



Dave Yost • Auditor of State



**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of Pepper Pike  
Cuyahoga County  
28000 Shaker Boulevard  
Pepper Pike, Ohio 44124

To the Members of Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**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 Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2015, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 19 to the financial statements, during the year ended December 31 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 6, 2016

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**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2015*  
*Unaudited*

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The discussion and analysis of the City of Pepper Pike's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the notes thereof.

### **Financial Highlights**

Key financial highlights for 2015 are as follows:

- The City's net position increased due mainly to an increase in income and property taxes receivable as well as increases in capital assets due to capital asset additions of land, building and improvements, the purchase of various equipment and vehicles, construction work for the Meadowlark Street reconstruction project as well as major road repairs. The increase in net position was partially offset by an increase in the net pension liability.
- The City previously implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. Due to an unsuccessful attempt for a .5 percent tax increase in August of 2010, the majority of these measures are still in place.
- The City implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City. The City has reported these liabilities to comply with the requirements of GASB 68 and 71.
- In 2015, capital asset additions consisted of land, construction in progress for the Meadowlark Street reconstruction project, buildings and improvements, the purchase of various equipment and vehicles, road construction and repairs.
- Outstanding bonded debt decreased during 2015 due to annual debt payments.

### **Using this Annual Financial Report**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### ***Government-wide financial statements – Reporting the City of Pepper Pike as a Whole***

#### *Statement of Net Position and the Statement of Activities*

The Statement of Net Position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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***Fund Financial Statements - Reporting the City of Pepper Pike's Most Significant Funds***

*Fund Financial Statements*

The analysis of the City's major funds begins on page 11. Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds for 2015 are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund.

*Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

*Fiduciary Funds*

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

**Government-wide Financial Analysis - City of Pepper Pike as a Whole**

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net position for 2015 as compared to 2014.

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Table 1  
Net Position

	Governmental Activities		
	2015	2014	Change
<b>Assets</b>			
Current and Other Assets	\$25,553,968	\$23,496,364	\$2,057,604
Capital Assets, Net	22,034,035	21,157,946	876,089
<i>Total Assets</i>	<u>47,588,003</u>	<u>44,654,310</u>	<u>2,933,693</u>
<b>Deferred Outflows of Resources</b>			
Pension	901,340	573,003	(328,337)
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	1,156,261	729,858	(426,403)
Long-term Liabilities			
Due Within One Year	671,874	593,031	(78,843)
Due In More Than One Year			
Net Pension Liability	6,220,873	5,912,151	(308,722)
Other Amounts	7,525,433	8,111,793	586,360
<i>Total Liabilities</i>	<u>15,574,441</u>	<u>15,346,833</u>	<u>(227,608)</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,459,631	3,348,154	(111,477)
Pension	30,006	0	(30,006)
<i>Total Deferred Inflows of Resources</i>	<u>3,489,637</u>	<u>3,348,154</u>	<u>(141,483)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	14,174,941	12,872,751	1,302,190
Restricted for:			
Capital Projects	1,317,440	539,109	778,331
Debt Service	5,681,110	5,879,198	(198,088)
Other Purpose	2,609,724	2,232,154	377,570
Unrestricted	5,642,050	5,009,114	632,936
<i>Total Net Position</i>	<u>\$29,425,265</u>	<u>\$26,532,326</u>	<u>\$2,892,939</u>

During 2015, the City adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide

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pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2014, from \$31,871,474 to \$26,532,326 for governmental activities.

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Total current and other assets for governmental activities increased due mainly to increases in income taxes receivable and intergovernmental receivable. Net investment in capital assets increased due to additions of land, building and improvements, the purchase of various equipment and vehicles, construction work for the Meadowlark Street reconstruction project as well as major road repairs. This increase was partially offset by annual depreciation. The decrease in long-term liabilities was due to the continued pay-down of long-term bonds and OPWC loans. The decrease in long-term liabilities was partially offset by an increase in the net pension liability during 2015.

Table 2  
Changes in Net Position

	Governmental Activities		
	2015	2014	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$541,442	\$560,874	(\$19,432)
Operating Grants and Contributions	551,281	594,538	(43,257)
Capital Grants and Assessments	1,389,587	298,878	1,090,709
<i>Total Program Revenues</i>	<u>2,482,310</u>	<u>1,454,290</u>	<u>1,028,020</u>
<b>General Revenues</b>			
Property Taxes	3,437,154	3,404,657	32,497
Income Taxes	6,113,359	4,671,127	1,442,232
Admissions Tax	280,552	280,791	(239)
Franchise Tax	91,860	80,227	11,633
Grants and Entitlements	1,117,764	344,737	773,027
Investment Earnings	15,753	10,966	4,787
Gain on Sale of Capital Assets	0	38,570	(38,570)
Other	285,523	148,346	137,177
<i>Total General Revenues</i>	<u>11,341,965</u>	<u>8,979,421</u>	<u>2,362,544</u>
<i>Total Revenues</i>	<u>13,824,275</u>	<u>10,433,711</u>	<u>3,390,564</u>
<b>Program Expenses</b>			
General Government	2,250,266	1,388,655	(861,611)
Security of Persons and Property	4,771,786	5,087,280	315,494
Public Health Services	29,224	29,051	(173)
Community Environment	173,896	283,008	109,112
Basic Utility Services	864,533	1,570,186	705,653
Transportation	2,554,709	2,001,636	(553,073)
Interest and Fiscal Charges	286,922	302,903	15,981
<i>Total Program Expenses</i>	<u>10,931,336</u>	<u>10,662,719</u>	<u>(268,617)</u>
<i>Change in Net Position</i>	2,892,939	(229,008)	3,121,947
Net Position Beginning of Year	<u>26,532,326</u>	N/A	N/A
Net Position End of Year	<u>\$29,425,265</u>	<u>\$26,532,326</u>	<u>\$2,892,939</u>

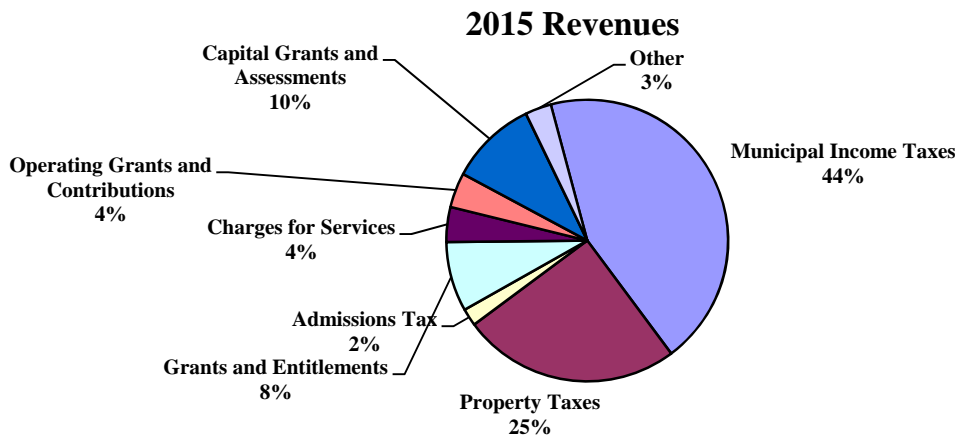
The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$573,003 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension

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expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$626,097. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities
Total 2015 program expenses under GASB 68	\$10,931,336
Pension expense under GASB 68	(626,097)
2015 contractually required contribution	615,706
Adjusted 2015 program expenses	10,920,945
Total 2014 program expenses under GASB 27	10,662,719
Increase/Decrease in program expenses not related to pension	\$258,226

*Governmental Activities*



Funding for the governmental activities comes from several different sources, with the most significant being the municipal income tax. Other prominent sources of revenue are property taxes and grants.

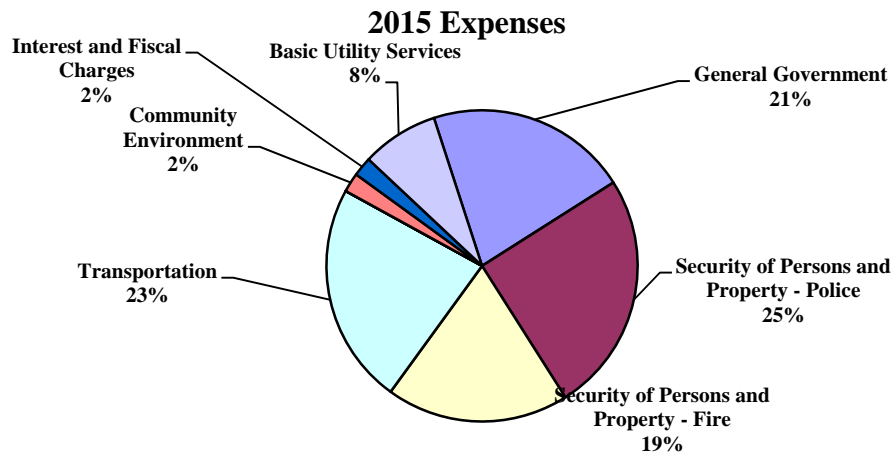
The City's income tax rate is 1.0 percent. Both residents of the City and nonresidents who work inside the City are subject to the income tax.

Charges for services decreased due to lower licenses and permits, fines and forfeitures and charges for services revenues.

Capital grants and assessments increased significantly in 2015 mainly due to almost \$830,000 in intergovernmental monies that were received in 2015 from the City of Cleveland for a waterline project.

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Expenses increased from 2014 levels. The City's largest program expenditure is security of persons and property which is composed of police and fire. Security of persons and property decreased in 2015 as the City closely monitored expenditures, however it remained the largest program expenditure.

General government and transportation expenditures increased due to additional costs for contracts and accounts payables as well as the net pension liability.

### **The City's Funds**

Information about the City's major funds starts with the balance sheet. These funds are accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund. The general fund had an increase in fund balance during the year as revenues and other financing sources continued to exceed expenditures and other financing uses. The fire levy special revenue fund had an increase in fund balance due to revenues exceeding expenditures. The City continues to seek out additional sources of revenues to maintain the current level of services. The bond retirement fund had an increase in fund balance as revenues continued to outpace expenditures. The capital improvement fund had an increase in fund balance due mainly to an increase in intergovernmental revenues, as the City continues to make improvements.

### *General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted at an object level by City Council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of 2015, the City amended its general fund budget several times. The Finance Department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

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In 2015, the general fund's actual revenue plus other financing sources exceeded the final revenue estimate mainly due to higher than estimated municipal income and property tax revenues. Actual expenditures plus other financing uses were under the final budget due to management carefully monitoring expenditures against the budget.

**Capital Assets and Long-term Obligations**

*Capital Assets*

Table 3 shows 2015 balances of capital assets as compared to 2014:

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

	Governmental Activities	
	2015	2014
Land	\$842,866	\$770,789
Construction in Progress	852,583	28,733
Improvements to Land	123,928	136,468
Buildings and Improvements	2,895,288	2,954,987
Vehicles	674,928	747,454
Furniture, Fixtures and Equipment	722,053	642,091
Infrastructure		
Streets	6,612,956	6,358,937
Bridges and Culverts	73,138	75,720
Sanitary Sewer System	9,236,295	9,442,767
Total Capital Assets	\$22,034,035	\$21,157,946

Governmental capital assets, net of depreciation, increased due to current year additions outpacing annual depreciation. For 2015, primary additions included land, construction in progress for the Meadowlark Street reconstruction project, building and improvements, the purchase of various equipment and vehicles, road construction and other major road repairs. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on one of the main arteries in the City, as mentioned, the City has effectively pursued external sources of funding twenty to thirty percent of the project in the form of grants and loan assistance



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programs from State Issue II funds thereby reducing the total amount to be borrowed to provide the matching funds. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

***Outstanding Long-term Obligations***

Table 4 summarizes the long-term obligations outstanding.

Table 4  
 Outstanding Long-term Liabilities at Year End

	Governmental Activities	
	2015	2014
General Obligation Bonds	\$95,000	\$145,000
Special Assessment Bonds	6,241,898	6,603,462
OPWC Loans	1,659,923	1,757,803
Net Pension Liability	6,220,873	5,912,151
Capital Lease	5,475	0
Compensated Absences	195,011	198,559
Total	\$14,418,180	\$14,616,975

The bonds and OPWC loans in governmental activities are to finance various improvement projects and will be paid from the bond retirement fund with property taxes and special assessments. The compensated absences category represents accrued sick leave payable to employees and will be paid from the general and fire levy special revenue funds. Additional information concerning the City's long-term obligations can be found in Note 14 to the basic financial statements.

Also, the City has manuscript notes which represent three separate water and sewer improvement issues in the form of manuscript notes issued by the City. Manuscript notes are notes issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the general fund from the debt service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. These notes are shown on the balance sheet as interfund receivables/payables between the general fund and the various capital project funds. At year end, the outstanding special assessment manuscript notes were \$69,635. Additional information concerning the City's manuscript debt can be found in Note 15 to the basic financial statements.

**Current Related Financial Activities**

The City is facing some financial challenges as are most other communities in the County. City Council and the administration have taken steps to counter these challenges by putting in measures to cut expenditures and also increase revenues. The City has also established an oversight committee to meet regularly with the Finance Director, review the financial reports in detail, and report back to Council every month. The City's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City with full disclosure of the financial position of the City.

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**Contacting the City of Pepper Pike's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Pepper Pike, 28000 Shaker Boulevard, Pepper Pike, Ohio 44124, phone number (216) 831-8500.

## Basic Financial Statements

**City of Pepper Pike, Ohio**

*Statement of Net Position*

*December 31, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$13,576,305
Accounts Receivable	204,478
Intergovernmental Receivable	844,372
Materials and Supplies Inventory	135,798
Income Taxes Receivable	1,734,839
Property Taxes Receivable	3,579,745
Special Assessments Receivable	5,478,431
Nondepreciable Capital Assets	1,695,449
Depreciable Capital Assets, Net	<u>20,338,586</u>
<i>Total Assets</i>	<u>47,588,003</u>
<b>Deferred Outflows of Resources</b>	
Pension	<u>901,340</u>
<b>Liabilities</b>	
Accounts Payable	102,009
Contracts Payable	573,942
Accrued Wages	99,772
Intergovernmental Payable	138,774
Accrued Interest Payable	22,782
Vacation Benefits Payable	218,982
Long-Term Liabilities:	
Due Within One Year	671,874
Due In More Than One Year	
Net Pension Liability (See Note 11)	6,220,873
Other Amounts	<u>7,525,433</u>
<i>Total Liabilities</i>	<u>15,574,441</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	3,459,631
Pension	<u>30,006</u>
<i>Total Deferred Inflows of Resources</i>	<u>3,489,637</u>
<b>Net Position</b>	
Net Investment in Capital Assets	14,174,941
Restricted for:	
Capital Projects	1,317,440
Debt Service	5,681,110
Other Purposes	2,609,724
Unrestricted	<u>5,642,050</u>
<i>Total Net Position</i>	<u><u>\$29,425,265</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2015

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General Government	\$2,250,266	\$82,480	\$0	\$4,826	(\$2,162,960)
Security of Persons and Property:					
Police	2,696,604	148,415	14,888	0	(2,533,301)
Fire	2,075,182	159,532	212,694	0	(1,702,956)
Public Health Services	29,224	2,120	0	0	(27,104)
Community Environment	173,896	10,139	5,160	0	(158,597)
Basic Utility Services	864,533	45,776	0	0	(818,757)
Transportation	2,554,709	92,980	318,539	1,384,761	(758,429)
Interest and Fiscal Charges	286,922	0	0	0	(286,922)
<i>Total Governmental Activities</i>	<u>\$10,931,336</u>	<u>\$541,442</u>	<u>\$551,281</u>	<u>\$1,389,587</u>	<u>(8,449,026)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	1,558,736
Debt Service	222,776
Fire	1,546,881
Police	108,761
Municipal Income Taxes Levied for General Purposes	6,113,359
Admissions Taxes	280,552
Franchise Taxes	91,860
Grants and Entitlements not Restricted to Specific Programs	1,117,764
Interest	15,753
Miscellaneous	285,523

*Total General Revenues* 11,341,965

Change in Net Position 2,892,939

*Net Position Beginning of Year - Restated (See Note 19)* 26,532,326

*Net Position End of Year* \$29,425,265

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2015*

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and						
Cash Equivalents	\$9,237,846	\$1,246,037	\$194,574	\$1,134,775	\$1,763,073	\$13,576,305
Property Taxes Receivable	1,644,991	1,475,686	229,534	0	229,534	3,579,745
Income Taxes Receivable	1,734,839	0	0	0	0	1,734,839
Accounts Receivable	83,895	120,583	0	0	0	204,478
Intergovernmental Receivable	208,611	98,144	114,721	255,410	167,486	844,372
Interfund Receivable	344,616	0	0	0	0	344,616
Materials and Supplies Inventory	3,221	352	0	0	132,225	135,798
Special Assessments Receivable	0	0	5,408,796	0	69,635	5,478,431
<i>Total Assets</i>	<u>\$13,258,019</u>	<u>\$2,940,802</u>	<u>\$5,947,625</u>	<u>\$1,390,185</u>	<u>\$2,361,953</u>	<u>\$25,898,584</u>
<b>Liabilities</b>						
Accounts Payable	\$63,453	\$35,664	\$0	\$2,892	\$0	\$102,009
Contracts Payable	4,089	0	0	569,853	0	573,942
Accrued Wages	66,089	33,683	0	0	0	99,772
Intergovernmental Payable	61,583	20,682	0	0	56,509	138,774
Accrued Interest Payable	0	0	0	0	296	296
Interfund Payable	0	0	0	0	344,616	344,616
<i>Total Liabilities</i>	<u>195,214</u>	<u>90,029</u>	<u>0</u>	<u>572,745</u>	<u>401,421</u>	<u>1,259,409</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	1,589,815	1,426,147	221,835	0	221,834	3,459,631
Unavailable Revenue	1,655,147	260,224	5,431,216	255,410	218,805	7,820,802
<i>Total Deferred Inflows of Resources</i>	<u>3,244,962</u>	<u>1,686,371</u>	<u>5,653,051</u>	<u>255,410</u>	<u>440,639</u>	<u>11,280,433</u>
<b>Fund Balances</b>						
Nonspendable	48,876	352	0	0	132,225	181,453
Restricted	0	1,164,050	294,574	562,030	1,533,298	3,553,952
Assigned	114,081	0	0	0	0	114,081
Unassigned (Deficit)	9,654,886	0	0	0	(145,630)	9,509,256
<i>Total Fund Balances</i>	<u>9,817,843</u>	<u>1,164,402</u>	<u>294,574</u>	<u>562,030</u>	<u>1,519,893</u>	<u>13,358,742</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$13,258,019</u>	<u>\$2,940,802</u>	<u>\$5,947,625</u>	<u>\$1,390,185</u>	<u>\$2,361,953</u>	<u>\$25,898,584</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2015*

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**Total Governmental Fund Balances** \$13,358,742

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

Capital assets used in governmental activities are not financial resources and  
 therefore are not reported in the funds. 22,034,035

Other long-term assets are not available to pay for current-period expenditures  
 and therefore are reported as unavailable revenue in the funds:

Delinquent Property Taxes	120,114
Income Taxes	1,473,538
Special Assessments	5,478,431
Intergovernmental	636,178
Charges for Services	<u>112,541</u>

Total 7,820,802

In the statement of activities, interest is accrued on outstanding bonds, whereas  
 in governmental funds, an interest expenditure is reported when due. (22,486)

Vacation benefits payable is not expected to be paid with expendable available  
 financial resources and therefore not reported in the funds. (218,982)

The net pension liability is not due and payable in the current period;  
 therefore, the liability and related deferred inflows/outflows are not  
 reported in governmental funds:

Deferred Outflows - Pension	901,340
Deferred Inflows - Pension	(30,006)
Net Pension Liability	<u>(6,220,873)</u>

Total (5,349,539)

Long-term liabilities are not due and payable in the current period  
 and therefore are not reported in the funds:

General Obligation Bonds	(95,000)
Special Assessment Bonds	(6,241,898)
OPWC Loans	(1,659,923)
Capital Lease	(5,475)
Compensated Absences	<u>(195,011)</u>

Total (8,197,307)

*Net Position of Governmental Activities* \$29,425,265

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2015*

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$1,561,069	\$1,441,739	\$223,101	\$0	\$217,846	\$3,443,755
Municipal Income Taxes	5,687,578	0	0	0	0	5,687,578
Admissions Taxes	280,552	0	0	0	0	280,552
Charges for Services	78,967	146,971	0	0	0	225,938
Fees, Licenses and Permits	189,404	0	0	0	0	189,404
Fines and Forfeitures	36,677	0	0	0	1,780	38,457
Intergovernmental	294,205	196,389	829,442	880,829	351,748	2,552,613
Special Assessments	0	0	563,150	0	28,084	591,234
Interest	14,939	0	0	0	814	15,753
Rentals	75,082	0	0	0	0	75,082
Contributions and Donations	0	0	0	0	160	160
Franchise Tax	91,860	0	0	0	0	91,860
Other	276,673	8,850	0	0	0	285,523
<i>Total Revenues</i>	<u>8,587,006</u>	<u>1,793,949</u>	<u>1,615,693</u>	<u>880,829</u>	<u>600,432</u>	<u>13,477,909</u>
<b>Expenditures</b>						
Current:						
General Government	1,140,046	0	708,979	0	0	1,849,025
Security of Persons and Property:						
Police	2,030,038	0	0	0	275,561	2,305,599
Fire	0	1,509,842	0	0	143,611	1,653,453
Public Health Services	29,224	0	0	0	0	29,224
Community Environment	139,761	0	0	0	5,642	145,403
Basic Utility Services	636,340	0	0	0	0	636,340
Transportation	1,264,324	0	0	0	210,771	1,475,095
Capital Outlay	0	0	0	3,407,908	0	3,407,908
Debt Service:						
Principal Retirement	352	0	507,880	0	0	508,232
Interest and Fiscal Charges	0	0	285,033	0	4,720	289,753
<i>Total Expenditures</i>	<u>5,240,085</u>	<u>1,509,842</u>	<u>1,501,892</u>	<u>3,407,908</u>	<u>640,305</u>	<u>12,300,032</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,346,921</u>	<u>284,107</u>	<u>113,801</u>	<u>(2,527,079)</u>	<u>(39,873)</u>	<u>1,177,877</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	7,315	0	0	0	0	7,315
Inception of Capital Lease	5,827	0	0	0	0	5,827
Transfers In	0	0	0	2,800,000	405,000	3,205,000
Transfers Out	(3,205,000)	0	0	0	0	(3,205,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,191,858)</u>	<u>0</u>	<u>0</u>	<u>2,800,000</u>	<u>405,000</u>	<u>13,142</u>
<i>Net Change in Fund Balances</i>	155,063	284,107	113,801	272,921	365,127	1,191,019
<i>Fund Balances Beginning of Year</i>	<u>9,662,780</u>	<u>880,295</u>	<u>180,773</u>	<u>289,109</u>	<u>1,154,766</u>	<u>12,167,723</u>
<i>Fund Balances End of Year</i>	<u>\$9,817,843</u>	<u>\$1,164,402</u>	<u>\$294,574</u>	<u>\$562,030</u>	<u>\$1,519,893</u>	<u>\$13,358,742</u>

See accompanying notes to the basic financial statements



**City of Pepper Pike, 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, 2015*

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**Net Change in Fund Balances - Total Governmental Funds** \$1,191,019

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Asset Additions	2,102,642	
Current Year Depreciation	<u>(1,165,793)</u>	
Total		936,849

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (60,760)

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

Delinquent Property Taxes	(6,601)	
Income Taxes	425,781	
Special Assessments	(337,886)	
Intergovernmental	252,511	
Charges for Services	<u>12,561</u>	
Total		346,366

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 615,706

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (626,097)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 508,232

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due:

Accrued Interest on Bonds	1,267	
Amortization of Bond Premium	<u>1,564</u>	
Total		2,831

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	3,548	
Vacation Benefits Payable	<u>(18,928)</u>	
Total		(15,380)

Other financing sources, such as inception of capital lease, in the governmental funds increase long-term liabilities in the statement of net position. (5,827)

*Change in Net Position of Governmental Activities* \$2,892,939

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,409,298	\$1,409,298	\$1,561,069	\$151,771
Municipal Income Taxes	5,210,390	5,210,390	5,771,510	561,120
Admissions Taxes	256,471	256,471	284,091	27,620
Charges for Services	4,067	4,067	4,505	438
Fees, Licenses and Permits	170,990	170,990	189,404	18,414
Fines and Forfeitures	32,819	32,819	36,353	3,534
Intergovernmental	267,856	267,856	296,702	28,846
Interest	13,487	13,487	14,939	1,452
Rentals	67,782	67,782	75,082	7,300
Franchise Tax	81,360	81,360	90,122	8,762
Other	240,871	240,871	278,536	37,665
<i>Total Revenues</i>	7,755,391	7,755,391	8,602,313	846,922
<b>Expenditures</b>				
Current:				
General Government	1,187,388	1,187,388	1,135,298	52,090
Security of Persons and Property:				
Police	2,100,483	2,100,483	2,066,513	33,970
Public Health Services	31,207	31,207	29,224	1,983
Community Environment	204,980	204,980	194,894	10,086
Basic Utility Services	682,056	682,056	663,627	18,429
Transportation	1,264,998	1,267,933	1,258,726	9,207
<i>Total Expenditures</i>	5,471,112	5,474,047	5,348,282	125,765
<i>Excess of Revenues Over (Under) Expenditures</i>	2,284,279	2,281,344	3,254,031	972,687
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	7,315	7,315
Advances In	0	0	37,599	37,599
Transfers Out	(3,205,000)	(3,205,000)	(3,205,000)	0
<i>Total Other Financing Sources (Uses)</i>	(3,205,000)	(3,205,000)	(3,160,086)	44,914
<i>Net Change in Fund Balance</i>	(920,721)	(923,656)	93,945	1,017,601
<i>Fund Balance Beginning of Year</i>	9,044,599	9,044,599	9,044,599	0
Prior Year Encumbrances Appropriated	22,432	22,432	22,432	0
<i>Fund Balance End of Year</i>	\$8,146,310	\$8,143,375	\$9,160,976	\$1,017,601

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Levy Fund*  
*For the Year Ended December 31, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$3,407,777	\$1,405,060	\$1,441,739	\$36,679
Charges for Services	358,434	147,786	151,644	3,858
Intergovernmental	464,196	191,393	196,389	4,996
Other	20,918	8,625	8,850	225
<i>Total Revenues</i>	4,251,325	1,752,864	1,798,622	45,758
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	1,576,248	1,596,248	1,567,476	28,772
<i>Net Change in Fund Balance</i>	2,675,077	156,616	231,146	74,530
<i>Fund Balance Beginning of Year</i>	940,704	940,704	940,704	0
Prior Year Encumbrances Appropriated	10,851	10,851	10,851	0
<i>Fund Balance End of Year</i>	\$3,626,632	\$1,108,171	\$1,182,701	\$74,530

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2015*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$289,564</u></u>
<b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$289,564</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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**Note 1 – Description of the City and Reporting Entity**

The City of Pepper Pike (the “City”) is a municipal corporation duly organized and existing under the constitution and laws of the State of Ohio. The City operates under its own charter which was adopted on January 1, 1967. The City is governed under the mayor-council form of government.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments and organizations making up the legal entity of the City (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity” and Governmental Accounting Standards Board Statement No.61, “The Financial Reporting Entity: Omnibus an amendment of GASB 14 and 34.”

The primary government includes the City departments and agencies that provide the following services: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair and general administrative services.

Water service within the City is provided by the City of Cleveland Water Department and is purchased directly by the consumers. Approximately 800 residential homes, schools and business are served by a sewage collection system that is owned by the City and operated by the County Sanitary Engineer. Approximately 300 of the 800 residential homes have the sewage treated at a plant owned by the Northeast Ohio Regional Sewer District. The remaining homes, schools and businesses operate and maintain private sewage treatment systems that are inspected by the Cuyahoga County Board of Health. The City owns and maintains storm sewers and culverts within the public right-of-way and designated easements for the collection and discharge of storm water.

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 organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. There are no component units included as part of this report.

The City participates in the Ohio Municipal League Workers’ Compensation Group Rating Program, the Northeast Ohio Public Energy Council and the Valley Enforcement Regional Council of Governments, which are defined as a public entity pool and jointly governed organizations. These organizations are discussed in Notes 16 and 17 to the basic financial statements.

**Note 2 – Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the City’s accounting policies are described below.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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 program 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.

***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's funds are classified as governmental or fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

***General Fund*** - The general fund accounts for and reports all financial resources except those required to be accounted for and reported 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 Pepper Pike and/or the general laws of Ohio.

***Fire Levy Fund*** - The fire levy fund is used to account for and report restricted property tax revenues received from a voted fire tax levy and transfers from the general fund. Monies are used to maintain fire equipment and for salaries of firemen.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Bond Retirement Fund*** – The bond retirement fund is used to account for and report restricted property taxes and special assessments for the payment of general long-term debt principal, interest and related costs for various City improvements.

***Capital Improvement Fund*** – The capital improvement fund is used to account for and report restricted grants to be used for various capital improvement projects.

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for tree planting and construction deposits.

***Measurement Focus***

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

***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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***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 the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources 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, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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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 year 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 the modified accrual basis, revenue from nonexchange 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), fines and forfeitures, interest, grants and rentals.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes, special assessments, interest and intergovernmental grants and ambulance charges. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***Budgetary Process***

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

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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. 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.

***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 City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During 2015, the City invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio 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 Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on December 31, 2015.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2015 amounted to \$14,939, which includes \$4,220 assigned from other City funds.

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Inventory***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

***Capital Assets***

The City's only capital assets are general capital assets. General capital assets are capital 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 position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land 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:

<u>Description</u>	<u>Estimated Lives</u>
Improvements to Land	20 years
Buildings and Improvements	30-75 years
Vehicles	10 years
Furniture, Fixtures and Equipment	10 years
Infrastructure	20-100 years

The City's infrastructure consists of streets, bridges and sanitary sewers and includes infrastructure acquired prior to December 31, 1980.

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are classified as nonspendable fund balances. Interfund balance amounts are eliminated in the statement of net position.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

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 that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee 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 all employees after twenty years of accumulated service.

***Bond Premiums***

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

***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, claims and judgments, compensated absences and net pension liability will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

***Fund Balance***

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 category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans and the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
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Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. 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 or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. 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.

***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 or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State Statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

***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 used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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.

***Net Position***

Net position represents the difference between all other elements in a statement of net position. Net investment in capital assets, 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 position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for street construction, maintenance and repair and the operation of the fire department.

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Interfund Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal 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 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 to the funds that initially paid for them are not presented on the financial statements.

***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 – Fund Deficits**

Fund balances at December 31, 2015, included the following individual fund deficits:

<b><i>Special Revenue Funds</i></b>	
Fire Pension	\$1,884
<b><i>Capital Projects Funds</i></b>	
Pepper Pike Waste Water Treatment Plant	47,334
Northwest Quadrant	24,000
Thornapple Waterline	2,481
Brainard Road Sewerline	13,312
Lander/Emerson Waterline	16,075
Kersdale Road Waterline	40,544

The fire pension special revenue fund and the Pepper Pike waste water treatment plant, northwest quadrant and Thornapple waterline capital projects funds deficits are caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Brainard Road sewerline, Lander/Emerson waterline and Kersdale Road waterline capital projects funds' deficits are the result of interfund loans which are used to finance the project until bonds are issued. Once the loans are repaid, the deficits will be eliminated.

**City of Pepper Pike, Ohio**  
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**Note 4 - Fund Balances**

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 the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>						
Inventory	\$3,221	\$352	\$0	\$0	\$132,225	\$135,798
Interfund Loans	45,655	0	0	0	0	45,655
<b><i>Total Nonspendable</i></b>	<b>48,876</b>	<b>352</b>	<b>0</b>	<b>0</b>	<b>132,225</b>	<b>181,453</b>
<b><i>Restricted for</i></b>						
Street Construction, Maintenance and Repair	0	0	0	0	891,284	891,284
Recycle Ohio	0	0	0	0	22,064	22,064
Fire Department	0	1,164,050	0	0	0	1,164,050
Police Pension	0	0	0	0	49,532	49,532
Beautification	0	0	0	0	10,762	10,762
Law Enforcement	0	0	0	0	6,635	6,635
Emergency Assistance	0	0	0	0	11,727	11,727
Municipal Emergency	0	0	0	0	41,276	41,276
Urban Forestry	0	0	0	0	18	18
Debt Service	0	0	294,574	0	0	294,574
Capital Improvements	0	0	0	562,030	500,000	1,062,030
<b><i>Total Restricted</i></b>	<b>0</b>	<b>1,164,050</b>	<b>294,574</b>	<b>562,030</b>	<b>1,533,298</b>	<b>3,553,952</b>
<b><i>Assigned to</i></b>						
Purchases on Order: Purchased/Contracted Services	114,081	0	0	0	0	114,081
<b><i>Unassigned (Deficit)</i></b>	<b>9,654,886</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(145,630)</b>	<b>9,509,256</b>
<b><i>Total Fund Balances</i></b>	<b>\$9,817,843</b>	<b>\$1,164,402</b>	<b>\$294,574</b>	<b>\$562,030</b>	<b>\$1,519,893</b>	<b>\$13,358,742</b>

**Note 5 - Budgetary Basis of Accounting**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general and major special revenue funds 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 as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**City of Pepper Pike, Ohio**  
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3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and fire levy fund.

	Net Change in Fund Balance	
	General	Fire Levy
GAAP Basis	\$155,063	\$284,107
Net Adjustment for Revenue Accruals	47,079	4,673
Net Adjustment for Expenditure Accruals	38,308	5,702
Encumbrances	(146,505)	(63,336)
Budget Basis	\$93,945	\$231,146

**Note 6 - Deposits and Investments**

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active monies are public monies necessary to meet current demands on the treasury. Active 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 can 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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. 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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

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

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

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$8,287,518 of the City's bank balance of \$13,866,008 was uninsured and uncollateralized. Although the securities were held by the pledging financial 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 Federal Deposit Insurance Corporation.

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



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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**Investments**

At December 31, 2015, the City had \$87,860 invested in STAR Ohio with an average maturity of 49.4 days.

**Credit Risk** STAR Ohio carries a rating of AAA by Standard & Poor's. The City has no investment policy that addresses credit risk.

**Note 7 - Receivables**

Receivables at December 31, 2015, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.

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

All receivables except property taxes and special assessments are expected to be received 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 \$5,062,449 in the bond retirement fund. At December 31, 2015 the amount of delinquent special assessments was \$24,833.

**Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of 2014 taxes.

2015 real property taxes are levied after October 1, 2015 on the assessed value as of January 1, 2015 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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 personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$9.50 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2015 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$373,269,600
Other Real Estate	35,009,390
Public Utility Property	7,568,140
Total Assessed Values	<u>\$415,847,130</u>

**City of Pepper Pike, Ohio**  
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The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which are measurable as of December 31, 2015 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2015 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collective delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

The City levies a municipal income tax of one percent on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside of the City. The City allows a credit of fifty percent for income tax paid to another municipality.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are also required to pay estimated tax quarterly and file a final return annually. Taxes collected by RITA in one month are remitted to the City on the first and tenth business days of the following month. Income tax revenue is credited entirely to the general fund.

***Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2015 follows:

Cuyahoga County Grants	\$255,410
Homestead and Rollback	233,089
Gasoline Tax	106,955
Cuyahoga County Treasurer	100,500
Orange City Schools	74,462
Permissive Tax	45,809
Local Government	25,221
Shaker Heights Municipal Court	2,439
Cuyahoga County Library	487
Total	<u><u>\$844,372</u></u>

**Note 8 - Contingencies**

***Litigation***

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

***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.

**City of Pepper Pike, Ohio**  
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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, 2015.

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$770,789	\$72,077	\$0	\$842,866
Construction in Progress	28,733	823,850	0	852,583
<b><i>Total Capital Assets not being Depreciated</i></b>	<b>799,522</b>	<b>895,927</b>	<b>0</b>	<b>1,695,449</b>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	329,047	0	0	329,047
Buildings and Improvements	4,585,982	80,463	(154,442)	4,512,003
Vehicles	3,554,204	73,503	(23,197)	3,604,510
Furniture, Fixtures and Equipment	2,094,334	186,076	(19,258)	2,261,152
Infrastructure				
Streets	31,780,036	829,819	(622,364)	31,987,491
Bridges and Culverts	258,189	0	0	258,189
Sanitary Sewers	12,129,440	36,854	0	12,166,294
<b><i>Total Capital Assets being Depreciated</i></b>	<b>54,731,232</b>	<b>1,206,715</b>	<b>(819,261)</b>	<b>55,118,686</b>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(192,579)	(12,540)	0	(205,119)
Buildings and Improvements	(1,630,995)	(88,681)	102,961	(1,616,715)
Vehicles	(2,806,750)	(136,750)	13,918	(2,929,582)
Furniture, Fixtures and Equipment	(1,452,243)	(106,114)	19,258	(1,539,099)
Infrastructure				
Streets	(25,421,099)	(575,800)	622,364	(25,374,535)
Bridges and Culverts	(182,469)	(2,582)	0	(185,051)
Sanitary Sewers	(2,686,673)	(243,326)	0	(2,929,999)
<b><i>Total Accumulated Depreciation</i></b>	<b>(34,372,808)</b>	<b>(1,165,793) *</b>	<b>758,501</b>	<b>(34,780,100)</b>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<b>20,358,424</b>	<b>40,922</b>	<b>(60,760)</b>	<b>20,338,586</b>
<b><i>Total Capital Assets, Net</i></b>	<b>\$21,157,946</b>	<b>\$936,849</b>	<b>(\$60,760)</b>	<b>\$22,034,035</b>

**City of Pepper Pike, Ohio**  
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\*Depreciation expense was charged to governmental activities as follows:

General Government	\$97,245
Security of Persons and Property:	
Police	48,544
Fire	60,240
Community Development	4,562
Basic Utility Services	130,779
Transportation	<u>824,423</u>
Total Depreciation Expense	<u><u>\$1,165,793</u></u>

## **Note 10 – Other Employee Benefits**

### ***Compensated Absences***

Employees earn vacation at different rates which are affected by length of service. In general, vacation earned in any one year must be used within the following year and cannot be carried over except with the written approval of the Mayor. At the time of separation the employee is entitled to payment for any earned but unused vacation.

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation. Unused sick leave can be accumulated up to a max of 144 work days for firefighters and up to a max of 120 work days for all other employees. Any employee who accumulates during the calendar year additional sick leave over the maximum amount will have the excess paid for at the rate of one day's pay for each two days earned. This payment is made with the second pay in January of the subsequent year. Upon retirement or death with at least 20 years of service to the City, the employee will be paid for accumulated sick leave at the rate of one day's pay for every two days accumulated.

### ***Insurance***

The City provides medical, prescription, dental, and vision insurances for employees and elected officials. Medical/surgical and prescription insurance is provided through Medical Mutual. Dental and vision insurance is provided through Lincoln Financial. The City pays monthly premiums up to a maximum amount, per union agreements. The additional premium costs are paid by the employee. City premiums are paid from the same funds that pay the employees' salaries.

Life insurance is provided to full-time employees through Lincoln Financial. Full-time employees receive \$20,000 term life coverage. The City pays the total monthly premium.

## **Note 11 - Defined Benefit Pension Plans**

### ***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

**City of Pepper Pike, Ohio**  
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The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

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<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
<b>2015 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2015 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$205,851 for 2015. Of this amount, \$28,619 is reported as an intergovernmental payable.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
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***Plan Description – Ohio Police & Fire Pension Fund (OPF)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
 <b>2015 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	 19.50 %	 24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$409,855 for 2015. Of this amount \$55,073 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$1,707,974	\$4,512,899	\$6,220,873
Proportion of the Net Pension Liability	0.0141610%	0.0871146%	
Pension Expense	\$185,885	\$440,212	\$626,097



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At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$91,132	\$194,502	\$285,634
City contributions subsequent to the measurement date	205,851	409,855	615,706
Total Deferred Outflows of Resources	\$296,983	\$604,357	\$901,340
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$30,006	\$0	\$30,006

\$615,706 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2016	\$8,938	\$48,625	\$57,563
2017	8,938	48,625	57,563
2018	20,467	48,625	69,092
2019	22,783	48,627	71,410
Total	\$61,126	\$194,502	\$255,628

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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***Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$3,142,184	\$1,707,974	\$500,025

***Actuarial Assumptions – OPF***

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
<b>Total</b>	<b>120.00 %</b>	

\* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$6,242,023	\$4,512,899	\$3,048,858

**Social Security**

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2014, three members of the Architectural Review Board and ten part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

**City of Pepper Pike, Ohio**  
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**Note 12 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care 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 health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS actuary.

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 the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014 and 2013 were \$34,308, \$34,004 and \$19,554 respectively. For 2015, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**City of Pepper Pike, Ohio**  
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Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

***Police and Fire Pension Fund***

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

OPF provides access to postretirement health care coverage for 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 health care coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF 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.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at [www.opf.org](http://www.opf.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also 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 OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$6,534 and \$3,438 for the year ended December 31, 2015, \$43,376 and \$22,607 for the

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

year ended December 31, 2014, and \$84,981 and \$55,469 for the year ended December 31, 2013. For 2015, 97.44 percent has been contributed for police and 97.92 percent has been contributed for firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**Note 13 - Risk Management**

***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 disasters. During the year, the City contracted with Selective Insurance Group for following types of insurance:

Type	Deductible	Coverage
Property and Equipment	\$1,000	\$8,223,391
Boiler and Machinery	1,000	8,223,391
Inland Marine	500	1,041,393
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement	5,000	1,000,000
Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	50,000
Employee Dishonesty	10,000	100,000
Vehicle Physical Damage	500	Actual cash value

Settled claims have not exceeded this commercial coverage in any of the past four years. There were no significant reductions in coverage from the prior year.

***Workers' Compensation***

The City participates in the Ohio Municipal League Workers' Compensation Group Rating Program. The intent of the program is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the program. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the group. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the group rating program.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2015

**Note 14 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2015 follows:

	Principal Outstanding 12/31/2014	Additions	Deletions	Principal Outstanding 12/31/2015	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1997 5.35% Brookwood Water Serial Bonds	\$145,000	\$0	(\$50,000)	\$95,000	\$50,000
<b>Special Assessment Bonds</b>					
2007 4.00 - 5.00% Various Purpose Serial Bonds	825,000	0	(155,000)	670,000	160,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00% Street Improvement Serial Bonds	350,000	0	(50,000)	300,000	55,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13% Street Improvement Serial Bonds	2,790,000	0	(145,000)	2,645,000	150,000
Premium on Bonds	23,462	0	(1,564)	21,898	0
2010 2.00 - 4.25% Windy Hill Bonds Serial Bonds	128,000	0	(5,000)	123,000	5,000
2010 2.00 - 4.25% Thornapple Bonds Serial Bonds	77,000	0	(5,000)	72,000	5,000
<i>Total Special Assessment Bonds</i>	<u>6,603,462</u>	<u>0</u>	<u>(361,564)</u>	<u>6,241,898</u>	<u>375,000</u>
<b>OPWC Loans</b>					
1996 0% Pinetree Water	52,608	0	(26,304)	26,304	26,304
2007 0% Brainard Road	526,288	0	(42,103)	484,185	42,103
2013 0% Lander Road	1,178,907	0	(29,473)	1,149,434	58,945
<i>Total OPWC Loans</i>	<u>1,757,803</u>	<u>0</u>	<u>(97,880)</u>	<u>1,659,923</u>	<u>127,352</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
OPERS	1,669,397	38,577	0	1,707,974	0
OP&F	4,242,754	270,145	0	4,512,899	0
<i>Total Net Pension Liability</i>	<u>5,912,151</u>	<u>308,722</u>	<u>0</u>	<u>6,220,873</u>	<u>0</u>
Capital Lease	0	5,827	(352)	5,475	1,110
Compensated Absences	198,559	46,177	(49,725)	195,011	118,412
<i>Total Other Long-term Obligations</i>	<u>6,110,710</u>	<u>360,726</u>	<u>(50,077)</u>	<u>6,421,359</u>	<u>119,522</u>
<i>Total Governmental Activities</i>	<u>\$14,616,975</u>	<u>\$360,726</u>	<u>(\$559,521)</u>	<u>\$14,418,180</u>	<u>\$671,874</u>

General obligation bonds are the direct obligation of the City and will be paid from the bond retirement fund using property tax revenues. Special assessment bonds are paid from the bond retirement fund with special assessments levied against benefited property owners. The Ohio Public Works Commission (OPWC)



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

projects are being paid from the bond retirement debt service fund. Compensated absences will be paid from the general and fire levy special revenue fund. The City pays obligations related to employee compensation from the fund benefitting from their service.

On September 19, 1997, the City issued \$995,000 in general obligation bonds for the purpose of constructing a water line on Brookwood Road. The bonds were issued for a twenty year period with a final maturity on December 19, 2017.

On September 20, 2007, the City issued \$3,475,000 in special assessment bonds for Brainard Road storm sewer (\$458,000) and water line projects (\$428,000), construction of water pump stations on Fairmont Brainard Road (\$672,000) and Brainard Road (\$425,000) and Brainard Road Relocation project (\$1,492,000). The special assessment bonds consist of serial and term bonds in the amounts of \$1,705,000 and \$1,770,000, respectively. The bonds were issued for a twenty year period with a final maturity on December 1, 2027.

The term bonds maturing on December 1, 2022 and 2027 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Issue	
	\$595,000	\$1,175,000
2020	\$190,000	\$0
2021	200,000	0
2023	0	210,000
2024	0	230,000
2025	0	235,000
2026	0	245,000
Total mandatory sinking fund payments	390,000	920,000
Amount due at stated maturity	205,000	255,000
Total	\$595,000	\$1,175,000
<i>Stated Maturity</i>	<i>12/1/2022</i>	<i>12/1/2027</i>

On September 17, 2008, the City issued \$1,260,000 in special assessment bonds for the Pepper Hills Wastewater Treatment Plant (\$852,000) and the Cedar Road Sewer (\$408,000). The special assessment bonds consist of serial and term bonds in the amounts of \$620,000 and \$640,000, respectively. The bonds were issued for a twenty year period with a final maturity on December 1, 2028.

The term bonds maturing on December 1, 2024 and 2028 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2015

Year	Issue	
	\$290,000	\$350,000
2021	\$65,000	\$0
2022	75,000	0
2023	75,000	0
2025	0	80,000
2026	0	85,000
2027	0	90,000
Total mandatory sinking fund payments	215,000	255,000
Amount due at stated maturity	75,000	95,000
Total	\$290,000	\$350,000
<i>Stated Maturity</i>	<i>12/1/2024</i>	<i>12/1/2028</i>

On September 22, 2009, the City issued \$3,460,000 in street improvement special assessment bonds. These bonds were issued to help retire \$3,708,000 of notes issued for improvements to the Northwest Quadrant. The bonds were issued for a twenty year period with a final maturity on December 1, 2029.

On July 21, 2010 the City issued \$245,000 in special assessment bonds for the Windy Hill Street Waterline and the Thornapple Street Waterline. The bonds were issued for a twenty year period with a final maturity on December 1, 2030.

On July 1, 1996, the City entered into \$526,579 in an OPWC loan for the installation of a waterline on Pinetree Road. The loan is a twenty year interest free with a final maturity on July 1, 2016.

On April 4, 2007, the City entered into \$842,061 in an OPWC loan to help finance the Brainard Road Relocation project. The loan is a twenty year interest free with a final maturity on January 1, 2027.

During 2013, the City entered into \$1,178,907 in an OPWC loan to help finance the Lander Road Reconstruction project. The loan is a twenty year interest free with a final maturity on January 1, 2035.

As of December 31, 2015, the City's overall legal debt margin was \$42,103,600. The unvoted legal debt margin was \$21,311,243. Principal and interest requirements to retire the long-term general obligation bonds, special assessment bonds and the OPWC loans as of December 31, 2015 are as follows:

	General Obligation Bonds		OPWC Loan
	Serial		
	Principal	Interest	
2016	\$50,000	\$5,083	\$127,352
2017	45,000	2,407	101,049
2018	0	0	101,048
2019	0	0	101,048
2020	0	0	101,049
2021-2025	0	0	505,241
2026-2030	0	0	357,882
2031-2035	0	0	265,254
Total	\$95,000	\$7,490	\$1,659,923

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

	Special Assessment Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2016	\$375,000	\$147,226	\$0	\$117,525
2017	385,000	133,563	0	117,525
2018	405,000	119,362	0	117,525
2019	410,000	104,207	0	117,525
2020	245,000	88,487	190,000	117,525
2021-2025	1,015,000	321,651	1,450,000	413,200
2026-2030	975,000	11,175	770,000	65,250
Total	\$3,810,000	\$925,671	\$2,410,000	\$1,066,075

**Note 15 - Interfund Transfers and Balances**

*Interfund Transfers*

Transfer To	Transfer From
Major Funds:	General
Capital Improvement	\$2,800,000
Other Governmental Funds:	
Police Pension	155,000
Emergency Capital Improvement	250,000
Total Other Governmental Funds	405,000
Total	\$3,205,000

The general fund transfer to the police pension special revenue fund was to supplement funding for maintaining that program. The transfers to the capital improvement and emergency capital improvement, capital projects funds were to provide funding for capital improvements within the City.

*Interfund Balances*

On the fund financial statements interfund balances at December 31, 2015 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$69,635	\$274,981	\$0	\$0
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	13,249	0
Lander/Emerson Waterline	0	0	16,000	0
Kersdale Road Waterline	0	0	40,386	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<i>Totals</i>	\$69,635	\$274,981	\$69,635	\$274,981

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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The Brainard Road sewer interfund balance represents a manuscript note that was issued on September 26, 1996 at 5.70 percent. This note is due on December 1, 2016 and was used for improvements to the Brainard Road sewer.

The Lander/Emerson waterline interfund balance represents a manuscript note that was issued on June 1, 1999 at 5.35 percent. This note is due on December 1, 2019 and was used for renovations to the Lander/Emerson waterline.

The Kersdale Road waterline interfund balance represents a manuscript note that was issued on June 1, 2000 at 4.70 percent. This note is due on December 1, 2021 and was used for improvements to the Kersdale Road waterline.

The manuscript notes were issued by the City and purchased by the general fund as an investment. The advances are expected to be paid within one year.

The remaining interfund balances at December 31, 2015 were made to support projects in the Pepper Pike wastewater treatment plant and East Road, northwest quadrant and thornapple water main capital projects funds' pending the receipt of assessments and grant monies that will be used to repay the loans.

## **Note 16 – Public Entity Pool**

### ***Insurance Purchasing Pool***

***Ohio Municipal League Workers' Compensation Group Rating Program*** The City participates in the Ohio Municipal League Workers' Compensation Group Rating Program, an insurance purchasing pool. The program was created for the purpose of reducing the cost of workers' compensation premiums. Each member supports the program by paying an annual participation fee.

## **Note 17 – Jointly Governed Organizations**

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

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 134 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2015. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

***Valley Enforcement Regional Council of Governments***

The City is a member of Valley Enforcement Regional Council of Governments (“VERCOG”), a jointly governed organization. VERCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. The operation of the VERCOG is controlled by a general policy board which consists of a representative from each participant. Each member’s degree of control is limited to its representation on the board. The City of Pepper Pike contributed \$7,000 to VERCOG during 2015.

**Note 18 – Significant Commitments**

***Contractual Commitments***

As of December 31, 2015, the City had the following contractual construction commitments outstanding:

<u>Vendor Name</u>	<u>Contract Amount</u>	<u>Amount Paid to Date</u>	<u>Remaining Contract</u>
Trax Construction	\$885,892	\$547,966	\$337,926
Fabrizi Trucking & Paving Inc.	866,150	718,230	147,920
Ronyak Paving Inc.	819,906	629,649	190,257
A&J Cement Contractors, Inc.	150,000	120,244	29,756
	<u>\$2,721,948</u>	<u>\$2,016,089</u>	<u>\$705,859</u>

Remaining commitments were encumbered at year end.

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Governmental Funds:</i>	
General	\$146,505
Fire Levy	63,336
Capital Improvement	968,694
Other Governmental Funds	<u>84,746</u>
Total	<u>\$1,263,281</u>

**Note 19 – Change in Accounting Principle and Restatement of Net Position**

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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The implementation of this pronouncement had the following effect on net position as reported at December 31, 2014:

	<u>Governmental Activities</u>
Net Position December 31, 2014	\$31,871,474
Adjustments:	
Net Pension Liability	(5,912,151)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>573,003</u>
Restated Net Position December 31, 2014	<u>\$26,532,326</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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## Required Supplementary Information

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**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the Net Pension Liability*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Two Years (1)*

	2014	2013
City's Proportion of the Net Pension Liability	0.0141610%	0.0141610%
City's Proportionate Share of the Net Pension Liability	\$1,707,974	\$1,669,397
City's Covered-Employee Payroll	\$1,736,950	\$1,947,240
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.33%	85.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the Net Pension Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Two Years (1)*

	2014	2013
City's Proportion of the Net Pension Liability	0.0871146%	0.0871146%
City's Proportionate Share of the Net Pension Liability	\$4,512,899	\$4,242,754
City's Covered-Employee Payroll	\$1,778,486	\$1,824,396
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	253.75%	232.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of City Contributions*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Three Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$205,851	\$208,434	\$253,141
Contributions in Relation to the Contractually Required Contribution	<u>(205,851)</u>	<u>(208,434)</u>	<u>(253,141)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,715,421	\$1,736,950	\$1,947,240
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of City Contributions*  
*Ohio Police and Fire Pension Fund*  
*Last Ten Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$409,855	\$364,569	\$317,904	\$302,274
Contributions in Relation to the Contractually Required Contribution	<u>(409,855)</u>	<u>(364,569)</u>	<u>(317,904)</u>	<u>(302,274)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,994,299	\$1,778,486	\$1,824,396	\$2,080,743
Contributions as a Percentage of Covered-Employee Payroll:	20.55%	20.50%	17.43%	14.53%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$338,305	\$332,410	\$414,284	\$410,160	\$396,626	\$360,525
<u>(338,305)</u>	<u>(332,410)</u>	<u>(414,284)</u>	<u>(410,160)</u>	<u>(396,626)</u>	<u>(360,525)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,298,653	\$2,276,125	\$2,806,659	\$2,780,196	\$2,690,322	\$2,628,261
14.72%	14.60%	14.76%	14.75%	14.74%	13.72%

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# Dave Yost • Auditor of State

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

City of Pepper Pike  
Cuyahoga County  
28000 Shaker Boulevard  
Pepper Pike, Ohio 44124

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 6, 2016, wherein we noted the City adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27 and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 6, 2016



**CITY OF PEPPER PIKE  
 CUYAHOGA COUNTY  
 SCHEDULE OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED DECEMBER 31, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	Cash transfers between restricted funds were not one of the legal exceptions that are allowable.	Yes	

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# Dave Yost • Auditor of State

**CITY OF PEPPER PIKE**

**CUYAHOGA 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  
NOVEMBER 22, 2016**