price of 100% of principal amount to be redeemed, plus interest accrued to the redemption date.

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2011	100%

***Mandatory Sinking Fund Redemption*** The bonds maturing on December 1, 2023 shall be term bonds subject to mandatory sinking redemption requirements. The mandatory redemption is to occur on December 1, 2016 and 2022 (with the balance of \$85,000 to be paid at stated maturity on December 1, 2023):

Year	Principal Amount
2016	\$265,000
2017	70,000
2018	70,000
2019	75,000
2020	75,000
2021	80,000
2022	85,000

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
For the Year Ended December 31, 2006

The City's overall legal debt margin was \$33,401,314 at December 31, 2006. The unvoted legal debt margin was \$12,132,231. Principal and interest requirements to retire the long-term obligations as of December 31, 2006, are as follows:

	General Obligation Bonds		Special Assessment Bonds		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2007	\$480,000	\$382,681	\$80,000	\$80,819	\$16,974
2008	500,000	364,954	81,800	78,069	33,948
2009	865,000	344,856	88,600	74,711	33,948
2010	855,000	306,654	90,700	71,098	33,948
2011	895,000	271,073	92,700	67,365	33,948
2012-2016	5,070,000	727,861	534,200	273,076	169,739
2017-2021	0	0	518,400	154,360	169,739
2022-2026	0	0	363,800	40,017	169,739
2027	0	0	0	0	16,974
<b>Total</b>	<b>\$8,665,000</b>	<b>\$2,398,079</b>	<b>\$1,850,200</b>	<b>\$839,515</b>	<b>\$678,957</b>

**Note 16 - 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.

Transfer To	Transfer From				Total
	General Fund	Family Recreation Center	Capital Improvements	Nonmajor Funds	
General Fund	\$0	\$0	\$0	\$35,741	\$35,741
Special Assessment Bond Retirement	479,279	0	0	32,007	511,286
Nonmajor Funds					
Street Construction, Maintenance and Repair	1,194,600	0	0	0	1,194,600
Water Maintenance and Expansion	239,000	0	0	0	239,000
CDBG	5,500	0	0	0	5,500
Nordonial Hills Home Days	2,500	0	0	0	2,500
General Obligation Bond Retirement	0	380,900	284,700	200,000	865,600
Road Resurfacing	0	0	172,200	0	172,200
North Freeway Drive Project	0	0	0	175,901	175,901
Route 8 and Highland Road	0	0	45,000	0	45,000
Shepard Road	0	0	19,000	0	19,000
South Freeway Drive	0	0	18,500	0	18,500
Highland Road	219,542	0	0	0	219,542
Fire Apparatus	0	0	109,800	0	109,800
<b>Total</b>	<b>\$2,140,421</b>	<b>\$380,900</b>	<b>\$649,200</b>	<b>\$443,649</b>	<b>\$3,614,170</b>

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
For the Year Ended December 31, 2006

The transfers into the general obligation bond retirement and special assessment bond retirement funds were all to pay debt obligations. The transfers out of the capital improvements fund into the various funds were for capital projects. The transfer to the north freeway drive project is from the water maintenance and expansion fund. The admissions tax fund transferred its fund balance into the general fund to close out the fund.

**B. Interfund Balances**

Interfund Balances at December 31, 2006 consisted of the following amounts and represent advances to offset deficit cash. All are expected to be paid within one year.

	Interfund Receivable			Total
	General Fund	Family Recreation Center	Capital Improvement	
<b>Interfund Payable</b>				
<b>Major Funds</b>				
Route 82 Widening	\$156,287	\$1,020,893	\$702,936	\$1,880,116
<b>Nonmajor Funds</b>				
Water Maintenance and Expansion	19,049	0	0	19,049
Route 8 and Highland Road	540,953	0	0	540,953
Road Resurfacing	12,908	0	0	12,908
<b>Total</b>	<b>\$729,197</b>	<b>\$1,020,893</b>	<b>\$702,936</b>	<b>\$2,453,026</b>

**Note 17 - Jointly Governed Organization**

***Northeast Ohio Public Energy Council (NOPEC)***

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 2006. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website [www.nopecinfo.org](http://www.nopecinfo.org).

**Note 18 – 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 the 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,

**City of Macedonia, Ohio**  
*Notes to Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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 2006, the JEDD had total distributions of \$147,330 of which \$73,592 went to the City. Complete financial statements can be obtained from the Northfield Center Township-Macedonia Joint Economic Development District, Northfield Center, Ohio.

**Note 19 - 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, 2006.

***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.

**Note 20 - Subsequent Events**

On June 6, 2007, the City retired \$260,000 (\$105,000 fire apparatus fund and \$155,000 road resurfacing fund) against the \$760,000 various improvements note and issued the remaining \$500,000 in new notes with a maturity date of June 1, 2008.

On September 26, 2007, the City retired the \$205,000 note for Shepard Road and issued a \$220,000 note with an interest rate of 3.77 percent with a maturity date of September, 2008.

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# Mary Taylor, CPA

Auditor of State

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

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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2007, wherein we noted the City restated its Governmental Activities net assets. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-008.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated November 16, 2007

### **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 2006-004 through 2006-008.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 16, 2007.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management and City Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

November 16, 2007

**CITY OF MACEDONIA  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Significant Deficiency**

**Capital Assets**

Although the City did not maintain a comprehensive written capital asset policy nor maintain comprehensive records to account for capital asset balances by asset class (i.e., buildings, vehicles, etc.), additions, deletions and accumulated depreciation during the audit period, the City developed a draft policy in 2007. The City had differences between its capital asset inventory lists and the capital asset amounts posted to the financial statements. The City does not use inventory disposition forms. Failure to update the capital asset listing when assets are purchased or deleted makes it more difficult to accurately present the value of its capital assets. The City's depreciation methods and useful lives are not applied consistently to all recorded depreciable assets. Some assets did not appear to be placed in the proper category. 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.

The City should:

- 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 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.

**Officials' Response:** In 2007, the City has developed a draft Capital Asset Policy that was distributed to the Auditors. The policy addresses the threshold for recording capital assets and the methodology for recording depreciation.

The Auditors were provided with documentation forms for additions, deletions and movement of assets. However, these forms were not in use until the beginning of 2007. The deletion of capital assets valued in excess of \$1,000 requires contacting the Law Department for appropriate legislative action. Disposition of items valued under \$1,000 do not require approval from Council.

In preparation for the 2006 audit, the City performed a comprehensive inventory of all assets in the City as a response to the 2005 findings regarding Capital Assets. As a result, all items were entered into a Capital Assets program. Bar coded tags were affixed to items when feasible. The City purchased a barcode reader that will facilitate tracking assets that move between departments in the future.

**FINDING NUMBER 2006-001 (Continued)**

**Officials' Response: (Continued)**

It is our position that the City has materially complied with all recommendations from the 2005 Audit with respect to 1) developing a written policy, 2) establishing a documented method for depreciation, 3) establishing forms for documenting all changes in capital assets, 4) maintaining a detailed capital asset listing by class, department and function, 5) recording and calculating current and accumulated depreciation, 6) affixing tags to all capital assets where feasible, 7) performing a physical count of all assets in the City.

**FINDING NUMBER 2006-002**

**Significant Deficiency**

**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, 1 of 4 building inspector sheets tested did not maintain a list of permit number(s) referenced to parcel numbers or addresses to help ensure the inspector knows which permits to look for.

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.

**Officials' Response:** In 2007, the City purchased the Integrated Code Enforcement System (ICES) for Windows. This software was developed specifically for building and zoning code enforcement. The system was evaluated by the department to address the deficiencies stated in this finding.

**FINDING NUMBER 2006-003**

**Significant Deficiency**

**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 for several funds as of December 31, 2006 as follows:

<b>Fund Name</b>	<b>Certificate of Estimated Resources</b>	<b>System Budgeted Revenues</b>	<b>Variance</b>
General Fund - 11A, 12J, 31C, 31D	\$11,382,265	\$11,240,122	\$142,143
Special Assessment Bond - 13B	811,286	629,486	181,800
Capital Improvement - 14C	2,207,000	1,871,400	335,600
Family Recreation Center - 14N	1,574,000	1,575,400	(1,400)
SCMR - 12A	1,495,000	1,647,600	(152,600)
State Highway - 12B	39,000	21,100	17,900
Permissive Tax - 12C	490,000	0	490,000
Parks & Recreation - 12D	373,000	439,900	(66,900)
Water Maintenance - 12E	120,000	70,000	50,000

**FINDING NUMBER 2006-003 (Continued)**

<u>Fund Name</u>	<u>Certificate of Estimated Resources</u>	<u>System Budgeted Revenues</u>	<u>Variance</u>
Fire Operating Levy - 12F	129,146	124,500	4,646
Vehicle License Tax - 12G	98,000	90,000	8,000
Police Pension - 12H	134,042	121,800	12,242
JEDD Northfield Center - 12I	150,000	120,000	30,000
Drug Law Enforcement - 12K	17,000	10,000	7,000
CDBG Grant - 12N	14,963	5,500	9,463
DARE Grant - 12P	3,600	-	3,600
Mayor's Court Computer - 12Q	11,000	13,000	(2,000)
FAIR Program - 12S	4,918	16,000	(11,082)
Sub-Division Tree - 12V	20,000	25,000	(5,000)
GO Bond Retirement	1,345,600	865,600	480,000
Rt 82 Widening - 14E	3,618,509	2,808,200	810,309
Rt 8/Highland Rd Intersection - 14H	641,615	300,000	341,615
Shepard Rd San Sewer - 14I	306,500	194,000	112,500
Highland Road Bridge - 14P	429,899	300,000	129,899
Nordonia Hills Home Days - 25B	15,000	20,500	(5,500)
Highland Road - 14Z	-	219,542	(219,542)

**FINDING NUMBER 2006-003 (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 for several funds as of December 31, 2006 as follows:

	<b>Total Appropriation Authority</b>	<b>System Budgeted Expenditures</b>	<b>Variance</b>
General Fund - 11A, 12J, 31C, 31D	\$12,267,140	\$12,286,994	\$(19,854)
Capital Improvement - 14C	1,817,083	1,990,183	(173,100)
Family Recreation Center - 14N	1,533,166	1,533,584	(418)
SCMR - 12A	1,651,774	1,664,517	(12,743)
Parks and Recreation - 12D	469,251	468,204	1,047
Water Maintenance - 12E	259,869	219,228	40,641
CDBG Grant - 12N	13,945	25,745	(11,800)
South Freeway Dr. - 14R	0	18,500	(18,500)
Shepard Road Sanitary Sewer - 14I	473,500	205,000	268,500

The City should periodically review 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 allow management to make appropriate decisions when conducting City business.

**Officials' Response:** The City has developed procedures that we believe will materially correct this item for 2007.

**FINDING NUMBER 2006-004**

**Material Noncompliance and Significant Deficiency**

**Ohio Rev. Code Section 5705.41(D)** provides in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same 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. Every such contract made without such a certificate shall be null and 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 Finance Director can certify that both at the time that the contract or order was made ("then"), and at the time that the Finance Director 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.

**FINDING NUMBER 2006-004 (Continued)**

Amounts of less than \$3,000 may be paid by the Finance Director 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.

2. **Blanket Certificate** – Finance Directors 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 finance director 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.

Of the expenditures tested, 65 of 130 or 50% were not certified by the Finance Director prior to incurring the commitment and none of the exceptions noted above were utilized. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City’s funds exceeding budgetary spending limitations, we recommend the City Director of Finance certify the funds are or will be available prior to the obligation by the City. When prior certification is not possible “then and now” certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The City Director of Finance should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied.

**Officials’ Response:** The City has developed procedures that we believe will materially correct this item for 2007.

**FINDING NUMBER 2006-005**

**Material Noncompliance and Significant Deficiency**

**Ohio Rev. Code Section 5705.10(H)** 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:

Fund 12E – Water Maintenance and Expansion	\$19,049
Fund 13K, 13W – Road Resurfacing	12,908
Fund 14E – Route 82 Widening	1,880,116
Fund 14H – Route 8 and Highland Road	540,953

Maintaining positive cash fund balances is not only required by statute but is a key control in the revenue and disbursement process to assure that revenue is available to pay purchase commitments from the funds intended to pay the commitment. To improve controls over financial monitoring and to help reduce the possibility of the City's funds being in a deficit balance, we recommend the City 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.

**Officials' Response:** The negative cash balances in 14E and 14H are due to timing of state and federal reimbursements for expenses.

The negative cash balance in the road resurfacing funds was due to an accounting adjustment between funds.

**FINDING NUMBER 2006-006**

**Material Noncompliance and Significant Deficiency**

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

Total original appropriations exceeded total original estimated resources in the following funds:

	<u>Original Estimated Resources Plus Beginning Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
<i>Special Revenue Fund</i>			
Community Development Block Grant	\$5,764	\$13,945	\$8,181
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(211,286)	118,200	329,486
<i>Capital Projects Funds</i>			
North Freeway Drive	1,792,692	2,006,838	214,146
Highland Bridge	270,101	400,000	129,899
Highland Road	(219,542)	0	219,542
Shepard Road Sanitary Sewers	19,000	306,500	287,500
Route 82 and Highland Road	343,914	381,213	37,299

Total appropriations exceeded total estimated resources at June 30, 2006 in the following funds:

<u>Fund Name</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<i>General Fund</i>	\$11,161,900	\$12,049,370	(\$887,470)
<i>Special Revenue Fund</i>			
Fair Program	15,056	15,500	(444)
<i>Capital Projects Funds</i>			
Route 8 and Highland Rd	262,701	300,000	(37,299)
Shepard Road Sanitary Sewers	(71,000)	0	(71,000)
Highland Bridge	270,101	300,000	(29,899)

**FINDING NUMBER 2006-006 (Continued)**

Total final appropriations exceeded total final estimated resources in the following funds at December 31, 2006:

	<u>Final Estimated Resources Plus Beginning Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
<i>Special Revenue Fund</i>			
Community Development Block Grant	\$12,727	\$13,945	\$1,218
<i>Capital Projects Funds</i>			
North Freeway Drive	1,792,692	2,006,838	214,146
Route 8 and Highland Road	685,529	958,023	272,494
Shepard Road	306,500	492,500	186,000
Highland Road	(219,542)	0	219,542

Appropriating less than estimated resources is not only required by statute but is a key control in the budgetary and disbursement process to assure that revenues are expected to be received prior to budgeting for expenditures that may exceed available revenues. To improve controls over budgeting and disbursements and to help reduce the possibility of the City committing funds to be spent which are not available to spend, we recommend the City should monitor appropriations versus estimated resources to help avoid overspending.

**Officials' Response:** The City reviews the original Certificate of Estimated Resources periodically through the year and forwards all changes in appropriations to the County Fiscal Officer for review at the county level.

**FINDING NUMBER 2006-007**

**Material Noncompliance and Significant Deficiency**

**Ohio Rev. Code Section 5705.41(B)** requires no subdivision or taxing unit to expend money unless it has been appropriated.

At December 31, 2006, expenditures exceeded appropriations within the following funds/project at the applicable legal level of control:

	Final Appropriations	Expenditures Plus Encumbrances	Excess
<b>General Fund</b>			
General Government			
City Center Maintenance	\$320,171	\$325,019	\$4,848
Finance	352,117	356,358	4,241
Council	85,050	85,081	31
Service Building and Grounds	237,407	237,871	464
Auditor's Deductions	73,700	76,568	2,868
Administration	488,237	505,441	17,204
<i>Security of Persons and Property</i>			
Police Law Enforcement	2,092,428	2,144,178	51,750
Street Lighting	104,000	110,935	6,935
<i>Transportation</i>			
Snow Removal	52,318	57,049	4,731
<i>Community Environment</i>			
Board of Zoning	150,504	151,359	855
<i>Basic Utility Services</i>			
Garbage and Refuse	10,340	16,515	6,175
<b>Special Revenue Fund</b>			
<b><i>Street Construction, Maintenance and Repair</i></b>			
<i>Transportation</i>			
Street Construction and Maintenance	1,017,645	1,026,035	8,390
Traffic Signals	22,100	22,492	392
Equipment Maintenance	310,450	320,798	10,348
<b>Debt Service Fund</b>			
Special Assesment			
Debt Service	118,200	118,427	227
<b>Capital Projects Fund</b>			
Capital Improvements			
Capital Outlay			
Utility Body Truck	46,000	46,224	224
Streets, Right of Way Ditches	49,000	54,335	5,335
Annual Road	175,801	188,087	12,286
Culvert Replacement	163,400	174,570	11,170

**FINDING NUMBER 2006-007 (Continued)**

At October 31, 2006, expenditures exceeded appropriations within the following funds/accounts at the applicable legal level of control:

<u>Legal Level of Control</u>	<u>Total Appropriations</u>	<u>Expenditures and Encumbrances</u>	<u>Variance</u>
General Fund:			
Administration (Dept. Level)	\$328,193	\$453,429	\$(125,236)

Spending less than appropriated amounts is not only required by statute but is a key control in the disbursement process to assure that amounts are not spent in excess of budgeted amounts which could result in deficit fund balances. To improve controls over budgeting and disbursements and to help reduce the possibility of the City's funds being in a deficit balance, we recommend the City should frequently compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted and make any necessary amendments to appropriations and/or the certificate of estimated resources.

We also reported a similar comment in the management letter of our December 31, 2005 audit of the basic financial statements.

**Officials' Response:** The Finance Department distributes weekly updates on expenditures to department heads and monitors all requests.

**FINDING NUMBER 2006-008**

**Material Noncompliance and Significant Deficiency**

**Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16** provide guidelines pertaining to allowable inter-fund transfers. Ohio Rev. Code Section 5705.14 provides that interfund transfers shall only be made by resolution of the taxing authority. See also, 1989 Op. Att'y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In certain circumstances, which are detailed in Ohio Revised Code Section 5705.14, transfers from funds other than the General Fund may be made only by resolution of the taxing authority, passed with an affirmative vote of two-thirds of the members.

In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of the political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

**FINDING NUMBER 2006-008 (Continued)**

There were certain inter-fund transfers not approved by the Tax Commissioner and the Court of Common Pleas.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Water Maintenance (Special Revenue Fund) JEDD Fund	North Freeway Drive Fund (Capital Projects Fund)	\$175,901
(Special Revenue Fund)	General Fund	36,497
Municipal Property Fund (Special Revenue Fund)	G.O. Bond Retirement Fund (Debt Service Fund)	200,000
Family Recreation Center Fund (Special Revenue Fund)	G.O. Bond Retirement Fund (Debt Service Fund)	380,900
Capital Improvements Fund (Capital Projects Fund)	G.O. Bond Retirement Fund (Debt Service Fund)	284,700
Capital Improvements Fund (Capital Projects Fund)	Road Program Note Fund (Debt Service Fund)	172,200
Capital Improvements Fund (Capital Projects Fund)	Fire Apparatus Note Fund (Debt Service Fund)	109,800
Capital Improvements Fund (Capital Projects Fund)	South Freeway Drive Fund (Capital Projects Fund)	18,500
Capital Improvements Fund (Capital Projects Fund)	Route 8/Highland Road Fund (Capital Projects Fund)	45,000
Capital Improvements Fund (Capital Projects Fund)	Shepard Road Sewer Fund (Capital Projects Fund)	19,000

Limited inter-fund transferring is not only required by statute but is a key control in the disbursement process to assure that funds are used only for the purpose for which they were received. To improve controls over disbursements and to help reduce the possibility of the City's funds being spent for improper or unallowable expenses, we recommend the City should directly receipt monies into the aforementioned funds rather than transferring these monies. Conversely, the City should also consider retiring outstanding debt principal and interest directly from the fund, which initially received the debt proceeds. If transfers are made to grant funds that are paid back when the grant moneys are received, these transactions should be recorded as advances rather than transfers. Proper accounting for advances is detailed in Auditor of State Bulletin 97-003. For the transfer of fees, the City should show a negative receipt instead of a transfer out and show a receipt in the receiving fund instead of a transfer in. Otherwise, the City should obtain proper authorization for inter-fund transfers from funds other than the General Fund.

We also reported a similar comment in the management letter of our December 31, 2005 audit of the basic financial statements.

**FINDING NUMBER 2006-008 (Continued)**

**Officials' Response:** All transfers between funds made in 2006 were authorized by Council and approved by a unanimous vote.

The transfer out of the Water Maintenance and Expansion Fund was for payment of waterline expansion costs related to an assessed project. The transfer was made to properly track all project costs in the appropriate fund.

The JEDD transfer accounts for the distribution of funds to the City from the operation of the Joint Economic Development District. The City has since opted to write a check for these distributions rather than making a Council approved transfer.

The Finance Department recommended and Council approved the next 5 transfers for Debt Service payments. The City will not use the Bond Retirement fund for future debt payments. Instead, the payments will be made directly out of the Capital Improvement Fund or the General Fund beginning in 2008.

The Finance Department recommended and Council approved the final three transfers to track project expenses in individual project funds. The City will make future transfers directly from the General Fund into the project funds beginning in 2008.

In 2005, the State Auditors reclassified similar transfers to show the expenses in the originating fund.

**CITY OF MACEDONIA  
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2005-001	<b>Capital Assets</b> – A comprehensive written capital asset policy and comprehensive capital asset records were not maintained.	No	Partially Corrected, reissued as Finding 2006-001
2005-002	<b>Cash Reconciliation</b> – The City's bank to book balance was not fully reconciled each month during 2005.	Yes	Finding No Longer Valid.
2005-003	<b>Building Department Permit Fees</b> – The City's permit software allows permit records to be permanently deleted and there are no monitoring procedures in place to review/approve deleted or voided transactions.	No	Partially Corrected, reissued as Finding 2006-002
2005-004	<b>Posting Estimated Resources and Appropriations</b> – Certain budgeted revenues and budgeted expenditures posted to the City's accounting system did not agree to the actual approved certificate of estimated resources or appropriation resolutions.	No	Not Corrected, reissued as Finding 2006-003
2005-005	<b>Ohio Rev. Code Section 5705.41(D)</b> – Certain expenditures were not certified by the Finance Director prior to incurring the obligation.	No	Not Corrected, reissued as Finding 2006-004
2005-006	<b>Ohio Rev. Code Section 5705.10</b> – Certain funds had negative fund balances at year-end.	No	Not Corrected, reissued as Finding 2006-005
2005-007	<b>Ohio Rev. Code Section 5705.39</b> – Total appropriations exceeded total estimated resources in certain funds.	No	Not Corrected, reissued as Finding 2006-006



**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 13, 2007**