



**CITY OF MACEDONIA
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**CITY OF MACEDONIA
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and other capital assets, net of depreciation are recorded in the governmental activities in the accompanying statement of net assets at December 31, 2005 (stated at \$2,034,895 and \$32,294,320, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities for the year then ended (stated at \$12,703,237 and \$1,474,767, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amount recorded as invested in capital assets, net of related debt for the governmental activities (stated at \$24,155,161). We were unable to satisfy ourselves regarding land and other capital assets net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt, for the governmental activities, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Macedonia, Summit County, Ohio, as of December 31, 2005, and the changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information for the City of Macedonia, Summit County, Ohio, as of December 31, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As further described in Note 3 to the basic financial statements, the City restated the fund balance of its Other Governmental Funds to account for a prior year overstatement of notes payable. In addition, the net asset of its Government Activities was restated to account for an understatement of deferred revenue and an overstatement of compensated absences payable.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in the paragraph three, we were unable to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense and invested in capital assets, net of related debt.



Betty Montgomery
Auditor of State

October 30, 2006

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The management's discussion and analysis of the City of Macedonia's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 2005 are:

- City income tax revenue totaled \$6,766,326. This is an increase of \$1,448,740 from 2004. The City expected an increase due to the transition to the Regional Income Tax Agency as the collection agency for future income tax collections. The transition occurred in October of 2004.
- Total assets increased by \$3,744,913, a 8.25 percent increase from 2004.
- Total net assets increased by \$4,000,974, a 14.1 percent increase from 2004.
- Total capital assets net of depreciation decreased \$120,542; .32 percent less than 2004.
- Total outstanding long term liabilities decreased \$593,117, a decrease of 4.5 percent from 2004. The decrease is mainly attributed to the City continuing to pay off outstanding debt.
- The governmental fund balances for the City increased by \$74,056 to \$2,593,278. The general fund ended the year with a fund balance of \$1,764,928.

Using This Annual Financial Report

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

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

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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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 2005?" 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.

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 and Route 82 widening funds.

Governmental Funds

Most of the City's activities are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

City of Macedonia, Ohio
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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.

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 2005 compared to 2004.

NET ASSETS
TABLE 1

	Governmental Activities		
	2005	2004	Change
Current and Other Assets	\$11,807,344	\$7,941,889	\$3,865,455
Capital Assets, Net	37,329,215	37,449,757	(120,542)
<i>Total Assets</i>	<u>49,136,559</u>	<u>45,391,646</u>	<u>3,744,913</u>
Current and Other Liabilities	4,101,819	3,764,763	337,056
Long-Term Liabilities:			
Due within One Year	710,142	898,094	(187,952)
Due in More than One Year	11,940,002	12,345,167	(405,165)
<i>Total Liabilities</i>	<u>16,751,963</u>	<u>17,008,024</u>	<u>(256,061)</u>
Invested in Capital Assets, Net of Related Debt	24,155,161	24,680,303	(525,142)
Restricted for:			
Capital Projects	3,865,726	1,143,525	2,722,201
Debt Service	1,139,851	1,414,956	(275,105)
Street Construction and Maintenance	463,307	231,415	231,892
Recreation Services and Programs	934,572	710,297	224,275
Police Services and Programs	29,415	31,564	(2,149)
Fire Services	22,329	19,890	2,439
Water Line Maintenance	170,002	264,886	(94,884)
JEDD	22,079	42,828	(20,749)
Other Purposes	122,832	120,684	2,148
Unrestricted	1,459,322	(276,726)	1,736,048
<i>Total Net Assets</i>	<u>\$32,384,596</u>	<u>\$28,383,622</u>	<u>\$4,000,974</u>

The largest portion of the City's net assets (75 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

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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 \$3,744,913 from 2004 to 2005, while the City's total liabilities decreased by \$256,061. The most significant changes in assets were increases in cash available at year end due to careful spending and in intergovernmental receivable due to additional grant monies available. The decrease in total liabilities is attributed to the City's effort to reduce long-term liabilities.

Table 2 shows the changes in net assets for the years ended December 31, 2005 and 2004.

CHANGES IN NET ASSETS
TABLE 2

	Governmental Activities		Change
	2005	2004	
Revenues			
Program Revenues:			
Charges for Services	\$2,508,702	\$2,446,028	\$62,674
Operating Grants and Contributions	1,138,236	654,411	483,825
Capital Grants and Contributions	2,857,301	4,935	2,852,366
<i>Total Program Revenues</i>	<u>6,504,239</u>	<u>3,105,374</u>	<u>3,398,865</u>
General Revenues:			
Property and Other Local Taxes	2,123,162	1,767,458	355,704
Municipal Income Taxes	6,766,326	5,317,586	1,448,740
Grants and Entitlements, not restricted	745,151	892,325	(147,174)
Interest	58,662	16,585	42,077
Gain on Sale of Capital Assets	31,733	666,575	(634,842)
Other	382,331	105,134	277,197
<i>Total General Revenues</i>	<u>10,107,365</u>	<u>8,765,663</u>	<u>1,341,702</u>
<i>Total Revenues</i>	<u>16,611,604</u>	<u>11,871,037</u>	<u>4,740,567</u>
Program Expenses			
General Government	2,196,480	2,266,710	(70,230)
Security of Persons and Property	4,447,657	4,447,789	(132)
Public Health Services	183,253	171,735	11,518
Transportation	2,793,299	1,345,194	1,448,105
Community Environment	399,195	399,715	(520)
Basic Utility Services	481,214	967,421	(486,207)
Leisure Time Activities	1,477,830	1,459,923	17,907
Capital Outlay	97,006	0	97,006
Interest and Fiscal Charges	534,696	532,585	2,111
<i>Total Program Expenses</i>	<u>12,610,630</u>	<u>11,591,072</u>	<u>1,019,558</u>
Change in Net Assets	4,000,974	279,965	3,721,009
Net Assets Beginning of Year	28,383,622	28,103,657	279,965
Net Assets End of Year	<u>\$32,384,596</u>	<u>\$28,383,622</u>	<u>\$4,000,974</u>

City of Macedonia, Ohio
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Governmental Activities

Governmental activities increased the City's net assets by \$4,000,974 during 2005. The primary reason for the difference between 2005 and 2004 relates to the increase in capital grants and contributions program revenue.

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 2005, the same as the prior year. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 2.0 percent for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

The income tax revenue for 2005 was \$6,766,326, an increase of \$1,448,740 or 27.25% percent from 2004. Of the \$16,611,604 in total revenues, income tax accounts for 40.73 percent of the total governmental revenues, as compared to 44.79 percent of that total for 2004. Property taxes for 2005 were \$2,123,162. Collections increased by \$355,704 or 20.13 percent from 2004.

Capital grants and contributions increased to \$2,857,301 during 2005. The City received \$2,728,000 from the Ohio Public Works Commission for the North Freeway Drive project. General revenues from grants and entitlements, such as local government funds, are also revenue generators. General revenues from grants and entitlements decreased \$147,174 or 16.49 percent in 2005. The City's total revenues increased for 2005 in part due to the above mentioned changes in program revenue. Gains on the sale of capital assets decreased because of the sale of old City Hall which brought in \$666,575 in one-time capital gains for the City in 2004.

During 2005, the City experienced a 8.77 percent increase in its program expenses. The largest program function for the City relates to security of persons and property which include police and fire services. Expenses in this area did not change significantly. 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 \$2,196,480 for 2005 which represents a 3.10 percent decrease. Transportation expenses saw the largest increase for 2005 at 107.65 percent due to various maintenance/repair projects that were conducted in 2005.

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.

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Management's Discussion and Analysis
For the Year Ended December 31, 2005
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Governmental Funds

These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,820,717 and expenditures of \$13,368,073. Income tax is the City's largest revenue source. Collections consistently exceeded 2004 levels during 2005. In October of 2004, the City discontinued in-house tax collections in favor of using the Regional Income Tax Agency (RITA).

The largest fund for the City is the general fund. The year-end fund balance for the general fund was \$1,764,928 on a modified accrual basis. This is an increase of \$1,680,638 from the 2004 ending balance.

Expenditures in the special assessment bond retirement fund exceeded revenues by \$150,218. This was the result of uncollected special assessments revenue on the Highland Pointe Project. The City received a parcel of property as a part of a tax settlement. The assessment period has ended and the City intends to use a portion of the general fund balance to eliminate the deficit in 2006.

For all governmental funds, the end of year balances increased for the year by \$74,056. Total fund balances moved from \$2,519,222 in 2004 to \$2,593,278 in 2005. The available fund balance for all funds is 19.4 percent of the amount spent in total in 2005 up from about 12 percent in 2004.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. Recommendations and requests for budget changes are referred to the Finance Committee before going to the formal Council Meeting for ordinance enactment on the change. The Finance Director provides the administration and City Council with monthly reports on revenue and 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 \$12,643,758 and the final budgeted amount was \$9,565,036. The decrease is due to less property tax and income tax revenue into the general fund than originally anticipated. Actual revenues of \$9,206,162 were \$358,874 less than the final amended budget.

The original budget estimated expenditures at \$6,915,029. The final budgeted amount of \$6,923,099 was increased from the original appropriation to ensure that specific departments did not exceed council's authorization. Actual expenditures were \$7,051,603. Expenditures were \$128,504 or 1.8 percent more than the final budget.

City of Macedonia, Ohio
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Capital Assets and Long-Term Obligations

Capital Assets

TABLE 3
CAPITAL ASSETS
(NET OF DEPRECIATION)

	Governmental	
	2005	2004
Land	\$1,115,660	\$1,169,147
Construction in Progress	919,235	0
Buildings	10,406,849	10,717,127
Improvements	81,590	54,410
Machinery and Equipment	1,192,975	1,002,280
Furniture and Fixtures	27,950	8,802
Vehicles	1,552,153	1,594,326
Infrastructure		
Roads	9,102,636	9,664,220
Water Mains	4,159,204	4,243,651
Storm Sewers	8,489,708	8,689,450
Traffic Signals	191,055	213,944
Bridges	90,200	92,400
<i>Total</i>	\$37,329,215	\$37,449,757

The City of Macedonia takes care to maintain its equipment and infrastructure. However, several fund balance issues had to be addressed. For 2005, this meant that \$676,200 of the income tax revenue went to the capital improvements fund. During 2005, the City has \$919,235 in construction in progress, which represents ongoing road construction projects. See note 10 of the basic financial statements for additional information on capital assets.

Long-term Obligations

On December 31, 2005, the City of Macedonia had \$9,120,331 in general obligation bonds, \$1,370,400 in special assessment bonds, \$1,020,000 in short-term notes in anticipation of issuing special assessment bonds, \$760,000 in long-term various purpose notes, \$438,490 in capital leases and \$493,939 in OPWC debt outstanding. The City was able to reduce its total debt outstanding by \$415,392 or 3.05 percent by the end of 2005.

City of Macedonia, Ohio
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Table 4
 Outstanding Long-Term Obligations at End of Year

	Governmental	
	2005	2004
General Obligation Bonds	\$9,120,331	\$9,569,452
Special Assessment Bonds	1,370,400	1,605,100
Long-Term Notes	760,000	1,780,000
OPWC Loan	493,939	0
Capital Leases	438,490	539,000
Compensated Absences Payable	466,984	479,709
Totals	\$12,650,144	\$13,973,261

The City has one general obligation bond issue originally sold in 2001 and refinanced in 2003 for Recreation Center and the City Hall/Safety Center. There is \$9,120,331 outstanding on the bonds. The special assessment bonds are for street construction on Highland Road and Highland Pointe Parkway.

The \$760,000 in notes in anticipation of special assessment bonds are for North Freeway Drive. The OPWC loan is also for the North Freeway Drive project.

The capital lease was for a new fire engine.

The City's overall legal ten and one-half percent debt limitation (voted and unvoted) on December 31, 2005 was \$33,162,762. The aggregate outstanding debt after issuance of bonds subject to the ten and one-half percent limitation is \$11,942,846. The difference of \$21,219,916 between the maximum issuable amount and the outstanding amount represents the aggregate principal amount of additional voted and unvoted nonexempt debt which the City may issue without exceeding the ten and one-half percent limitation. All ratios for debt have had a positive trend for the last ten years. The City does not have a current bond rating. See note 11 and 12 of the basic financial statements for additional information on debt.

Current Financial Related Activities

Outstanding debt is being systematically reduced. The City considers it prudent to have fund balances that are about 16 percent of annual expenditures. As stated earlier, the unrestricted balances at year end comprise 19.4 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.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Contacting the City's Finance Department

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

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City of Macedonia, Ohio
Statement of Net Assets
December 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,171,257
Cash and Cash Equivalents in Segregated Accounts	5,192
Materials and Supplies Inventory	780
Accrued Interest	5,528
Accounts Receivable	68,590
Intergovernmental Receivable	3,596,989
Prepaid Items	12,384
Municipal Income Taxes Receivable	1,096,648
Property Taxes Receivable	2,133,148
Special Assessments Receivable	1,694,201
Deferred Charges	22,627
Nondepreciable Capital Assets	2,034,895
Depreciable Capital Assets, Net	35,294,320
<i>Total Assets</i>	49,136,559
Liabilities	
Accounts Payable	409,279
Accrued Wages and Benefits	185,215
Intergovernmental Payable	364,562
Vacation Benefits Payable	41,079
Matured Compensated Absences Payable	1,169
Deferred Revenue	2,037,130
Accrued Interest Payable	43,385
Notes Payable	1,020,000
Long-Term Liabilities:	
Due Within One Year	710,142
Due In More Than One Year	11,940,002
<i>Total Liabilities</i>	16,751,963
Net Assets	
Invested in Capital Assets, Net of Related Debt	24,155,161
Restricted for:	
Capital Projects	3,865,726
Debt Service	1,139,851
Street Construction and Maintenance	463,307
Recreation Services and Programs	934,572
Police Services and Programs	29,415
Fire Services	22,329
Water Line Maintenance	170,002
JEDD	22,079
Other Purposes	122,832
Unrestricted	1,459,322
<i>Total Net Assets</i>	\$32,384,596

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities					Governmental Activities
General Government	\$2,196,480	\$733,306	\$27,449	\$0	(\$1,435,725)
Security of Persons and Property	4,447,657	385,964	2,220	129,301	(3,930,172)
Public Health Services	183,253	0	0	0	(183,253)
Transportation	2,793,299	0	1,070,199	2,728,000	1,004,900
Community Environment	399,195	373,882	6,542	0	(18,771)
Basic Utility Services	481,214	46,389	0	0	(434,825)
Leisure Time Activities	1,477,830	969,161	31,826	0	(476,843)
Capital Outlay	97,006	0	0	0	(97,006)
Interest and Fiscal Charges	534,696	0	0	0	(534,696)
<i>Total Governmental Activities</i>	<u>\$12,610,630</u>	<u>\$2,508,702</u>	<u>\$1,138,236</u>	<u>\$2,857,301</u>	<u>(6,106,391)</u>
General Revenues					
Property and Other Local Taxes Levied for:					
					1,893,397
					117,464
					112,301
					0
Municipal Income Taxes Levied for:					
					5,421,323
					44,194
					790,886
					509,923
Grants and Entitlements not Restricted to Specific Programs					745,151
Investment Earnings					58,662
Gain on Sale of Capital Assets					31,733
Miscellaneous					382,331
<i>Total General Revenues</i>					<u>10,107,365</u>
<i>Change in Net Assets</i>					4,000,974
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>28,383,622</u>
<i>Net Assets End of Year</i>					<u>\$32,384,596</u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	General	Family Recreation Center	Special Assessment Bond Retirement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$367,787	\$732,323	\$0	\$0	\$2,071,147	\$3,171,257
Cash and Cash Equivalents in Segregated Accounts	5,192	0	0	0	0	5,192
Materials and Supplies Inventory	780	0	0	0	0	780
Accrued Interest Receivable	5,528	0	0	0	0	5,528
Accounts Receivable	49,309	17,990	0	0	1,291	68,590
Interfund Receivable	808,024	0	0	0	0	808,024
Intergovernmental Receivable	470,857	0	0	2,728,000	398,132	3,596,989
Prepaid Items	8,308	0	0	0	4,076	12,384
Municipal Income Taxes Receivable	837,839	128,308	0	0	130,501	1,096,648
Property Taxes Receivable	1,880,710	0	0	0	252,438	2,133,148
Special Assessments Receivable	0	0	1,694,201	0	0	1,694,201
<i>Total Assets</i>	<u>\$4,434,334</u>	<u>\$878,621</u>	<u>\$1,694,201</u>	<u>\$2,728,000</u>	<u>\$2,857,585</u>	<u>\$12,592,741</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$134,553	\$27,509	\$0	\$28,508	\$218,709	\$409,279
Accrued Wages and Benefits	153,844	15,064	0	0	16,307	185,215
Intergovernmental Payable	170,124	31,522	0	0	162,916	364,562
Interfund Payable	0	0	511,286	45,061	251,677	808,024
Matured Compensated Absences Payable	1,169	0	0	0	0	1,169
Deferred Revenue	2,209,716	1,432	1,694,201	2,728,000	575,942	7,209,291
Accrued Interest Payable	0	0	0	0	1,923	1,923
Notes Payable	0	0	0	0	1,020,000	1,020,000
<i>Total Liabilities</i>	<u>2,669,406</u>	<u>75,527</u>	<u>2,205,487</u>	<u>2,801,569</u>	<u>2,247,474</u>	<u>9,999,463</u>
Fund Balances						
Reserved for Encumbrances	103,223	15,042	0	507,833	759,874	1,385,972
Undesignated (Deficit), Reported in:						
General Fund	1,661,705	0	0	0	0	1,661,705
Special Revenue Funds	0	788,052	0	0	647,419	1,435,471
Debt Service Funds	0	0	(511,286)	0	4,877	(506,409)
Capital Projects Funds	0	0	0	(581,402)	(802,059)	(1,383,461)
<i>Total Fund Balances (Deficit)</i>	<u>1,764,928</u>	<u>803,094</u>	<u>(511,286)</u>	<u>(73,569)</u>	<u>610,111</u>	<u>2,593,278</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,434,334</u>	<u>\$878,621</u>	<u>\$1,694,201</u>	<u>\$2,728,000</u>	<u>\$2,857,585</u>	<u>\$12,592,741</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, 2005*

Total Governmental Fund Balances	\$2,593,278
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	37,329,215
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property and Other Taxes	76,472
Municipal Income Tax	12,234
Intergovernmental	3,389,254
Special Assessments	1,694,201
Total	5,172,161
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.	(41,079)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	22,627
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(41,462)
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	(9,120,331)
Special Assessment Bonds	(1,370,400)
Long Term Notes	(760,000)
Capital Lease Obligation Payable	(438,490)
Loans Payable	(493,939)
Compensated Absences Payable	(466,984)
Total	(12,650,144)
Net Assets of Governmental Activities	\$32,384,596

City of Macedonia, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Family Recreation Center	Special Assessment Bond Retirement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
Revenues						
Property and Other Local Taxes	\$1,879,163	\$0	\$0	\$0	\$227,903	\$2,107,066
Municipal Income Taxes	5,457,776	798,101	0	0	571,495	6,827,372
Charges for Services	469,284	759,999	0	0	219,753	1,449,036
Licenses, Permits and Fees	933,893	0	0	0	56,167	990,060
Intergovernmental	690,047	0	0	0	1,061,652	1,751,699
Special Assessments	0	0	128,796	0	465	129,261
Interest	43,246	400	0	0	15,016	58,662
Rentals	28,409	36,795	0	0	3,937	69,141
Donations	6,307	200	0	0	49,582	56,089
Miscellaneous	40,091	2,163	0	0	340,077	382,331
<i>Total Revenues</i>	<u>9,548,216</u>	<u>1,597,658</u>	<u>128,796</u>	<u>0</u>	<u>2,546,047</u>	<u>13,820,717</u>
Expenditures						
Current:						
General Government	2,050,421	0	0	0	119,586	2,170,007
Security of Persons and Property	3,856,171	0	0	0	647,430	4,503,601
Public Health Services	183,253	0	0	0	0	183,253
Transportation	186,900	0	0	0	1,473,732	1,660,632
Community Environment	393,014	0	0	0	0	393,014
Basic Utility Services	173,668	0	0	0	57,957	231,625
Leisure Time Activities	5,026	936,103	0	0	376,356	1,317,485
Capital Outlay	0	0	0	155,752	1,427,649	1,583,401
Debt Service:						
Principal Retirement	0	170,000	212,400	0	402,810	785,210
Current Refunding	0	0	0	0	36,957	36,957
Interest and Fiscal Charges	0	211,200	66,614	0	225,074	502,888
<i>Total Expenditures</i>	<u>6,848,453</u>	<u>1,317,303</u>	<u>279,014</u>	<u>155,752</u>	<u>4,767,551</u>	<u>13,368,073</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,699,763</u>	<u>280,355</u>	<u>(150,218)</u>	<u>(155,752)</u>	<u>(2,221,504)</u>	<u>452,644</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	0	0	0	0	147,473	147,473
Notes Issued	0	0	0	0	760,000	760,000
Loan Issued	0	0	0	0	493,939	493,939
Current Refunding	0	0	0	0	(1,780,000)	(1,780,000)
Transfers In	0	0	0	0	1,019,125	1,019,125
Transfers Out	(1,019,125)	0	0	0	0	(1,019,125)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,019,125)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>640,537</u>	<u>(378,588)</u>
<i>Net Change in Fund Balances</i>	1,680,638	280,355	(150,218)	(155,752)	(1,580,967)	74,056
<i>Fund Balances (Deficit)</i>						
<i>Beginning of Year - Restated (See Note 3)</i>	84,290	522,739	(361,068)	82,183	2,191,078	2,519,222
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,764,928</u>	<u>\$803,094</u>	<u>(\$511,286)</u>	<u>(\$73,569)</u>	<u>\$610,111</u>	<u>\$2,593,278</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, 2005*

Net Change in Fund Balances - Total Governmental Funds \$74,056

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	1,489,265	
Current Year Depreciation	(1,474,767)	
Total		14,498

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. (135,040)

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

Delinquent Property Taxes	16,096	
Municipal Income Tax	(61,046)	
Intergovernmental	2,932,900	
Special Assessments	(128,796)	
Total		2,759,154

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,565,210

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	8,085	
Amortization of Deferred Gain on Refunding	(2,057)	
Amortization of Issuance Costs	(1,468)	
Amortization of Premium on Bonds	589	
Total		5,149

Other financing sources in the governmental funds increased long-term liabilities

in the statement of net assets.

Notes Issued	(760,000)	
Loan Issued	(493,939)	
Total		(1,253,939)

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

Compensated Absences	12,725	
Vacation Benefits Payable	(40,839)	
Total		(28,114)

Change in Net Assets of Governmental Activities \$4,000,974

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property and Other Local Taxes	\$2,140,780	\$1,619,505	\$1,741,659	\$122,154
Municipal Income Taxes	8,229,242	6,225,443	5,218,808	(1,006,635)
Charges for Services	577,223	436,670	469,607	32,937
Fines, Licenses and Permits	663,156	501,679	935,386	433,707
Intergovernmental	893,713	676,096	727,092	50,996
Interest	46,774	35,386	38,054	2,668
Rentals	34,919	26,416	28,409	1,993
Donations	7,752	5,865	6,307	442
Miscellaneous	50,199	37,976	40,840	2,864
<i>Total Revenues</i>	<u>12,643,758</u>	<u>9,565,036</u>	<u>9,206,162</u>	<u>(358,874)</u>
Expenditures				
Current:				
General Government	1,753,824	1,753,824	2,117,348	(363,524)
Security of Persons and Property	4,195,620	4,197,140	3,964,208	232,932
Public Health Services	179,000	185,550	183,253	2,297
Transportation	181,201	181,201	194,957	(13,756)
Community Environment	413,716	413,716	376,929	36,787
Basic Utility Services	188,268	188,268	209,882	(21,614)
Leisure Time Activities	3,400	3,400	5,026	(1,626)
<i>Total Expenditures</i>	<u>6,915,029</u>	<u>6,923,099</u>	<u>7,051,603</u>	<u>(128,504)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>5,728,729</u>	<u>2,641,937</u>	<u>2,154,559</u>	<u>(487,378)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	212,548	212,548
Transfers Out	(2,114,594)	(2,495,325)	(1,019,125)	1,476,200
<i>Total Other Financing Sources (Uses)</i>	<u>(2,114,594)</u>	<u>(2,495,325)</u>	<u>(806,577)</u>	<u>1,688,748</u>
<i>Net Change in Fund Balance</i>	3,614,135	146,612	1,347,982	1,201,370
<i>Fund Balance (Deficit) Beginning of Year</i>	(377,356)	(377,356)	(377,356)	0
Prior Year Encumbrances Appropriated	101,423	101,423	101,423	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$3,338,202</u>	<u>(\$129,321)</u>	<u>\$1,072,049</u>	<u>\$1,201,370</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 Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal Income Tax	\$0	\$739,600	\$800,000	\$60,400
Charges for Services	1,184,446	754,451	746,632	(7,819)
Interest	635	404	400	(4)
Rentals	58,371	37,180	36,795	(385)
Donations	317	202	200	(2)
Other	3,431	2,186	2,163	(23)
<i>Total Revenues</i>	1,247,200	1,534,023	1,586,190	52,167
Expenditures				
Current:				
Leisure Time Activities	997,311	1,010,511	959,979	50,532
<i>Total Expenditures</i>	997,311	1,010,511	959,979	50,532
<i>Excess of Revenues Under Expenditures</i>	249,889	523,512	626,211	102,699
Other Financing Uses				
Transfers Out	(381,200)	(381,200)	(381,200)	0
<i>Net Change in Fund Balance</i>	(131,311)	142,312	245,011	102,699
<i>Fund Balance Beginning of Year</i>	452,935	452,935	452,935	0
Prior Year Encumbrances Appropriated	10,411	10,411	10,411	0
<i>Fund Balance End of Year</i>	<u>\$332,035</u>	<u>\$605,658</u>	<u>\$708,357</u>	<u>\$102,699</u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	Private Purpose Trust		Private Purpose Trust Total	Agency
	Park & Recreation Trust	Petroleum UST Fund		
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,500	\$11,000	\$13,500	<u>\$85,621</u>
Liabilities				
Funds on Deposit	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$85,621</u>
Net Assets				
Held in Trust for Park/Clean Up of Underground Storage Tank	<u>\$2,500</u>	<u>\$11,000</u>	<u>\$13,500</u>	

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2005

	Petroleum UST Fund	Park & Recreation Trust	Private Purpose Trust Total
Additions			
Rentals	\$0	\$2,500	\$2,500
Deductions	0	0	0
<i>Change in Net Assets</i>	0	2,500	2,500
<i>Net Assets Beginning of Year</i>	11,000	0	11,000
<i>Net Assets End of Year</i>	<u>\$11,000</u>	<u>\$2,500</u>	<u>\$13,500</u>

See accompanying notes to the basic financial statements

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 - Description of the City and Reporting Entity

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

Reporting Entity

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

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

The City is associated with one jointly governed organization, the Northeast Ohio Public Energy Council and one joint venture, 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, 2005

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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.

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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. The City has two trust funds. The petroleum fund is a private purpose trust fund established to pay for costs of third party damages and corrective actions necessary to clean up a petroleum release from the City's underground storage tank. The park and recreation fund is a private purpose trust established to account for revenues from the rental of park facilities. 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, building assessment fees collected for the Ohio Board of Building Standards and emergency response billings.

C. Measurement Focus

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

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

The private purpose trust funds are reported using a flow of economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statement presented for fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, but which were levied to finance year 2006 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.

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, 2005

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 2005, the City's investments were limited STAROhio, Federal National Mortgage Association bonds and discount notes, Federal Home Loan Mortgage Corporation bonds and discount notes and United States Treasury bonds.

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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$43,246, which includes \$6,685 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, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

The City's only capital assets are general capital assets. General capital assets are those assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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 and traffic signals and includes infrastructure acquired prior to December 31, 1980.

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 termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

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 and long-term notes are recognized as a liability on the governmental fund financial statements when due.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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 FAIR program.

The government wide statement of net assets report \$6,770,113 of restricted net assets of which \$559,755 is restricted by enabling legislation.

O. Interfund Activity

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

P. Extraordinary and Special Items

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

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 Principles and Restatement of Fund Equity

Changes in Accounting Principles For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

GASB Statement No. 40 establishes new disclosure requirements associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

Restatement of Fund Balances/Net Assets During 2005, it was determined that notes payable reported as fund obligations were overstated since they should have been only long-term obligations. The restatement had the following effect on fund balances at December 31, 2004:

	General	Family Recreation Center	Special Assessment Bond Retirement	Route 82 Widening	Other Governmental Funds	Total
Fund Balance (Deficit), December 31, 2004	\$84,290	\$522,739	(\$361,068)	\$82,183	\$1,461,078	\$1,789,222
Notes Payable	0	0	0	0	730,000	730,000
Restated Fund Balance (Deficit), December 31, 2004	<u>\$84,290</u>	<u>\$522,739</u>	<u>(\$361,068)</u>	<u>\$82,183</u>	<u>\$2,191,078</u>	<u>\$2,519,222</u>

During 2005, it was determined that deferred revenue for special assessment receivable was understated and the liability for compensated absences was overstated. The effect on net assets from the adjustments is as follows:

	Governmental Activities
Net Assets, December 31, 2004	\$27,926,806
Deferred Revenue	(22,300)
Compensated Absences Payable	479,116
Restated Net Assets, December 31, 2004	<u>\$28,383,622</u>

Note 4 - Compliance and Accountability

A. Legal Compliance

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>	
Community Development Block Grant	\$2,236
<i>Debt Service Fund:</i>	
Special Assessment Bond Retirement	511,286
<i>Capital Projects Funds:</i>	
Route 82 Widening	45,061
Highland Road	219,542
Highland Bridge	29,899

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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

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:

	<u>Original Estimated Resources Plus Beginning Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
<i>Special Revenue Funds</i>			
Joint Economic Development District (JEDD)	\$146,085	\$169,900	\$23,815
Street Construction, Maintenance and Repair	414,534	1,221,794	807,260
Community Development Block Grant	6,927	8,000	1,073
Sub-Division Trees	(610)	40,000	40,610
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(25,468)	301,400	326,868
<i>Capital Projects Funds</i>			
North Freeway Drive	834,962	1,740,200	905,238
Highland Bridge	0	100,000	100,000
Road Resurfacing	0	855,400	855,400
Fire Department Apparatus	0	213,900	213,900
Route 82 Widening	82,183	102,500	20,317
Shepard Road Sanitary Sewers	0	287,500	287,500
Route 82 and Highland Road	0	285,500	285,500

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:

	<u>Final Estimated Resources Plus Beginning Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
General Fund	\$9,289,103	\$9,418,424	\$129,321
<i>Special Revenue Funds</i>			
Sub-Division Tree	27,140	42,000	14,860
<i>Debt Service Fund</i>			
Special Assessment Bond Retirement	(59,668)	301,400	361,068
<i>Capital Projects Funds</i>			
Capital Improvements	713,049	973,010	259,961

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 did not certify all expenditures as required by Ohio law.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

B. Fund Deficits

The following funds had deficit fund balances at December 31, 2005:

Special Revenue Funds:	
Police Pension	\$42,783
Community Development Block Grant	3,061
Debt Service Fund	
Special Assessment Bond Retirement	511,286
Capital Project Funds:	
Route 82 Widening	73,569
North Freeway Drive	493,398
Highland Road	219,542
Highland Bridge	39,472
Road Resurfacing	155,000
Fire Apparatus	85,000

The deficit in the police pension special revenue fund is the result of adjustments for accrued liabilities. The deficits in the Community Development Block Grant special revenue fund, Special Assessment Bond Retirement fund and the Route 82 widening, Highland Road and Highland bridge capital projects funds resulted from expenditures exceeding revenues. The City will review its operations to determine the steps needed to be taken to eliminate the situation.

The deficits in the North Freeway Drive, Road Resurfacing and Fire Apparatus 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.

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

Note 5 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP 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).

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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

Net Change in Fund Balance

	General	Family Recreation Center
GAAP Basis	\$1,680,638	\$280,355
Net Adjustment for Revenue Accruals	(129,506)	(11,468)
Net Adjustment for Expenditure Accruals	(84,671)	90
Encumbrances	(118,479)	(23,966)
Budget Basis	\$1,347,982	\$245,011

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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, \$1,988,544 of the City's bank balance of \$2,291,833 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Investments

Investments are reported at fair value. All investments are in an internal investment pool. As of December 31, 2005, the City had the following investments:

	Fair Value	Average Maturity
Repurchase Agreement		
Federal National Mortgage Association Bonds	\$35,000	Daily
5/3rd Bank Investment Account		
Federal Home Loan Mortgage Corporation Discount Notes	195,620	172 days
Federal Home Loan Mortgage Corporation Bonds	99,344	684 days
Federal National Mortgage Association Discount Notes	685,620	165 days
Federal National Mortgage Association Bonds	98,688	438 days
United States Treasury Notes	198,672	607 days
STAROhio	59,172	39 days
	\$1,372,116	

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 AAAM 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, 2005:

Investment	Percentage of Investment
Repurchase Agreement	
Federal Home Loan Mortgage Bonds	2.88%
5/3rd Bank Investment Account	
Federal Home Loan Mortgage Corporation Discount Notes	14.20%
Federal Home Loan Mortgage Corporation Bonds	7.22%
Federal National Mortgage Association Discount Notes	49.80%
Federal National Mortgage Association Bonds	7.17%
United States Treasury Notes	14.43%
STAROhio	4.30%

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Note 7 - Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, special assessments, accounts (billings for user charged services and court fines), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

Special assessments expected to be collected in more than one year amount to \$1,694,201 in the special assessment bond retirement fund. At December 31, 2005 the amount of delinquent special assessments was \$137,264.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$8.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based as follows:

Real Estate	
Residential/Agriculture	\$369,059,800
Tangible Personal Property	
Public Utility	17,705,970
General Tangible Personal Property	37,632,555
	<hr/>
Total Valuation	<u>\$424,398,325</u>

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Macedonia. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 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 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Taxes

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

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

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

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Local Government	\$306,453
Gasoline Excise Tax	78,816
Homestead and Rollback	81,843
Municipal Cents per Gallon Gasoline Tax	78,792
Motor Vehicle License	141,834
Permissive License Tax	85,968
Emergency Flood Response	1,938
Ohio Public Department of Public Safety	175
Local Government Revenue Assistance	28,716
Court Fines	2,474
Inheritance Tax	35,473
Grants	2,737,289
Liquor Permits	1,180
Traffic Signs	123
Prisoner Housing	15,915
	<hr/>
<i>Total Governmental Activities</i>	<u><u>\$3,596,989</u></u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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. The vacation benefits liability at year-end is reported as a fund liability in the general, family recreation center, park and recreation and street construction and maintenance special revenue funds.

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 12/31/2005, the City contracted with the St. Paul Travelers Insurance Company, as follows:

Type of Coverage	Coverage	Deductible
Cincinnati Insurance Company		
Blanket Property, and Contents, Replacement	\$15,919,950	\$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)	922,989	1,000
Miscellaneous Equipment (Unscheduled)	60,000	250
Tower and Antena	40,000	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
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$1,169,147	\$0	(\$53,487)	\$1,115,660
Construction in Progress	0	919,235		919,235
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,169,147</u>	<u>919,235</u>	<u>(53,487)</u>	<u>2,034,895</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	12,784,013	770	(105,513)	12,679,270
Improvements	76,835	31,077	0	107,912
Machinery and Equipment	1,434,087	325,426	(20,715)	1,738,798
Furniture and Fixtures	12,787	19,846	0	32,633
Vehicles	2,139,531	115,058	(41,196)	2,213,393
Infrastructure				
Roads	15,131,498	63,644	0	15,195,142
Water Mains	5,110,773	14,209	0	5,124,982
Storm Sewers	10,383,427	0	0	10,383,427
Traffic Signals	412,000	0	0	412,000
Bridges	110,000	0	0	110,000
<i>Total Capital Assets Being Depreciated</i>	<u>47,594,951</u>	<u>570,030</u>	<u>(167,424)</u>	<u>47,997,557</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(2,066,886)	(248,795)	43,260	(2,272,421)
Improvements	(22,425)	(3,897)	0	(26,322)
Machinery and Equipment	(431,807)	(129,124)	15,108	(545,823)
Furniture and Fixtures	(3,985)	(698)	0	(4,683)
Vehicles	(545,205)	(143,538)	27,503	(661,240)
Infrastructure				
Roads	(5,467,278)	(625,228)	0	(6,092,506)
Water Mains	(867,122)	(98,656)	0	(965,778)
Storm Sewers	(1,693,977)	(199,742)	0	(1,893,719)
Traffic Signals	(198,056)	(22,889)	0	(220,945)
Bridges	(17,600)	(2,200)	0	(19,800)
<i>Total Accumulated Depreciation</i>	<u>(11,314,341)</u>	<u>(1,474,767) *</u>	<u>85,871</u>	<u>(12,703,237)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>36,280,610</u>	<u>(904,737)</u>	<u>(81,553)</u>	<u>35,294,320</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$37,449,757</u>	<u>\$14,498</u>	<u>(\$135,040)</u>	<u>\$37,329,215</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

* Depreciation expense was charged to governmental functions as follow:

General Government	\$103,585
Security of Persons and Property	190,731
Transportation	700,407
Community Environment	9,631
Basic Utility Services	299,110
Leisure Time Activities	171,303
	171,303
 Total	 \$1,474,767

Note 11 - Notes Payable

Note activity for the year ended December 31, 2005, consisted of the following:

	Outstanding 12/31/04	Issued	Retired	Outstanding 12/31/05
Various Purpose Improvement Note Series 2004-1	\$50,000	\$0	\$50,000	\$0
Various Purpose Improvement Note Series 2005	0	240,000	0	240,000
North Freeway Drive Improvement Note Series 2004	75,000	0	75,000	0
North Freeway Drive Improvement Note Series 2005	\$0	\$780,000	\$0	780,000
	\$125,000	\$1,020,000	\$125,000	\$1,020,000
<i>Total</i>	<i>\$125,000</i>	<i>\$1,020,000</i>	<i>\$125,000</i>	<i>\$1,020,000</i>

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 4, 2004 the City issued a \$1,050,000 various purpose improvement note. The note had a maturity date of June 3, 2005. The note was distributed between the fire apparatus capital projects fund (\$210,000) and the road resurfacing capital projects fund (\$840,000). The note was presented as a long-term liability on the financial statements at December 4, 2004. \$50,000 of the 2004 note outstanding at December 31, 2004 should have been presented as a fund liability and has been restated. On June 3, 2005, the City paid \$50,000 (\$20,000 from the fire apparatus fund and \$30,000 from the road resurfacing fund) against the \$1,050,000 note and issued the remaining \$1,000,000 in a new note. The 2005 note has a maturity date of June 2, 2006. Of the note proceeds, \$190,000 was receipted into the fire apparatus fund and \$810,000 was receipted into the road resurfacing fund. \$760,000 of the 2005 note has been presented as a long-term liability. The remaining \$240,000 has been reported as a fund obligation.

On December 15, 2004, the City issued an \$855,000 North Freeway Drive improvement note. The note had a maturity date of December 14, 2005 and the proceeds were receipted into the North Freeway Drive capital projects fund. The note was presented as a fund liability on the financial statements at December 31, 2004. \$780,000 of the 2004 note outstanding at December 31, 2004 should have been presented as a long-term liability and only \$75,000 of the note should have been presented as a fund liability. On December 14, 2005, the City paid \$75,000 against the note and issued a new note for the remaining \$780,000 with a maturity date of September 28, 2006.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Note 12 - 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:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities:			
General Obligation Bonds			
Various Purpose, 2001	3.45-4.90 %	\$8,355,000	December 1, 2016
Recreation Center, 2003	2.00-4.00	2,215,000	December 1, 2016
Special Assessments			
Highland Pointe Parkway, 1998	6.50	860,000	December 1, 2005
Highland Road Improvement Variance, 2003	2.00	1,260,000	December 1, 2023
Highland Road Improvement, 1996	6.25	294,100	December 1, 2016
Long Term Notes Payable			
Various Purpose Improvement Note	6.00	760,000	June 4, 2006

Changes in long-term obligations of the City during 2005 are as follows:

	Balance 12/31/04	Increase	Decrease	Balance 12/31/05	Amounts Due in One Year
General Obligation Bonds					
Various Purpose Bonds, 2001	\$7,510,000	\$0	\$300,000	\$7,210,000	\$315,000
Recreation Center, 2003					
Serial and Term Bonds	2,070,000	0	150,000	1,920,000	150,000
Premium	7,068	0	589	6,479	0
Deferred Gain on Refunding	(17,616)	0	(1,468)	(16,148)	0
<i>Total General Obligation Bonds</i>	<u>9,569,452</u>	<u>0</u>	<u>449,121</u>	<u>9,120,331</u>	<u>465,000</u>
Special Assessment Bonds					
with Governmental Commitment					
Highland Pointe Parkway	172,000	0	172,000	0	0
Highland Road Improvement Variance	1,215,000	0	50,000	1,165,000	50,000
Highland Road Improvement	218,100	0	12,700	205,400	13,500
<i>Total Special Assessment Bonds</i>	<u>1,605,100</u>	<u>0</u>	<u>234,700</u>	<u>1,370,400</u>	<u>63,500</u>
Ohio Public Works Commission Loan (OPWC)					
2005 North Freeway Drive Project	0	493,939	0	493,939	0
Long Term Notes					
Various Purpose Improvement Note, 2004	1,000,000	0	1,000,000	0	0
Various Purpose Improvement Note, 2005	0	760,000	0	760,000	0
North Freeway Drive Improvement Note, 2005	780,000	0	780,000	0	0
<i>Total Long Term Notes</i>	<u>1,780,000</u>	<u>760,000</u>	<u>1,780,000</u>	<u>760,000</u>	<u>0</u>
Capital Leases	539,000	0	100,510	438,490	104,030
Compensated Absences Payable	479,709	1,779	14,504	466,984	77,612
Total Governmental Long-Term Liabilities	<u>\$13,973,261</u>	<u>\$1,255,718</u>	<u>\$2,578,835</u>	<u>\$12,650,144</u>	<u>\$710,142</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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

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

The Ohio Public Works Commission (OPWC) loan for North Freeway Drive Project has not been finalized and therefore repayment schedule is not included in the schedule of debt requirements.

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 \$1,920,000 as of December 31, 2005.

The City's overall legal debt margin was \$33,162,762 at December 31, 2005. The unvoted legal debt margin was \$11,942,846. Principal and interest requirements to retire the long-term obligations as of December 31, 2005, are as follows:

	General Obligation Bonds		Special Assessment Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$465,000	\$398,281	\$63,500	\$53,640	\$528,500	\$451,921
2007	480,000	382,681	64,400	51,796	544,400	434,477
2008	500,000	364,954	65,300	49,897	565,300	414,851
2009	865,000	344,856	71,200	47,440	936,200	392,296
2010	855,000	306,654	72,300	44,777	927,300	351,431
2011-2016	5,965,000	998,934	493,700	205,558	6,458,700	1,204,492
2017-2020	0	0	290,000	69,400	290,000	69,400
2021-2023	0	0	250,000	20,200	250,000	20,200
Total	<u>\$9,130,000</u>	<u>\$2,796,360</u>	<u>\$1,370,400</u>	<u>\$542,708</u>	<u>\$10,500,400</u>	<u>\$3,339,068</u>

Note 13 - Interfund Transfers and Balances

A. Interfund Transfers

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Interfund transfers for the year ended December 31, 2005 consisted of transfers to the Street Construction, Maintenance and Repair special revenue fund for \$913,325 and to the Parks and Recreation special revenue fund for \$105,800. Both transfers were made from the General fund.

B. Interfund Balances

Interfund Balances at December 31, 2005 consisted of the following amounts and represent advances to offset deficit cash. All are expected to be paid within one year.

Interfund Payable	Interfund Receivable General Fund
Governmental Activities	
Major Funds	
Special Assessment Bond Retirement	\$511,286
Route 82 Widening	45,061
Nonmajor Funds	
Community Development Block Grant	2,236
Highland Road	219,542
Highland Bridge	29,899
<i>Total Governmental Activities</i>	\$808,024

Note 14 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City of Macedonia 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, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, 2004, and 2003 were \$373,568, \$265,229, and \$379,502, respectively; 87.66 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$1,953 made by the City and \$1,225 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$146,450 and \$114,271 for the year ended December 31, 2005, \$127,381 and \$107,865 for the year ended December 31, 2004, and \$169,233 and \$95,875 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 68.29 percent for police and 91.50 percent for firefighters has been contributed for 2005.

Note 15 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$109,953. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, 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 health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$96,595 for police and \$54,498 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004; (the latest information available) was \$102,173,796 which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 16 - Capital Leases

The City entered into lease agreements for a rescue vehicle and two snow plows. 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

Capital assets acquired by lease have been capitalized and depreciated as follows as of December 31, 2005:

Governmental Activities	
<i>Capital Assets, being depreciated:</i>	
Vehicles	\$539,000
Less Accumulated Depreciation	(62,883)
<i>Capital Assets, Net</i>	<u>\$476,117</u>

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, 2005.

Year Ending December 30,	Governmental Activities
2006	\$118,357
2007	118,357
2008	118,357
2009	118,357
Total	473,428
Less: Amount Representing Interest	(34,938)
Present Value of Net Minimum Lease Payments	<u>\$438,490</u>

Note 17 - Jointly Governed Organizations

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 2005. Financial information can be obtained by contacting the Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2005

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, 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 2005, the JEDD had total distributions of \$165,903, of which \$92,547 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, 2005.

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 Event

On June 6, 2006, the City retired \$240,000 (\$85,000 fire apparatus fund and \$155,000 road resurfacing fund) against the \$1,000,000 various improvements note and issued the remaining \$760,000 in new notes with a maturity date of June 1, 2007.

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Auditor of State Betty Montgomery

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

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

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2006, wherein we noted we were unable to obtain assurance regarding land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt; and wherein we noted, the City restated its Other Governmental Funds fund balance and 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-001 through 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the City's management dated October 30, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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 2005-005 through 2005-007. In a separate letter to the City's management dated October 30, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

October 30, 2006

**CITY OF MACEDONIA
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Material Weakness

Capital Assets

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

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.
- Complete appropriate documentation forms for the addition, deletion or movement of an asset from one department/function to another with approval for deletions by City Council recorded in the City's minute records.
- Maintain a detailed capital asset list by asset class (i.e., buildings, vehicles, etc) and by department/function which will assist in the preparation of the City's basic financial statements. The list should also accurately reflect all current and accumulated depreciation, City affixed tag numbers, serial numbers (where applicable), asset placed into service date, salvage value, market value, etc.
- Perform a physical count of capital assets to ensure all appropriate assets are properly included or excluded on the capital asset list and then perform periodic physical counts, at least bi-annually, to ensure the capital asset list properly reflects the City's capital assets and department utilizing the asset.

Officials' Response: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

Finding Number 2005-002

Reportable Condition

Cash Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of the cash in the accounting records. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time.

The City's book to bank balance was not fully reconciled each month during 2005. At December 31, 2005, an unreconciled amount of \$12,653 was initially reported on the City's bank reconciliation. The components of this difference were subsequently determined and adjusted after year end by management.

The City should ensure all adjusting factors are supported by appropriate documentation and all errors noted in the reconciliation process are corrected as soon as possible. This includes, but is not limited to, ensuring all deposits per the bank statement(s) agree to amounts receipted in the financial records, ensuring all checks clearing the bank agree to the amounts for which the checks were written, and ensuring all checks clearing the monthly bank statement(s) are cleared on the financial records.

Without complete and accurate monthly bank reconciliations, the City's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by management. The City should perform complete monthly bank reconciliations in a timely manner. Also, a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the City Council each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

FINDING NUMBER 2005-003

Reportable Condition

Building Department Permit Fees

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

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: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

FINDING NUMBER 2005-004

Reportable Condition

Posting Estimated Resources and Appropriations

Budgeted revenues posted to the City's Revenue Report did not agree to the City's Amended Certificate of Estimated Resources for several funds during the months tested as follows:

Fund	Certificate of Estimated Resources	System Budgeted Revenues	Variance
December			
General Fund (11A, 12J, 31C, 31D)	\$9,565,036	\$9,752,860	(\$187,823)
Special Assessment Bond (13B)	301,400	1,345,600	(1,044,200)
Capital Improvement (14C)	676,775	632,201	44,574
Family Recreation Center (14N)	1,534,023	1,469,350	64,673
SCMR (12A)	1,374,059	1,221,794	152,265
Parks and Recreation (12D)	283,300	253,300	30,000
Fire Operating Levy (12F)	131,756	125,000	6,756
Vehicle License Tax (12G)	90,600	90,000	600
Police Pension (12H)	136,566	118,000	18,566
CDBG (12N)	23,840	8,000	15,840
Mayor's Court Computer (12Q)	21,600	12,000	9,600
Sub-division Tree (12V)	27,750	40,000	(12,250)
GO Bond Retirement (13C, 13D)	863,400	301,400	562,000
SR 82 Widening (14E)	5,619,160	5,721,660	(102,500)
North Freeway Drive (14G)	2,520,200	1,740,200	780,000
Shepard Rd Sanitary Sewer (14I)	287,500	0	287,500
Highland Rd Bridge (14P)	720,746	620,746	100,000
Road Resurfacing Note (13K, 13W)	857,650	855,400	2,250
FD Apparatus Acquisition Note (13U)	215,000	213,900	1,100
Nordonia Hills Home Days (25B)	17,936	11,700	6,236
September			
General Fund (11A, 12J, 31C, 31D)	9,565,036	9,752,860	(187,824)
Capital Improvement (14C)	503,475	632,201	(128,726)
Sub-division Tree (12V)	1,247,200	1,469,350	(222,150)
SCMR (12A)	1,179,294	1,221,794	(42,500)
Fire Operating Levy (12F)	131,756	125,000	6,756
Vehicle License Tax (12G)	90,600	90,000	600
Police Pension (12H)	136,566	118,000	18,566
Mayor's Court Computer (12Q)	21,600	12,000	9,600
GO Bond Retirement (13C, 13D)	863,400	1,345,600	(482,200)
SR 82 Widening (14E)	5,619,160	5,721,660	(102,500)
Shepard Rd. Sanitary Sewer (14I)	287,500	0	287,500
Highland Road Bridge (14P)	720,746	620,746	100,000

FINDING NUMBER 2005-004 (Continued)

Reportable Condition (Continued)

Fund	Certificate of Estimated Resources	System Budgeted Revenues	Variance
May			
General Fund (11A, 12J, 31C, 31D)	9,581,200	9,752,860	(171,659)
Capital Improvement (14C)	503,475	632,201	(128,726)
Family Recreation Center (14N)	1,247,200	1,469,350	(222,150)
SCMR (12A)	1,179,294	1,221,794	(42,500)
Fire Operating Levy (12F)	131,756	125,000	6,756
Vehicle License Tax (12G)	90,600	90,000	600
Police Pension (12H)	136,566	118,000	18,566
Mayor's Court Computer (12Q)	21,600	12,000	9,600
GO Bond Retirement (13C, 13D)	863,400	1,345,600	(482,200)
SR 82 Widening (14E)	102,500	205,000	(102,500)
Shepard Rd. Sanitary Sewer (14I)	287,500	0	287,500
Highland Road Bridge (14P)	100,000	0	100,000

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

Fund	Appropriation Authority	System Budgeted Expenditures	Variance
December			
General Fund (11A, 12J, 31C, 31D)	\$9,399,655	\$9,411,191	(\$11,536)
Capital Improvement (14C)	973,010	829,205	143,805
Sub-division Tree (12V)	42,000	40,000	2,000
North Freeway Drive (14G)	2,595,200	1,740,200	855,000
September			
Capital Improvement (14C)	973,010	829,205	143,805

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 is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

FINDING NUMBER 2005-005

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) requires no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

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

During 2005, 32 of the 67 expenditures tested (48%) were not certified by the Finance Director prior to incurring the obligation. It was also found none of the three exceptions noted above were utilized for the items found to be in noncompliance. The City should certify the availability of funds for expenditures and also implement the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

Officials' Response: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

FINDING NUMBER 2005-006

Material Noncompliance

Ohio Rev. Code Section 5705.10 requires money 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 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:

Community Development Block Grant	\$2,236
Special Assessment Bond Retirement	511,286
Route 82 Widening	45,061
Highland Road	219,542
Highland Bridge	29,899

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

Officials' Response: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

FINDING NUMBER 2005-007

Material Noncompliance

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 plus beginning balances in the following funds:

Fund	Original Estimated Resources Plus Beginning Balances	Original Appropriations	Excess
Joint Economic Development District (JEDD)	\$146,085	\$169,900	\$23,815
Street Construction, Maintenance and Repair	414,534	1,221,794	807,260
Community Development Block Grant	6,927	8,000	1,073
Sub-Division Trees	(610)	40,000	40,610
Special Assessment Bond Retirement	(25,468)	301,400	326,868
North Freeway Drive	834,962	1,740,200	905,238
Highland Bridge	-	100,000	100,000
Road Resurfacing	-	855,400	855,400
Fire Department Apparatus	-	213,900	213,900
Route 82 Widening	82,183	102,500	20,317
Shepard Road Sanitary Sewer	-	287,500	287,500
Route 82 and Highland Road	-	285,500	285,500

FINDING NUMBER 2005-007 (Continued)

Material Noncompliance (Continued)

Total final appropriations exceeded total final estimated resources plus beginning balances in the following funds:

Fund	Final Estimated Resources	Final Appropriations	Excess
General Fund	\$9,289,103	\$9,418,424	\$129,321
Sub-Division Tree	27,140	42,000	14,860
Special Assessment Bond			
Retirement	(59,668)	301,400	361,068
Capital Improvements	713,049	973,010	259,961

Officials' Response: The City is committed to improving its operations by incorporating the suggestions made by the Auditor of State. All findings and recommendations will be referred to the City's Audit Committee for further review and recommended action.

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**CITY OF MACEDONIA
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	<p>Sunoco Contract The City's Mayor relative is the owner of a Sunoco gas station from which the City purchases fuel. The City Council should approve a contract with this vendor to ensure there is no conflict of interest.</p>	Yes	Different correction action taken: The Finance Director and Law Director have reviewed the vendor relationship and do not believe there to be a conflict of interest.
2004-002	<p>Ohio Rev. Code Section 5705.41(D) – certain expenditures were not certified by the Finance Director prior to incurring the obligation.</p>	No	Repeated as Finding Number 2005-005
2004-003	<p>Ohio Rev. Code Section 9.38 – certain receipts were not deposited with the Finance Director or designated depository for a period ranging between 2 to 14 business days after receipt.</p>	No	Repeated as a management letter comment
2004-004	<p>Ohio Rev. Code Section 5705.39 – total appropriations exceeded total estimated resources in certain funds.</p>	No	Repeated as Finding Number 2005-007
2004-005	<p>Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 certain interfund transfers were made contrary to the Ohio Rev. Code.</p>	No	Repeated in the management letter.
2004-006	<p>Ohio Rev. Code Section 5705.10 - certain funds had negative fund balances at year-end</p>	No	Repeated as Finding Number 2005-006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-007	Capital Assets – A comprehensive written capital asset policy nor comprehensive capital asset records were maintained	No	Repeated as Finding Number 2005-001
2004-008	Building Department Permit Fees – The City’s permit software allows permit records to be permanently deleted and there is no monitoring procedures in place to review/approve deleted or voided transactions.	No	Repeated as Finding Number 2005-003
2004-009	Posting Estimated Resources and Appropriations – 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	Repeated as Finding Number 2005-004
2004-010	Cash/Bank Reconciliation – The City’s bank reconciliations were not balanced from October through December 2004.	No	Repeated as Finding Number 2005-002



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF MACEDONIA

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2006**