



Dave Yost • Auditor of State

**CITY OF MACEDONIA
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and 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, 2011, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Macedonia, Summit County, Ohio, as of December 31, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the General, Street Construction, Maintenance and Repair, and Family Recreation Center Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3B, City of Macedonia restated its January 1, 2011 governmental fund balance due to change in fund structure as a result of implementing the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In addition, as described in Note 3D to the basic financial statements, the City made adjustments to capital assets due to errors and omissions. Net assets were restated as a result of these adjustments.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

September 28, 2012

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

The management's discussion and analysis of the City of Macedonia's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are:

- City income tax revenue totaled \$7,164,822. This is an increase of \$1,210,162 or 20.32 percent from 2010. This can be attributed to an increase in cash receipts due to a 0.25 percent income tax rate increase for the next two years.
- Total assets increased by \$280,942, a 0.49 percent increase from 2010.
- Total net assets increased by \$1,299,578, a 3.19 percent increase from 2010.
- Total capital assets, net of depreciation decreased \$1,866,423, a 3.99 percent decrease from 2010.
- Total outstanding long-term liabilities decreased \$1,064,237, a 7.60 percent decrease from 2010.
- The total governmental fund balances for the City increased from \$4,835,103 to \$6,768,886. The general fund ended the year with a fund balance of \$4,172,281.

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 provide an increasingly detailed look at our specific financial condition.

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

Reporting the City of Macedonia as a Whole

Statement of Net Assets and Statement of Activities

This document contains information about the funds used by the City to provide services to our citizens. The *statement of net assets* and the *statement of activities* answer the question, "How did the City do financially during 2011?" These statements include all assets and liabilities, except fiduciary funds, using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

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 fund; the street, construction, maintenance and repair fund; the family recreation center fund; and the special assessments bond retirement fund.

Governmental Funds

Most of the City's activities are reported in the governmental funds. Governmental funds are reported using an accounting method called modified accrual accounting. The modified accrual accounting method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *statement of net assets* and the *statement of activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The City uses fiduciary funds to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

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 2011 compared to the restated 2010 net assets. See Note 3.D for more information on the restatement.

Table 1
Net Assets

	Governmental Activities		
	2011	Restated 2010	Change
Current and Other Assets	\$ 12,990,102	\$ 10,842,737	\$ 2,147,365
Capital Assets, Net	44,808,377	46,674,800	(1,866,423)
<i>Total Assets</i>	<u>57,798,479</u>	<u>57,517,537</u>	<u>280,942</u>
Current and Other Liabilities	2,867,108	2,821,507	45,601
Long-Term Liabilities:			
Due Within One Year	1,378,342	1,295,610	82,732
Due in More Than One Year	11,564,455	12,711,424	(1,146,969)
<i>Total Liabilities</i>	<u>15,809,905</u>	<u>16,828,541</u>	<u>(1,018,636)</u>
Invested in Capital Assets, Net of Related Debt	32,752,981	33,260,923	(507,942)
Restricted for:			
Capital Projects	24,189	40,508	(16,319)
Debt Service	1,054,381	1,130,741	(76,360)
Street Construction and Maintenance	276,460	399,698	(123,238)
Recreation Services and Programs	-	218	(218)
Police Services and Programs	136,281	57,131	79,150
Fire Services	189,424	119,174	70,250
Other Purposes	218,090	115,172	102,918
Unrestricted	7,336,768	5,565,431	1,771,337
<i>Total Net Assets</i>	<u>\$ 41,988,574</u>	<u>\$ 40,688,996</u>	<u>\$ 1,299,578</u>

The largest portion of the City's net assets (78.00 percent) is investments in capital assets (e.g. land, right of ways, construction in progress, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$280,942 from 2010 to 2011. The City's total liabilities decreased \$1,018,636 for the same period. The change in current assets can be attributed to the increase in cash from the increased income tax rate, offset by a reduction in capital grants and contributions plus PILOT receivables.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

Table 2 shows the changes in net assets for the years ended December 31, 2011 and 2010.

Table 2
Changes in Net Assets

	Governmental Activities		Change
	2011	2010	
Revenues			
Program Revenues:			
Charges for Services and Sales	\$ 2,418,755	\$ 2,637,713	\$ (218,958)
Operating Grants and Contributions	884,164	705,510	178,654
Capital Grants and Contributions	2,710	2,428,972	(2,426,262)
<i>Total Program Revenues</i>	<u>3,305,629</u>	<u>5,772,195</u>	<u>(2,466,566)</u>
General Revenues:			
Property Taxes	2,239,767	2,338,154	(98,387)
Payment in Lieu of Taxes	563,220	171,002	392,218
Municipal Income Taxes	7,164,822	5,954,660	1,210,162
Grants and Entitlements, not restricted	1,967,534	1,395,364	572,170
Interest	69,376	86,182	(16,806)
Miscellaneous	14,763	22,496	(7,733)
<i>Total General Revenues</i>	<u>12,019,482</u>	<u>9,967,858</u>	<u>2,051,624</u>
<i>Total Revenues</i>	<u>15,325,111</u>	<u>15,740,053</u>	<u>(414,942)</u>
Program Expenses			
General Government	2,241,667	2,240,940	727
Security of Persons and Property	5,022,347	5,274,018	(251,671)
Public Health and Welfare	127,135	205,237	(78,102)
Transportation	2,854,867	2,659,524	195,343
Community Environment	1,044,158	438,418	605,740
Basic Utility Services	649,109	561,750	87,359
Leisure Time Activities	1,615,279	1,575,381	39,898
Interest and Fiscal Charges	470,971	483,135	(12,164)
<i>Total Program Expenses</i>	<u>14,025,533</u>	<u>13,438,403</u>	<u>587,130</u>
Change in Net Assets	1,299,578	2,301,650	(1,002,072)
Net Assets Beginning of Year (restated)	40,688,996	38,387,346	2,301,650
Net Assets End of Year	<u>\$ 41,988,574</u>	<u>\$ 40,688,996</u>	<u>\$ 1,299,578</u>

Governmental Activities

The City's net assets for governmental activities increased \$1,299,578 during 2011. Table 2 indicates total revenues decreased by \$414,942. At the same time program expenses increased by \$587,130.

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 2.25 percent for 2011, an increase of 0.25% from 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 2.25 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.

Total program revenues for 2011 decreased by \$2,466,566. Operating grants and contributions increased \$178,654, capital grants and contributions decreased \$2,426,262 and charges for services and sales decreased \$218,958. The decrease in capital grants and contributions can be attributed to revenue the City received from other agencies in 2010 for the payoff of the State Infrastructure Bank Loans.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

Total general revenues for 2011 increased by \$2,051,624 compared to 2010. This increase is due to the increase in income tax and grants and entitlement revenue for 2011. The income tax revenues for 2011 were \$7,164,822. Of the \$15,325,111 in total revenues, income tax accounts for 46.75 percent of the total governmental revenues. Property taxes for 2011 were \$2,239,767.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. General revenues from grants and entitlements increased \$572,170.

During 2011, the City experienced a 4.37 percent increase in its program expenses. The largest program function for the City normally relates to security of persons and property which include police and fire services. Security of persons and property expenses decreased 4.77 percent in 2011. General government expenses which account for the basic operations of the City including council, mayor, finance, law, purchasing, civil service, engineering, and building maintenance among other departments and services, had expenses of \$2,241,667 for 2011.

The City's Funds

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

Governmental Funds

These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$22,216,769 and expenditures and other financing uses of \$20,282,986. Income tax is the City's largest revenue source.

The largest fund for the City is the general fund. The year-end fund balance for the general fund was \$4,172,281 on a modified accrual basis. This is an increase of \$1,599,525 from the 2010 ending balance.

The street construction, maintenance and repair fund ended the year with a fund balance of \$111,275. This is down \$116,975 from the year-end balance in 2010.

The family recreation center fund ended the year with a fund balance of \$1,107,603. This is down \$68,019 from the year-end balance in 2010.

The special assessments bond retirement fund ended the year with a fund balance of \$207,823. This is an increase of \$48,619 from the year-end balance in 2010.

For all governmental funds, the end of year balances increased \$1,933,783 from \$4,835,103 in 2010 to \$6,768,886 in 2011.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

General Fund Budgeting Highlights

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

The general fund supports most of the City's major activities such as the police, fire, building, and service departments as well as the legislative and most executive activities. For the general fund, the original budgeted revenues were \$8,737,123 and the final budgeted revenues were \$8,737,123. Actual revenues and other financing sources of \$13,303,331 were \$4,566,208 more than the final budget due to the City receiving more in municipal income tax revenues than anticipated and the issuance of refunding bonds during the year.

The original budget estimated expenditures and other financing uses were \$9,421,942 and the final budgeted expenditures and other financing uses were \$10,399,757. Actual expenditures and other financing uses were \$11,666,745. Expenditures were \$1,266,988 more than the final budget due to the costs of the refunding bonds issued during the year.

Capital Assets and Long-Term Obligations

Capital Assets

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

	Governmental Activities	
	2011	Restated 2010
Land	\$ 7,150,851	\$ 7,150,851
Right of ways	218,130	218,130
Construction in Progress	103,247	97,032
Buildings and Improvements	9,116,278	9,375,969
Machinery and Equipment	837,289	1,148,008
Furniture and Fixtures	-	5,734
Vehicles	1,833,624	1,941,356
Infrastructure		
Roads	12,460,383	13,289,649
Water Mains	4,386,574	4,507,357
Storm Sewers	8,364,943	8,594,757
Traffic Signals	151,762	156,129
Bridges	185,296	189,828
<i>Totals</i>	\$ 44,808,377	\$ 46,674,800

Total capital assets, net of depreciation for governmental activities of the City for 2011 were \$44,808,377, a \$1,866,423 decrease from 2010. The decrease is primarily due to \$1,811,447 in depreciation. The decrease was then offset by current year additions of approximately \$227,777. See note 10 of the basic financial statements for additional information on capital assets.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

Long-Term Obligations

On December 31, 2011, the City of Macedonia had \$9,955,000 in general obligation bonds, \$1,416,400 in special assessment bonds, \$526,191 in OPWC loans and \$70,139 in capital leases outstanding.

Table 4
Outstanding Long-Term Obligations at End of Year

	Governmental	
	2011	2010
General Obligation Bonds	\$ 10,256,180	\$ 11,232,872
Special Assessment Bonds	1,416,400	1,509,100
OPWC Loan	526,191	560,139
Capital Leases	70,139	111,766
Compensated Absences Payable	673,887	593,157
Totals	\$ 12,942,797	\$ 14,007,034

The City has issued general obligation bonds for various purposes and for the Recreation Center and City Hall/Safety Center. There is \$10,256,180 outstanding on the bonds. The special assessment bonds are for street construction on Highland Road and North Freeway Drive. The OPWC loan is for the North Freeway Drive project and is also being paid by special assessments. The capital leases were for a tractor, two trucks and three copiers.

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

Current Financial Related Activities

The Administration and City Council have committed the City to financial excellence and work hard at keeping the City's debt obligations at a minimum.

Outstanding debt is well below the City's debt capacity. The City consolidated bonds and notes in 2011 with favorable interest rates based on the timing of the market and the Aa3 credit rating provided by Moody's.

The voter approved three year 0.25 percent increase in income taxes will further help the City restore services and replace necessary capital items. The City has committed over \$750,000 in street construction, playground equipment, police vehicles and a snow plow truck for the 2012 budget. Additional staffing in the police department is also budgeted to replace the officers that were laid off in 2010.

Going forward the income tax collections are up over 10 percent from 2011 and additional new businesses have relocated to Macedonia and filled vacant buildings. Residential building continues to improve and more than 15 Permits have been issued in the spring of 2012.

City of Macedonia, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011

Regional Cooperation

The City continues to partner with Northfield Center Township through a Joint Economic Development District. Over the last several years, the District has developed significantly and provided approximately over \$100,000 to the City's general fund revenues during 2011. The City's relationship with Northfield Center Township brought both communities together in support of an Economic, Fiscal and Environmental Impact Report for the State Route 8 Corridor that includes significant acreage in both communities.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need additional financial information contact Scott M. Svab, Finance Department, 9691 Valley View Road, Macedonia, Ohio 44056, telephone (330) 468-8359 or the City website at www.Macedonia.oh.us.

**BASIC
FINANCIAL STATEMENTS**

City of Macedonia, Ohio

Statement of Net Assets
December 31, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 5,926,386
Receivables:	
Income taxes	2,196,618
Real and other taxes	2,252,306
Accounts	132,132
Special assessments	1,209,540
Payments in lieu of taxes.	311,152
Accrued interest	15,821
Due from other governments.	637,221
Materials and supplies inventory.	95,412
Unamortized bond issue costs	213,514
Capital assets:	
Nondepreciable capital assets	7,472,228
Depreciable capital assets, net	37,336,149
Total capital assets, net.	44,808,377
Total assets	57,798,479
Liabilities:	
Accounts payable	93,090
Accrued wages and benefits payable	115,135
Due to other governments.	627,999
Accrued interest payable	27,933
Unearned revenue	2,002,951
Long-term liabilities:	
Due within one year	1,378,342
Due in more than one year.	11,564,455
Total liabilities.	15,809,905
Net assets:	
Invested in capital assets, net of related debt	32,752,981
Restricted for:	
Capital projects	24,189
Debt service	1,054,381
Street construction and maintenance	276,460
Fire services	189,424
Police services and programs	136,281
Other purposes	218,090
Unrestricted	7,336,768
Total net assets	\$ 41,988,574

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Statement of Activities
For the Year Ended December 31, 2011

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
General government	\$ 2,241,667	\$ 474,207	\$ 10	\$ -	\$ (1,767,450)
Security of persons and property . . .	5,022,347	630,052	170,772	-	(4,221,523)
Public health and welfare	127,135	-	-	-	(127,135)
Transportation	2,854,867	300	710,575	2,710	(2,141,282)
Community environment	1,044,158	270,072	-	-	(774,086)
Basic utility services.	649,109	67,326	-	-	(581,783)
Leisure time activities.	1,615,279	976,798	2,807	-	(635,674)
Interest and fiscal charges	470,971	-	-	-	(470,971)
Total governmental activities	\$ 14,025,533	\$ 2,418,755	\$ 884,164	\$ 2,710	(10,719,904)
General revenues:					
Property taxes levied for:					
					1,754,797
					368,966
					116,004
					563,220
Income taxes levied for:					
					6,284,579
					880,243
Grants and entitlements not restricted					
					1,967,534
					69,376
					14,763
Total general revenues					12,019,482
Change in net assets					1,299,578
Net assets at beginning of year (restated) . . .					40,688,996
Net assets at end of year					\$ 41,988,574

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Balance Sheet
Governmental Funds
December 31, 2011

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Family Recreation Center</u>
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 3,467,725	\$ -	\$ 1,010,684
Receivables:			
Income taxes	1,882,941	-	313,677
Real and other taxes.	1,702,189	-	-
Accounts.	115,709	8,063	-
Special assessments	335,839	-	-
Payments in lieu of taxes	-	-	-
Interfund loans.	24,978	-	-
Accrued interest	15,821	-	-
Due from other funds	44,547	-	-
Due from other governments	298,560	288,714	-
Materials and supplies inventory	5,500	89,912	-
Total assets.	<u>\$ 7,893,809</u>	<u>\$ 386,689</u>	<u>\$ 1,324,361</u>
Liabilities:			
Accounts payable	\$ 54,669	\$ 11,204	\$ 18,844
Accrued wages and benefits payable	88,128	15,073	8,586
Interfund loans payable	-	-	-
Due to other funds	-	19,767	-
Due to other governments	263,744	29,646	19,577
Deferred revenue.	1,829,389	199,724	169,751
Unearned revenue	1,485,598	-	-
Total liabilities	<u>3,721,528</u>	<u>275,414</u>	<u>216,758</u>
Fund balances:			
Nonspendable	12,721	89,912	-
Restricted.	-	21,363	-
Committed	11,000	-	1,107,603
Assigned	1,992,632	-	-
Unassigned (deficit)	2,155,928	-	-
Total fund balances.	<u>4,172,281</u>	<u>111,275</u>	<u>1,107,603</u>
Total liabilities and fund balances	<u>\$ 7,893,809</u>	<u>\$ 386,689</u>	<u>\$ 1,324,361</u>

See Accompanying Notes to the Basic Financial Statements

Special Assessments Bond Retirement	Other Governmental Funds	Total Governmental Funds
\$ 207,823	\$ 1,240,154	\$ 5,926,386
-	-	2,196,618
-	550,117	2,252,306
-	8,360	132,132
851,527	22,174	1,209,540
-	311,152	311,152
-	-	24,978
-	-	15,821
-	-	44,547
-	49,947	637,221
-	-	95,412
<u>\$ 1,059,350</u>	<u>\$ 2,181,904</u>	<u>\$ 12,846,113</u>
\$ -	\$ 8,373	\$ 93,090
-	3,348	115,135
-	24,978	24,978
-	24,780	44,547
-	315,032	627,999
851,527	118,136	3,168,527
-	517,353	2,002,951
<u>851,527</u>	<u>1,012,000</u>	<u>6,077,227</u>
-	-	102,633
207,823	494,239	723,425
-	756,253	1,874,856
-	-	1,992,632
-	(80,588)	2,075,340
<u>207,823</u>	<u>1,169,904</u>	<u>6,768,886</u>
<u>\$ 1,059,350</u>	<u>\$ 2,181,904</u>	<u>\$ 12,846,113</u>

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City of Macedonia, Ohio

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2011

Total governmental fund balances		\$ 6,768,886
<i>Amounts reported for governmental activities on 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.		44,808,377
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 1,188,734	
Real and other taxes receivable	274,997	
Accounts receivable	49,965	
Intergovernmental receivable	445,291	
Special assessments receivable	1,209,540	
Total		3,168,527
On the statement of net assets interest is accrued on outstanding bonds and loans payable, whereas in governmental funds, interest is accrued when due.		(27,933)
Bond issuance costs are amortized over the life of the bonds on the statement of net assets.		213,514
Unamortized deferred charges on refundings are not recognized in governmental funds.		50,454
Unamortized premiums on bond issuance are not recognized in governmental funds.		(351,634)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(673,887)	
General obligation bonds	(9,955,000)	
Special assessment bonds	(1,416,400)	
OPWC loans	(526,191)	
Capital lease obligation	(70,139)	
Total		(12,641,617)
Net assets of governmental activities		<u>\$ 41,988,574</u>

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Family Recreation Center</u>
Revenues:			
Income taxes	\$ 5,996,289	\$ -	\$ 832,217
Real and other taxes.	1,730,343	-	-
Charges for services.	626,830	-	732,323
Licenses and permits.	270,072	-	-
Fines and forfeitures.	405,379	300	-
Intergovernmental	1,814,333	537,115	-
Special assessments	19,670	-	-
Investment income.	69,376	44	-
Rental income	19,925	-	36,881
Contributions and donations.	9,987	-	-
Payments in lieu of taxes	-	-	-
Other.	14,763	24,026	71,837
Total revenues	<u>10,976,967</u>	<u>561,485</u>	<u>1,673,258</u>
Expenditures:			
Current:			
General government.	2,086,758	-	-
Security of persons and property	4,127,393	-	-
Public health and welfare	126,339	-	-
Transportation.	-	1,506,868	-
Community environment	444,167	-	-
Basic utility services	125,116	-	-
Leisure time activities	-	-	1,056,843
Capital outlay	15,536	-	-
Debt service:			
Principal retirement.	473,828	38,178	541,263
Interest and fiscal charges	279,228	5,039	143,171
Bond issuance costs	43,632	-	57,006
Total expenditures	<u>7,721,997</u>	<u>1,550,085</u>	<u>1,798,283</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>3,254,970</u>	<u>(988,600)</u>	<u>(125,025)</u>
Other financing sources (uses):			
Payment to refunded bond escrow	(2,281,919)	-	(2,821,774)
Bond issuance.	2,227,500	-	2,757,500
Premium on bond issuance	98,051	-	121,280
Transfers in	218	871,625	-
Transfers (out)	(1,699,295)	-	-
Total other financing sources (uses)	<u>(1,655,445)</u>	<u>871,625</u>	<u>57,006</u>
Net change in fund balances	1,599,525	(116,975)	(68,019)
Fund balances at beginning of year (restated).	<u>2,572,756</u>	<u>228,250</u>	<u>1,175,622</u>
Fund balances at end of year	<u>\$ 4,172,281</u>	<u>\$ 111,275</u>	<u>\$ 1,107,603</u>

See Accompanying Notes to the Basic Financial Statements

Special Assessments Bond Retirement	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 6,828,506
-	476,031	2,206,374
-	184,048	1,543,201
-	12,625	282,697
-	34,412	440,091
-	411,316	2,762,764
360,779	18,481	398,930
-	709	70,129
-	4,765	61,571
-	2,965	12,952
-	563,220	563,220
-	31,864	142,490
<u>360,779</u>	<u>1,740,436</u>	<u>15,312,925</u>
21,776	4,043	2,112,577
-	538,985	4,666,378
-	-	126,339
-	127,898	1,634,766
-	601,285	1,045,452
-	81,585	206,701
-	360,996	1,417,839
-	381,821	397,357
169,448	558	1,223,275
120,936	84	548,458
-	-	100,638
<u>312,160</u>	<u>2,097,255</u>	<u>13,479,780</u>
<u>48,619</u>	<u>(356,819)</u>	<u>1,833,145</u>
-	-	(5,103,693)
-	-	4,985,000
-	-	219,331
-	827,670	1,699,513
-	(218)	(1,699,513)
-	827,452	100,638
48,619	470,633	1,933,783
159,204	699,271	4,835,103
<u>\$ 207,823</u>	<u>\$ 1,169,904</u>	<u>\$ 6,768,886</u>

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, 2011

Net change in fund balances - total governmental funds		\$ 1,933,783
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 227,777	
Current year depreciation	(1,811,447)	
Total		(1,583,670)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(282,753)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	336,316	
Real and other taxes	33,393	
Accounts	(21,748)	
Intergovernmental revenues	31,163	
Special assessments	(366,938)	
Total		12,186
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,223,275
Issuance of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets.		(4,985,000)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
Bonds refunded	5,070,000	
Deferred charges on refundings	33,693	
Total		5,103,693
Premiums on bonds and bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:		
Premiums on bonds	(219,331)	
Bond issuance costs	100,638	
Total		(118,693)
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	75,232	
Amortization of deferred loss on refunding	(855)	
Amortization of issuance costs	(7,733)	
Amortization of premium on bonds	10,843	
Total		77,487
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(80,730)
Change in net assets of governmental activities		<u>\$ 1,299,578</u>

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 4,742,234	\$ 4,742,235	\$ 5,948,867	\$ 1,206,632
Real and other taxes	1,403,710	1,403,709	1,760,873	357,164
Charges for services	496,375	496,375	622,675	126,300
Licenses and permits	219,662	219,662	275,554	55,892
Fines and forfeitures	328,133	328,133	411,625	83,492
Intergovernmental	1,443,121	1,443,121	1,810,314	367,193
Special assessments	15,680	15,680	19,670	3,990
Investment income	48,987	48,987	61,451	12,464
Rental income	15,912	15,912	19,960	4,048
Contributions and donations	7,961	7,961	9,987	2,026
Other	15,348	15,348	19,253	3,905
Total revenues	<u>8,737,123</u>	<u>8,737,123</u>	<u>10,960,229</u>	<u>2,223,106</u>
Expenditures:				
Current:				
General government	2,338,883	2,370,418	2,092,551	277,867
Security of persons and property	4,504,059	4,564,788	4,029,691	535,097
Public health and welfare	141,211	143,115	126,339	16,776
Community environment	498,079	504,794	445,621	59,173
Basic utility services	143,938	145,878	128,778	17,100
Capital outlay	28,014	28,392	25,064	3,328
Debt service:				
Principal retirement	528,245	535,367	472,610	62,757
Interest and fiscal charges	311,770	315,973	278,934	37,039
Bond issue costs	48,768	49,426	43,632	5,794
Total expenditures	<u>8,542,967</u>	<u>8,658,151</u>	<u>7,643,220</u>	<u>1,014,931</u>
Excess of revenues over expenditures	<u>194,156</u>	<u>78,972</u>	<u>3,317,009</u>	<u>3,238,037</u>
Other financing sources (uses):				
Payment to refund bond escrow	-	-	(2,281,919)	(2,281,919)
Refunding bonds issued	-	-	2,227,500	2,227,500
Premiums on bonds	-	-	98,051	98,051
Advances in	-	-	17,333	17,333
Advances (out)	-	(42,311)	(42,311)	-
Transfers in	-	-	218	218
Transfer (out)	(878,975)	(1,699,295)	(1,699,295)	-
Total other financing sources (uses)	<u>(878,975)</u>	<u>(1,741,606)</u>	<u>(1,680,423)</u>	<u>61,183</u>
Net change in fund balance	(684,819)	(1,662,634)	1,636,586	3,299,220
Fund balance at beginning of year (restated)	1,066,233	1,066,233	1,066,233	-
Prior year encumbrances appropriated	<u>189,528</u>	<u>189,528</u>	<u>189,528</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 570,942</u>	<u>\$ (406,873)</u>	<u>\$ 2,892,347</u>	<u>\$ 3,299,220</u>

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ -	\$ -	\$ 300	\$ 300
Intergovernmental.	592,347	592,347	543,457	(48,890)
Investment income	874	874	44	(830)
Other	9,418	9,418	17,734	8,316
Total revenues.	<u>602,639</u>	<u>602,639</u>	<u>561,535</u>	<u>(41,104)</u>
Expenditures:				
Current:				
Transportation.	1,616,171	1,694,068	1,600,911	93,157
Debt service:				
Principal retirement	38,542	40,400	38,178	2,222
Interest and fiscal charges.	5,087	5,332	5,039	293
Total expenditures.	<u>1,659,800</u>	<u>1,739,800</u>	<u>1,644,128</u>	<u>95,672</u>
Excess of expenditures over revenues	<u>(1,057,161)</u>	<u>(1,137,161)</u>	<u>(1,082,593)</u>	<u>54,568</u>
Other financing sources:				
Transfers in	1,070,861	1,070,861	871,625	(199,236)
Total other financing sources	<u>1,070,861</u>	<u>1,070,861</u>	<u>871,625</u>	<u>(199,236)</u>
Net change in fund balance.	13,700	(66,300)	(210,968)	(144,668)
Fund balance at beginning of year.	74,661	74,661	74,661	-
Prior year encumbrances appropriated	<u>93,253</u>	<u>93,253</u>	<u>93,253</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 181,614</u>	<u>\$ 101,614</u>	<u>\$ (43,054)</u>	<u>\$ (144,668)</u>

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Family Recreation Center Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 693,123	\$ 693,123	\$ 824,317	\$ 131,194
Charges for services	686,021	686,021	732,323	46,302
Rental income	55,980	55,980	36,881	(19,099)
Other	54,276	54,276	71,837	17,561
Total revenues	<u>1,489,400</u>	<u>1,489,400</u>	<u>1,665,358</u>	<u>175,958</u>
Expenditures:				
Current:				
Leisure time activities	1,123,634	1,168,194	1,072,773	95,421
Debt service:				
Principal retirement	565,172	587,586	539,590	47,996
Interest and fiscal charges	149,694	155,632	142,918	12,714
Bond issue costs	-	-	57,006	(57,006)
Total expenditures	<u>1,838,500</u>	<u>1,911,412</u>	<u>1,812,287</u>	<u>99,125</u>
Excess of expenditures over revenues	<u>(349,100)</u>	<u>(422,012)</u>	<u>(146,929)</u>	<u>275,083</u>
Other financing sources (uses):				
Payment to refund bond escrow	-	-	(2,821,774)	(2,821,774)
Refunding bonds issued	-	-	2,757,500	2,757,500
Premiums on bonds	-	-	121,280	121,280
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>57,006</u>	<u>57,006</u>
Net change in fund balance	(349,100)	(422,012)	(89,923)	332,089
Fund balance at beginning of year	1,038,265	1,038,265	1,038,265	-
Prior year encumbrances appropriated	<u>47,895</u>	<u>47,895</u>	<u>47,895</u>	<u>-</u>
Fund balance at end of year	<u>\$ 737,060</u>	<u>\$ 664,148</u>	<u>\$ 996,237</u>	<u>\$ 332,089</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

City of Macedonia, Ohio

Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 322,048
Accounts receivable.	14,000
Income taxes receivable.	<u>29,383</u>
Total assets	<u>\$ 365,431</u>
Liabilities:	
Accounts payable	\$ 117
Intergovernmental payable	25,562
Deposits held and due to others	<u>339,752</u>
Total liabilities.	<u>\$ 365,431</u>

See Accompanying Notes to the Basic Financial Statements

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

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 it is not in conflict with applicable general laws. A charter was first adopted by the electorate at a general election held in 1972. The City operates under its own charter and is governed by a Mayor-Council form of government with the Mayor appointing the Finance Director and department heads, with Council approval and Council appointing the Clerk of Council. Officials include six Council members and a Mayor elected to four-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 two jointly governed organizations, the Northeast Ohio Public Energy Council and the Regional Council of Governments and one joint venture, the Northfield Center Township - Macedonia Joint Economic Development District. These organizations are presented in notes 16 and 17 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) guidance 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

B. Fund Accounting

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the 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.

Street Construction, Maintenance and Repair Fund - This fund accounts for the portion of State gasoline tax and motor vehicle registration fees designated for the maintenance of the streets within the City.

Family Recreation Center Fund - The family recreation center fund accounts for membership and program fees and income taxes 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.

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. 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, citizens and building assessment fees collected for the Ohio Board of Building Standards; a payroll revolving fund that accounts for net payroll and related deductions for distribution; an escrow account for the Route 8 construction project; a Joint Economic Development District with Northfield Center Township; and finally, community room security deposits and mayor's court bonds.

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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have 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 alternate tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternate 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 and object level of personal services for the general, street construction, maintenance and repair and parks and recreation funds, at the line item level for the capital improvements fund, and at the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. More detailed allocations beyond the legal level of appropriations passed by Council may be made by the Finance Director.

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

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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Cash and Cash Equivalents

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

During 2011, the City's investments were limited to money market funds, U.S. Treasury notes, federal agency securities and State Treasury Asset Reserve of Ohio (STAR Ohio).

Investments are reported at fair value which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$69,376, which includes \$35,763 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. An analysis of the City's investment account at year-end is provided in Note 6.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, 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. The City has no prepaids at December 31, 2011.

H. Inventory

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

I. Capital Assets

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. During 2011, the City increased its capitalization threshold from \$500 to \$5,000. 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, right-of-ways and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land	N/A
Right-of-Ways	N/A
Buildings and Improvements	15 - 100 years
Land Improvements	20 years
Machinery and Equipment	5 - 40 years
Furniture and Fixtures	10 - 25 years
Vehicles	6 - 25 years
Infrastructure	15 - 50 years

The City's infrastructure consists of roads, water mains, storm sewers, traffic signals, and bridges and includes infrastructure acquired since 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.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental type activities columns on 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

M. Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net assets restricted for other purposes include the operations of the permissive tax fund, CDBG grant, mayor's court computer fund, quiet zone maintenance fund and the federal equitable sharing fund.

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

O. Interfund Activity

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

P. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred. Issuance costs are generally paid from bond proceeds.

Q. Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are received in the year the bonds are issued.

R. Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method.

S. 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.

T. 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

A. Change in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 3 - Changes in Accounting Principles (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the City's governmental fund balances as previously reported:

	General	Street Construction Maintenance and Repair	Family Recreation Center	Special Assessment Bond Retirement	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 2,561,756	\$ 228,250	\$ 1,175,622	\$ 159,204	\$ 710,271	\$ 4,835,103
Fund reclassifications:						
Underground storage fund	11,000	-	-	-	(11,000)	-
Total fund reclassifications	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>-</u>
Restated fund balance at January 1, 2011	<u>\$ 2,572,756</u>	<u>\$ 228,250</u>	<u>\$ 1,175,622</u>	<u>\$ 159,204</u>	<u>\$ 699,271</u>	<u>\$ 4,835,103</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at December 31, 2011 is as follows:

	<u>General Fund</u>
Balance at December 31, 2010	\$ 1,576,000
Funds budgeted elsewhere	<u>(509,767)</u>
Restated balance at January 1, 2011	<u>\$ 1,066,233</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 3 - Changes in Accounting Principles (Continued)

D. Restatement of Net Assets

The County's net assets have been restated at December 31, 2010 to correct errors and omissions in capital assets. The change had the following effect on net assets as previously reported by the governmental activities:

	Governmental Activities
Net assets, December 31, 2010	\$39,404,719
Adjustment for capital assets	1,284,277
Restated net assets, January 1, 2011	\$40,688,996

Note 4 - Compliance and Accountability

Fund Deficits

Fund balances at December 31, 2011 included the following individual fund deficits:

Non-Major Fund	Fund Balance Deficit
Parks and Recreation	\$ 37,654
Tax Increment Financing	22,120
Highland Road bridge	20,814

These funds complied with Ohio State law, which does not permit a cash basis deficit at year end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued assets and liabilities.

Note 5 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund, street construction, maintenance and repair fund and family recreation center 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 that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 5 - Budgetary Basis of Accounting (Continued)

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to restricted, assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	<u>General fund</u>	Street Construction, Maintenance and <u>Repair fund</u>	Family Recreation <u>Center fund</u>
Budget basis	\$ 1,636,586	\$ (210,968)	\$ (89,923)
Net adjustment for revenue accruals	16,738	(50)	7,900
Net adjustment for expenditure accruals	(140,100)	70,756	(443)
Net adjustment for other sources/uses	24,978	-	-
Funds budgeted elsewhere	(616)	-	-
Adjustment for encumbrances	<u>61,939</u>	<u>23,287</u>	<u>14,447</u>
GAAP basis	<u>\$ 1,599,525</u>	<u>\$ (116,975)</u>	<u>\$ (68,019)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the emergency fund, the unclaimed monies fund and the underground storage tank fund.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 6 - Deposits and Investments

The City has chosen to follow State statutes and 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.

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

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

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 6 - Deposits and Investments (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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. Investments may only be made through specified dealers and institutions.

Cash on Hand

At year end, the City had \$1,175 in undeposited cash on hand, which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents".

Deposits

At December 31, 2011, the carrying amount of all City deposits was \$3,459,517. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$1,349,452 of the City's bank balance of \$3,576,315 was exposed to custodial risk as discussed below, while \$2,226,863 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 6 - Deposits and Investments (Continued)

Investments

All investments are in an internal investment pool. As of December 31, 2011, the City had the following investments:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater Than 24 months
STAR Ohio	\$ 62,494	\$ 62,494	\$ -	\$ -	\$ -	\$ -
Fifth Third money market funds	174,414	174,414	-	-	-	-
FHLB	623,077	100,591	101,206	103,528	317,752	-
FHLMC	833,929	100,447	103,732	-	-	629,750
FNMA	939,869	201,057	100,937	103,837	104,795	429,243
U.S. Treasury note	153,959	-	-	50,658	103,301	-
Total	<u>\$ 2,787,742</u>	<u>\$ 639,003</u>	<u>\$ 305,875</u>	<u>\$ 258,023</u>	<u>\$ 525,848</u>	<u>\$ 1,058,993</u>

The weighted average maturity of investments is 1.78 years.

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.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities, treasury note and the U.S. government money market fund are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

Credit Risk: STAR Ohio and the Fifth Third money market fund carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The federal agency securities and treasury note carry a rating of AA+/Aaa by Standard & Poor's and Moody. The City has no investment policy that addresses credit risk.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 6 - Deposits and Investments (Continued)

Concentration of Credit Risk: 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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 62,494	2.25
Fifth Third money market funds	174,414	6.26
FHLB	623,077	22.35
FHLMC	833,929	29.91
FNMA	939,869	33.71
U.S. Treasury note	153,959	5.52
Total	<u>\$ 2,787,742</u>	<u>100.00</u>

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the financial statements as of December 31, 2011:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 3,459,517
Investments	2,787,742
Cash on hand	<u>1,175</u>
Total	<u>\$ 6,248,434</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 5,926,386
Agency funds	<u>322,048</u>
Total	<u>\$ 6,248,434</u>

Note 7 - Receivables

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property taxes, payment in lieu of 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. All receivables except for delinquent property taxes and special assessments are expected to be collected within one year. Property taxes although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$335,839 in the general fund, \$851,527 in the special assessment bond retirement fund and \$22,174 in the water maintenance expense fund. At December 31, 2011 the amount of delinquent special assessments was \$23,228.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 7 - Receivables (Continued)

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Macedonia. The Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$8.90 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 302,695,510
Commercial/Industrial/Mineral	112,808,610
Public Utility	
Real	860,450
Personal	15,468,730
	<hr/>
Total Assessed Value	<u><u>\$ 431,833,300</u></u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 7 - Receivables (Continued)

B. Income Taxes

The City levies a 2.25 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. By City ordinance, 8.5 percent of the City's net income tax collections will be allocated to general improvements, 12.5 percent to parks and recreation, and 29 percent of the general fund's income tax revenue to cover police, fire and service department expenditures. The balance is to be used for current operating expenditures.

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

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Governmental activities:	<u>Amount</u>
Local Government	\$ 151,359
Homestead and Rollback	93,543
Inheritance Tax	53,640
Street Construction, Maintenance and Repair	288,714
State Highway	16,542
Motor Vehicle License	6,948
Other	<u>26,475</u>
<i>Total Governmental Activities</i>	<u>\$ 637,221</u>

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 case it is to be used in the first quarter of the following year. All accumulated unused vacation time is paid upon termination of employment.

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, except fire employees whose maximum payment is up to 460 hours and police employees whose maximum payment is up to 500 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 9 - Interfund Transactions

- A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
<u>Transfers from general fund to:</u>	
Street construction, maintenance and repair fund	\$ 871,625
Nonmajor governmental funds	827,670
<u>Transfers from nonmajor governmental funds to:</u>	
General fund	218
Total	\$ 1,699,513

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) to move residual equity amounts. Transfers between governmental funds are eliminated on the government-wide financial statements. The transfer to the general fund was to close a nonmajor special revenue fund.

- B. Interfund loans consisted of the following at December 31, 2011, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 24,978

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- C. Interfund balances at December 31, 2011 as reported on the fund financial statements, consisted of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Street construction, maintenance and repair fund	\$ 19,767
General	Nonmajor governmental fund	24,780
Total		\$ 44,547

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where the revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 10 - Capital Assets

A. The capital asset balances of the governmental activities have been restated to correct errors and omissions. The effect on capital assets is as follows:

	Balance 12/31/10	Adjustments	Restated Balance 12/31/10
Governmental activities:			
<i>Capital Assets Not Being Depreciated</i>			
Land	\$ 7,150,851	\$ -	\$ 7,150,851
Right-of-Ways	218,130	-	218,130
Construction in Progress	97,032	-	97,032
<i>Total Capital Assets Not Being Depreciated</i>	<u>7,466,013</u>	<u>-</u>	<u>7,466,013</u>
<i>Capital Assets Being Depreciated</i>			
Buildings and Improvements	12,640,233	(256,500)	12,383,733
Machinery and Equipment	2,185,948	61,337	2,247,285
Furniture and Fixtures	14,247	-	14,247
Vehicles	3,575,813	41,831	3,617,644
Infrastructure:			
Roads	22,968,557	172,666	23,141,223
Water Mains	6,039,132	-	6,039,132
Storm Sewers	11,663,356	(172,666)	11,490,690
Traffic Signals	477,763	-	477,763
Bridges	487,926	(261,337)	226,589
<i>Total Capital Assets Being Depreciated</i>	<u>60,052,975</u>	<u>(414,669)</u>	<u>59,638,306</u>
<i>Less Accumulated Depreciation</i>			
Buildings and Improvements	(3,254,972)	247,208	(3,007,764)
Machinery and Equipment	(1,199,082)	99,805	(1,099,277)
Furniture and Fixtures	(9,357)	844	(8,513)
Vehicles	(1,864,353)	188,065	(1,676,288)
Infrastructure:			
Roads	(10,620,586)	769,012	(9,851,574)
Water Mains	(1,652,558)	120,783	(1,531,775)
Storm Sewers	(3,134,928)	238,995	(2,895,933)
Traffic Signals	(348,722)	27,088	(321,634)
Bridges	(43,907)	7,146	(36,761)
<i>Total Accumulated Depreciation</i>	<u>(22,128,465)</u>	<u>1,698,946</u>	<u>(20,429,519)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>37,924,510</u>	<u>1,284,277</u>	<u>39,208,787</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 45,390,523</u>	<u>\$ 1,284,277</u>	<u>\$ 46,674,800</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 10 - Capital Assets (Continued)

B. Capital asset activity for the year ended December 31, 2011, was as follows:

	Restated Balance 12/31/10	Additions	Deletions	Balance 12/31/11
Governmental activities:				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 7,150,851	\$ -	\$ -	\$ 7,150,851
Right-of-Ways	218,130	-	-	218,130
Construction in Progress	97,032	29,024	(22,809)	103,247
<i>Total Capital Assets Not Being Depreciated</i>	<u>7,466,013</u>	<u>29,024</u>	<u>(22,809)</u>	<u>7,472,228</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	12,383,733	-	(28,298)	12,355,435
Machinery and Equipment	2,247,285	38,084	(620,675)	1,664,694
Furniture and Fixtures	14,247	-	(14,247)	-
Vehicles	3,617,644	148,069	(67,255)	3,698,458
Infrastructure:				
Roads	23,141,223	12,600	-	23,153,823
Water Mains	6,039,132	-	-	6,039,132
Storm Sewers	11,490,690	-	-	11,490,690
Traffic Signals	477,763	22,809	-	500,572
Bridges	226,589	-	-	226,589
<i>Total Capital Assets Being Depreciated</i>	<u>59,638,306</u>	<u>221,562</u>	<u>(730,475)</u>	<u>59,129,393</u>
<i>Less Accumulated Depreciation</i>				
Buildings and Improvements	(3,007,764)	(245,962)	14,569	(3,239,157)
Machinery and Equipment	(1,099,277)	(117,113)	388,985	(827,405)
Furniture and Fixtures	(8,513)	-	8,513	-
Vehicles	(1,676,288)	(224,201)	35,655	(1,864,834)
Infrastructure:				
Roads	(9,851,574)	(841,866)	-	(10,693,440)
Water Mains	(1,531,775)	(120,783)	-	(1,652,558)
Storm Sewers	(2,895,933)	(229,814)	-	(3,125,747)
Traffic Signals	(321,634)	(27,176)	-	(348,810)
Bridges	(36,761)	(4,532)	-	(41,293)
<i>Total Accumulated Depreciation</i>	<u>(20,429,519)</u>	<u>(1,811,447)</u>	<u>447,722</u>	<u>(21,793,244)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>39,208,787</u>	<u>(1,589,885)</u>	<u>(282,753)</u>	<u>37,336,149</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 46,674,800</u>	<u>\$ (1,560,861)</u>	<u>\$ (305,562)</u>	<u>\$ 44,808,377</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 10 - Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follow:

General government	\$ 74,789
Security of persons and property	249,327
Public health and welfare	637
Leisure time activities	158,100
Basic utility services	354,009
Community environment	324
Transportation	<u>974,261</u>
Total	<u>\$ 1,811,447</u>

Note 11 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. As of December 31, 2011, the City contracted with the Ohio Municipal League Self Insurance Pool, for a three year contract, administered by Dawson and DiStefano Insurance Company, as follows:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Ohio Municipal Joint Self Insurance Pool		
Blanket Property, and Contents, Replacement	\$ 15,136,058	\$1,000
General Liability	6,000,000	1,000
Automobile Liability	6,000,000	1,000
Umbrella Liability	6,000,000	1,000
Employer Liability	6,000,000	1,000
Miscellaneous Equipment (Scheduled)	cash value	1,000
Miscellaneous Equipment (Unscheduled)	cash value	1,000
Tower and Antenna	cash value	1,000
Public Officials Liability	6,000,000	25,000
Law Enforcement	6,000,000	25,000
Employee Benefits Liability (per act)	1,000,000	25,000
Employment Practices Liability	1,000,000	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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 11 - Risk Management (Continued)

B. Workers' Compensation

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

Note 12 - Pension Plans

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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 Pension 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 Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00 percent for members. The City's contribution rate for 2011 was 14.00 percent of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00 percent. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95 percent. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$255,736, \$237,349, and \$247,237, respectively; 86.06 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$11,532 made by the City and \$8,237 made by the plan members.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 12 - Pension Plans (Continued)

B. Ohio Police and Fire Pension Fund

Plan Description - 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 statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.00 percent for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$155,548 and \$165,438 for the year ended December 31, 2011, \$165,507 and \$167,554 for the year ended December 31, 2010, and \$210,692 and \$141,925, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.20 percent has been contributed for police and 72.19 percent has been contributed for firefighters for 2011.

Note 13 - Postretirement Benefit Plans

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 13 - Postretirement Benefit Plans (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00 percent of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00 percent. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05 percent.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$102,651, \$135,196, and \$178,796, respectively; 86.06 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 13 - Postretirement Benefit Plans (Continued)

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts, one account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$82,349 and \$64,737 for the year ended December 31, 2011, \$87,622 and \$65,564 for the year ended December 31, 2010, and \$93,917 and \$58,361, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.20 percent has been contributed for police and 72.19 percent has been contributed for firefighters for 2011.

Note 14 - Capital Leases

In prior years, the City entered into lease agreements for a tractor, two trucks and three copiers. 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 on 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, 2011

Note 14 - Capital Leases (Continued)

Capital assets acquired by lease have been capitalized and depreciated as follows as of December 31, 2011:

Governmental Activities	
<i>Capital Assets, being depreciated:</i>	
Vehicles	\$ 539,000
Equipment	<u>242,668</u>
<i>Total capital assets, being depreciated</i>	781,668
Less: Accumulated Depreciation	<u>(169,522)</u>
<i>Capital Assets, Net</i>	<u>\$ 612,146</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, 2011.

Year Ending December 31,	Governmental Activities
2012	\$ 47,297
2013	26,327
2014	<u>1,386</u>
Total	75,010
Less: Amount Representing Interest	<u>(4,871)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 70,139</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities:			
General Obligation Bonds			
Various Purpose Refunding, 2011	2.00-3.00 %	\$ 4,985,000	December 1, 2016
Various Purpose, 2010	2.00-4.00	5,130,000	December 1, 2030
Special Assessments			
Highland Road Improvement Variance, 2003	2.00-4.00	1,260,000	December 1, 2023
Highland Road Improvement, 1996	6.25	294,100	December 1, 2016
North Freeway Drive, 2006	5.38	543,300	December 1, 2026
Ohio Public Works Commission Loan (OPWC)			
North Freeway Drive Project, 2005	-	678,957	December 1, 2027

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Long-Term Obligations (Continued)

Changes in long-term obligations of the City during 2011 are as follows:

	Balance 12/31/10	Increase	Decrease	Balance 12/31/11	Amounts Due in One Year
General Obligation Bonds					
Various Purpose Bonds, 2001	\$ 4,845,000	\$ -	\$ (4,845,000)	\$ -	\$ -
Refunding Recreation Center, 2003					
Serial Bonds	920,000	-	(920,000)	-	-
Term Bonds	200,000	-	(200,000)	-	-
Various Purpose Refunding Bonds, 2011	-	4,985,000	-	4,985,000	960,000
Various Purpose Bonds, 2010	5,130,000	-	(160,000)	4,970,000	160,000
<i>Total General Obligation Bonds</i>	<u>11,095,000</u>	<u>4,985,000</u>	<u>(6,125,000)</u>	<u>9,955,000</u>	<u>1,120,000</u>
Special Assessment Bonds					
with Governmental Commitment					
Highland Road Improvement Variance, 2003					
Serial Bonds	300,000	-	(55,000)	245,000	60,000
Term Bonds	605,000	-	-	605,000	-
Highland Road Improvement, 1996	128,700	-	(18,300)	110,400	19,500
North Freeway Drive, 2006	475,400	-	(19,400)	456,000	20,400
<i>Total Special Assessment Bonds</i>	<u>1,509,100</u>	<u>-</u>	<u>(92,700)</u>	<u>1,416,400</u>	<u>99,900</u>
Ohio Public Works Commission Loan (OPWC)					
North Freeway Drive Project, 2005	560,139	-	(33,948)	526,191	33,948
Capital Leases	111,766	-	(41,627)	70,139	43,759
Compensated Absences Payable	593,157	153,065	(72,335)	673,887	80,735
Total Governmental					
Long-Term Liabilities	<u>\$ 13,869,162</u>	<u>\$ 5,138,065</u>	<u>\$ (6,365,610)</u>	12,641,617	<u>\$ 1,378,342</u>
			Add: Unamortized Premium	351,634	
			Less: Unamortized Deferred Charges on Refunding	(50,454)	
			Total on Statement of Net Assets	<u>\$ 12,942,797</u>	

General obligation bonds are the direct obligation of the City for which its full faith and credit are pledged for repayment 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Long-Term Obligations (Continued)

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

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

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

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

<u>Year</u>	<u>Principal Amount</u>
2016	\$ 65,000
2017	70,000
2018	70,000
2019	75,000
2020	75,000
2021	80,000
2022	85,000

2003 Refunding Bonds

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. The bond issue included serial and term bonds. Proceeds were used to refund \$2,099,000 of the outstanding 1998 Various Purpose Refunded Bonds. As a result these bonds were considered defeased and the liability for the refunded bonds has been removed from the basic financial statements.

During 2011, the bonds for the recreation center refunding bonds were retired using the proceeds of the Series 2011 Refunding Bonds.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Long-Term Obligations (Continued)

2010 Various Purpose Bonds

On September 22, 2010, the City issued \$5,130,000 in general obligation bonds with interest rates varying from 2.0 to 4.0 percent. The bond issue included serial and term bonds.

Optional Redemption - The bonds maturing after December 1, 2020 are subject to prior redemption, by and at the sole option of the City, in whole or in part as selected by the City (in integral multiples of \$5,000), on any date on or after December 1, 2020, at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to the redemption date.

Mandatory Redemption - The bonds maturing on December 1, 2030 (the term bonds), are subject to mandatory sinking fund redemption requirements, at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to the redemption date, on December 1 of the years shown, and according to, the following schedule:

<u>Year</u>	<u>Principal Amount</u>
2025	\$ 325,000
2026	340,000
2027	350,000
2028	365,000
2029	375,000
2030	380,000

2011 Refunding Bonds

On December 14, 2011, the City issued general obligation bonds to refund the Series 2001 General Obligation Bonds (principal \$4,120,000) and Series 2003 Refunding Bonds (\$950,000). This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The debt issue is comprised of bonds, par value \$4,985,000. The interest rate on the bonds ranges from 2.00-3.00 percent. The bond matures December 1, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$51,309. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next five years by \$394,093.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Long-Term Obligations (Continued)

Principal and interest requirements to retire the long-term obligations as of December 31, 2011, are as follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2012	\$ 1,120,000	\$ 305,567	\$ 99,900	\$ 63,487	\$ 33,948
2013	1,135,000	290,400	102,200	59,297	33,948
2014	1,095,000	267,700	104,700	54,880	33,948
2015	1,140,000	235,400	112,300	50,228	33,948
2016	1,115,000	201,800	115,100	45,186	33,948
2017 - 2021	1,305,000	759,300	518,400	154,361	169,740
2022 - 2026	1,575,000	488,400	363,800	40,015	169,737
2027 - 2030	1,470,000	149,000	-	-	16,974
Total	<u>\$ 9,955,000</u>	<u>\$ 2,697,567</u>	<u>\$ 1,416,400</u>	<u>\$ 467,454</u>	<u>\$ 526,191</u>

Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2011, the City's total debt margin was \$35,595,320 (including available funds of \$207,823) and the unvoted debt margin was \$23,750,832.

Note 16 - Jointly Governed Organization

A. 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 126 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 ensuring 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.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 16 - Jointly Governed Organization (Continued)

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 2011. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

B. Regional Council of Governments

In 1971, 38 municipalities joined together to organize a Regional Council of Governments (RCOG) to administer tax collection and enforcement concerns facing the cities and villages. The first official act of the RCOG was to form the Regional Income Tax Agency (RITA). Today RITA serves as the income tax collection agency for 162 municipalities throughout the State of Ohio. The City began using RITA for its income tax collection services during 2005.

Each member municipality appoints its own delegate to the RCOG, including electing members to the RITA Board of Trustees. Regardless of the population or tax collections of member municipalities, each member of the RCOG has an equal say in the operations of RITA.

Note 17 - Joint Venture

The City participates in the Northfield Center Township - Macedonia Joint Economic Development District (JEDD) which is created in accordance with sections 715.70 and 715.71 of the Ohio Revised Code. 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 the JEDD and estimated the revenues and expenses of the operation of the 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 the JEDD is dependent on the City's continued participation; however, the City does not have an equity interest in the JEDD. The JEDD is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. In 2011, the JEDD had total distributions of \$150,000 of which \$75,000 went to the City. Complete financial statements can be obtained from the Northfield Center Township-Macedonia Joint Economic Development District, City of Macedonia Finance Department, 9691 Valley View Road, Macedonia, Ohio, 44056.

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 18 - Tax Increment Financing District (TIF)

The City, pursuant to the Ohio Revised Code and City ordinances, has established a TIF. A TIF represents a geographic area wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as “payments in lieu of taxes (PILOT)”, as though the TIF had not been established. These “PILOTS” are then dedicated to the payments for various public improvements within or adjacent to the TIF area. Property values existing before the commencement date of a TIF continue to be subjected to property taxes.

PILOT revenue was \$563,220 in 2011 as reported in the fund financial statements. The TIF has a longevity of the shorter period of 30 years or until the public improvements are paid for. The property tax exemption then ceases; PILOT’s cease and property taxes then apply to the increased property values.

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, 2011.

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 - Other Commitments

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City’s commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 14,643
Street construction, Maintenance and repair	12,083
Other governmental	<u>156,634</u>
Total	<u>\$ 183,360</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 21 - Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	Maintenance and Repair Fund	Recreation Center Fund	Bond Retirement Fund	Governmental Funds	Governmental Funds
Nonspendable:						
Materials and supplies inventory	\$ 5,500	\$ 89,912	\$ -	\$ -	\$ -	\$ 95,412
Unclaimed monies	7,221	-	-	-	-	7,221
Total nonspendable	<u>12,721</u>	<u>89,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,633</u>
Restricted:						
Security of persons and property	-	-	-	-	398,690	398,690
Transportation	-	21,363	-	-	28,200	49,563
Community environment	-	-	-	-	2,301	2,301
Leisure time activities	-	-	-	-	5,452	5,452
Capital outlay	-	-	-	-	35,407	35,407
Debt service	-	-	-	207,823	-	207,823
Capital projects	-	-	-	-	24,189	24,189
Total restricted	<u>-</u>	<u>21,363</u>	<u>-</u>	<u>207,823</u>	<u>494,239</u>	<u>723,425</u>
Committed:						
Security of persons and property	-	-	-	-	42,486	42,486
Community environment	-	-	-	-	22,321	22,321
Leisure time activities	-	-	1,107,603	-	-	1,107,603
Utility services	-	-	-	-	212,619	212,619
Underground storage tank	11,000	-	-	-	-	11,000
Capital projects	-	-	-	-	478,827	478,827
Total committed	<u>11,000</u>	<u>-</u>	<u>1,107,603</u>	<u>-</u>	<u>756,253</u>	<u>1,874,856</u>
Assigned:						
Subsequent year appropriations	1,972,867	-	-	-	-	1,972,867
General government	7,367	-	-	-	-	7,367
Community environment	2,764	-	-	-	-	2,764
Utility services	106	-	-	-	-	106
Capital outlay	9,528	-	-	-	-	9,528
Total assigned	<u>1,992,632</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,992,632</u>
Unassigned (deficit)	2,155,928	-	-	-	(80,588)	2,075,340
Total fund balances	<u>\$ 4,172,281</u>	<u>\$ 111,275</u>	<u>\$ 1,107,603</u>	<u>\$ 207,823</u>	<u>\$ 1,169,904</u>	<u>\$ 6,768,886</u>

City of Macedonia, Ohio
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 22 - Contractual Commitments

The City had the following contractual commitments outstanding at December 31, 2011 related to construction contracts:

<u>Contractor</u>	<u>Total Contract</u>	<u>Amount Paid by 12/31/11</u>	<u>Remaining Commitment</u>
Shepard Hills Blvd.	\$ 526,650	\$ 103,247	\$ 423,403

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Dave Yost • Auditor of State

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

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

To the Honorable Mayor and 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, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2012, wherein we noted the City restated governmental fund balance due to implementing GASB Statement No. 54 and wherein we noted the City restated net assets due to capital assets adjustments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-02 through 2011-04 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2011-05 and 2011-06 described in the accompanying schedule of findings to be significant deficiencies.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 28, 2012.

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

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

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

Dave Yost
Auditor of State

September 28, 2012

CITY OF MACEDONIA
SUMMIT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-01

Material Noncompliance

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provides guidelines pertaining to allowable inter-fund transfers. Generally, before an inter-fund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board.

During 2011, the Finance Director made two transfers in the amount of \$100,000 each from the General Fund to the Parks and Recreation Fund and to the Street Construction, Maintenance and Repair Fund; neither of these transfers received prior approval from City Council. The transfers have subsequently been reversed and returned to the General Fund and eliminated from the 2011 financial statements to correct the effect of the improper transfer.

To help ensure legal compliance, the City should obtain proper authorization for all inter-fund transfers.

Official's Response: Appropriations will be line item specific to the fund receiving transfers. Previous appropriations grouped transfers in only two line items.

FINDING NUMBER 2011-02

Material Weakness-Accounting System Reconciliation

In April 2011, the City changed computerized financial accounting systems. After ensuring the fund cash balances within the former system properly reconciled to the bank, the Finance Director input the total net activity by fund from the former system into the new system. In doing so and unaware of the GAAP basis capabilities of the former system, which allowed for various accrual transactional activity as well as other internally used funds and accounts, the Finance Director inadvertently and improperly included amounts in the new cash basis accounting system that were not related to actual cash basis revenue and expenditure activity and excluded actual cash basis revenue and expenditure activity that was originally properly posted in the former system. Additionally, in attempting to allocate these total fund amounts into proper accounts within each fund, numerous net entries, misclassifications, and/or other errors were made resulting in unallocated and/or unsupported amounts in 15 out of 35 of the City's funds. Despite this, no reconciliation between the two accounting systems was performed resulting in net audit adjustments totaling approximately \$913,000 to properly reflect the City's 2011 cash basis activity. The financial statements were adjusted to reflect the activity.

The City should ensure all activity input into the financial accounting system represents fully supported transactions that are properly posted.

Official's Response: The conversion process from the accrual basis to cash basis was accurate in terms of cash balancing and bank reconciling. The detailed accrual reports that were from the old system did not reflect the actual amounts in the cash fund statements from its own system, making auditing the statements to the new system challenging. The old accrual system is used primarily in the state of Michigan where the financial statements are required to be reported in a GAAP statement. The new system conforms to Ohio standards, allows the department heads real time access to their budgets and will result in a more efficient and cost effective audit in the future.

FINDING NUMBER 2011-03

Material Weakness-Debt Summary

The City issued \$4,985,000 of Various Purpose Refunding Bonds during 2011 to refund the outstanding 2001 Various Purpose Bonds and the 2003 Recreation Center General Obligation Bonds. This information was not conveyed to the generally accepted accounting principles (GAAP) conversion team by the Finance Director which resulted in the activity not being reported within the City's 2011 debt summary nor the year-end financial statements. The financial statements were adjusted to reflect the activity.

The Finance Director should ensure all information relating to the City's debt activity is provided to the GAAP conversion team to help ensure the accuracy of the financial statements at year-end.

Official's Response: The GAAP statements prepared by our third party vendor Julian Grube, will be reviewed more thoroughly before submitting to the auditor. The Safety Center and Rec Center debt that was refinanced in November 2011 was excluded from the summary of debt spreadsheet.

FINDING NUMBER 2011-04

Material Weakness-Capital Assets

Capital Assets

The City did not update its capital asset listing to include asset additions, deletions and change in accumulated depreciation during 2010. The GAAP conversion team would report the current year activity using an, -asset additions and deletions listing received from the City, and estimated the current year depreciation expense using the prior year balance plus the changes in the current year asset additions and deletions. During 2011, a master asset listing was compiled by the City and compared to the amounts recorded in the 2010 audited financial statements. The variances were treated as restatement adjustments to the 2011 financial statements and the difference is material.

The City's capital asset listing should be updated and maintained each year, which would include all asset additions and deletions, by asset class, and the depreciation expense and accumulated depreciation associated with those assets.

Official's Response: The capital asset list was transferred to and will be maintained on an excel spreadsheet instead of the software from the old accounting system. The new capital asset threshold of \$5,000, passed by Council in 2011 will decrease the reporting requirements. The asset list will be reviewed monthly for new additions and at the close of the year for construction in progress.

FINDING NUMBER 2011-05

Significant Deficiency-Posting Budgetary Information

During testing of budgetary compliance, the following variances were noted (see Finding Number 2011-06 for impact on the financial statements):

- Final budgeted revenue posted to the City's accounting system for the General, Family Recreation Center, and Special Assessment Bond Retirement funds exceeded amounts listed on the Certificate of Estimated Resources by \$2,423,348, \$17,037, and \$156,717, respectively.
- Final budgeted revenue posted to the City's accounting system for the Street Construction, Maintenance and Repair Fund was less than the amount listed on the Certificate of Estimated Resources by \$64,403.
- Original budgeted transfers posted to the City's accounting system for the General Fund exceeded permanent appropriations approved by City Council by \$494,725.
- Final budgeted expenditures posted to the City's accounting system for the General Fund exceeded permanent and supplemental appropriation measures approved by City Council by \$233,336.

The City should review amounts posted to the system to help ensure proper posting of budgeted revenue amounts based on the Amended Certificates of Estimated Resources and proper posting of budgeted expenditure amounts based on appropriation measures approved by City Council.

Official's Response: Estimated revenues will be updated in the system quarterly and at the end of the year and forwarded to the County.

FINDING NUMBER 2011-06

Significant Deficiency-Compilation of Budget Versus Actual Statements

During testing of the Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Non-GAAP Budgetary Basis), the following variances were noted:

- Final Budgeted Revenues on the Budget and Actual Statements were prepared using reports generated by the City's accounting system (see Finding Number 2011-05) resulting in overstatements in the General and Family Recreation Center funds of \$2,423,348 and \$17,037, respectively.
- Final Budgeted Revenues on the Budget and Actual Statements were prepared using reports generated by the City's accounting system resulting in an understatement in the Street Construction, Maintenance and Repair fund of \$64,403.
- Original Budgeted Expenditures on the Budget and Actual Statements were prepared based on fiscal year 2010 Final Budgeted Expenditures (see Finding Number 2011-05) resulting in overstatements of \$223,787 and \$113,753 in the General and Street Construction, Maintenance and Repair funds, respectively, and an understatement in the Family Recreation Center Fund of \$78,616.
- Final Budgeted Expenditures on the Budget and Actual Statements were prepared using reports generated by the City's accounting system resulting in overstatements in the General, Street Construction, Maintenance and Repair, and Family Recreation Center funds totaling \$422,864, \$93,253, and \$47,895, respectively.

FINDING NUMBER 2011-06 (Continued)

Significant Deficiency-Compilation of Budget Versus Actual Statements (Continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Non-GAAP Budgetary Basis) were adjusted to report the amounts based on the Amended Certificates of Estimated Resources and the permanent and supplemental appropriation measures approved by City Council.

In order to help facilitate proper compilation of budget and actual statements, the City should ensure reported budgeted revenues are based on amounts certified by the County Fiscal Officer as listed on the Amended Certificates of Estimated Resources and reported budgeted expenditures are based on permanent and supplemental appropriation measures approved by City Council.

Official's Response: The Permanent budget was not passed until April 2011 and the interim Finance Director did not update the estimated resources or temporary budget to the County. The 2010 final budgeted expenditures and revenues were used until the permanent budget was passed.



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CITY OF MACEDONIA

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 23, 2012**