



Dave Yost • Auditor of State

OHIO AUDITOR OF STATE KEITH FABER



January 22, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

A handwritten signature in cursive script that reads "Keith Faber".

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Fire Levy Fund	19
Statement of Fiduciary Assets and Liabilities - Agency Funds	20
Notes to the Basic Financial Statements	21
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Public Employees Retirement System of Ohio – Traditional Plan – Last Four Years	58
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Police and Fire Pension System of Ohio – Last Four Years	59
Schedule of City Contributions - Ohio Public Employees Retirement System of Ohio – Traditional Plan – Last Five Years	60
Schedule of City Contributions - Ohio Police and Fire Pension System of Ohio – Last Ten Years	62
Notes to the Required Supplementary Information	65
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	67

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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, 2017, 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.

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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, 2017, 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.

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 December 28, 2018, 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.



Dave Yost
Auditor of State
Columbus, Ohio

December 28, 2018

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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, 2017. 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 2017 are as follows:

- The City's net position increased due mainly to an increase in capital assets, as well as to a drop in outstanding long-term debt obligations. 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 complies with 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.
- In 2017, capital asset additions consisted of construction in progress for various street reconstruction projects, land improvements, buildings and improvements, the purchase of various equipment and vehicles, road construction and repairs.
- Outstanding bonded debt decreased during 2017 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.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 9. 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 2017 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 2017 as compared to 2016.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 1
Net Position

	Governmental Activities		
	2017	2016	Change
Assets			
Current and Other Assets	\$25,636,458	\$25,896,026	(\$259,568)
Capital Assets, Net	24,440,340	22,586,070	1,854,270
<i>Total Assets</i>	<u>50,076,798</u>	<u>48,482,096</u>	<u>1,594,702</u>
Deferred Outflows of Resources			
Pension	2,468,657	2,674,396	(205,739)
Liabilities			
Current Liabilities and Other Liabilities	745,886	797,723	51,837
Long-term Liabilities			
Due Within One Year	586,600	624,227	37,627
Due In More Than One Year			
Net Pension Liability	8,781,511	8,531,488	(250,023)
Other Amounts	6,508,371	7,011,989	503,618
<i>Total Liabilities</i>	<u>16,622,368</u>	<u>16,965,427</u>	<u>343,059</u>
Deferred Inflows of Resources			
Property Taxes	3,528,392	3,502,508	(25,884)
Pension	357,787	93,461	(264,326)
<i>Total Deferred Inflows of Resources</i>	<u>3,886,179</u>	<u>3,595,969</u>	<u>(290,210)</u>
Net Position			
Net Investment in Capital Assets	17,545,562	15,204,134	2,341,428
Restricted for:			
Capital Projects	2,839,314	3,169,549	(330,235)
Debt Service	4,956,874	5,254,883	(298,009)
Other Purposes	3,100,507	2,901,497	199,010
Unrestricted	3,594,651	4,065,033	(470,382)
<i>Total Net Position</i>	<u>\$32,036,908</u>	<u>\$30,595,096</u>	<u>\$1,441,812</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." 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 pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

GASB 68 requires the net pension liability to equal 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.

Total assets for governmental activities increased due mainly to an increase in capital assets. Net investment in capital assets increased due to additions of land improvements, building and improvements, the purchase of various equipment and vehicles, construction work for various street reconstruction projects 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 which was partially offset by an increase in the net pension liability during 2017.

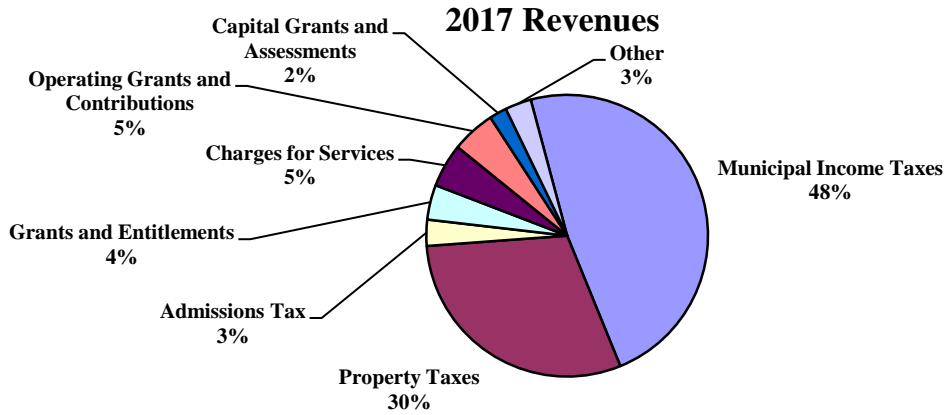
City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 2
Changes in Net Position

	Governmental Activities		
	2017	2016	Change
Program Revenues			
Charges for Services and Sales	\$640,349	\$469,396	\$170,953
Operating Grants	560,272	568,188	(7,916)
Capital Grants and Assessments	226,065	382,591	(156,526)
<i>Total Program Revenues</i>	<u>1,426,686</u>	<u>1,420,175</u>	<u>6,511</u>
General Revenues			
Property Taxes	3,618,617	3,575,991	42,626
Income Taxes	5,755,722	5,116,768	638,954
Admissions Taxes	298,578	309,670	(11,092)
Franchise Tax	83,960	89,497	(5,537)
Grants and Entitlements	489,243	406,865	82,378
Interest	52,590	26,436	26,154
Gain on Sale of Capital Assets	61,564	16,007	45,557
Other	257,275	173,389	83,886
<i>Total General Revenues</i>	<u>10,617,549</u>	<u>9,714,623</u>	<u>902,926</u>
<i>Total Revenues</i>	<u>12,044,235</u>	<u>11,134,798</u>	<u>909,437</u>
Program Expenses			
General Government	1,848,614	1,524,509	(324,105)
Security of Persons and Property	4,803,191	4,667,428	(135,763)
Public Health Services	37,473	32,585	(4,888)
Community Environment	154,335	188,737	34,402
Basic Utility Services	902,670	848,584	(54,086)
Transportation	2,603,407	2,432,762	(170,645)
Interest and Fiscal Charges	252,733	270,362	17,629
<i>Total Program Expenses</i>	<u>10,602,423</u>	<u>9,964,967</u>	<u>(637,456)</u>
<i>Change in Net Position</i>	1,441,812	1,169,831	271,981
Net Position Beginning of Year	<u>30,595,096</u>	<u>29,425,265</u>	<u>1,169,831</u>
Net Position End of Year	<u>\$32,036,908</u>	<u>\$30,595,096</u>	<u>\$1,441,812</u>

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Governmental Activities

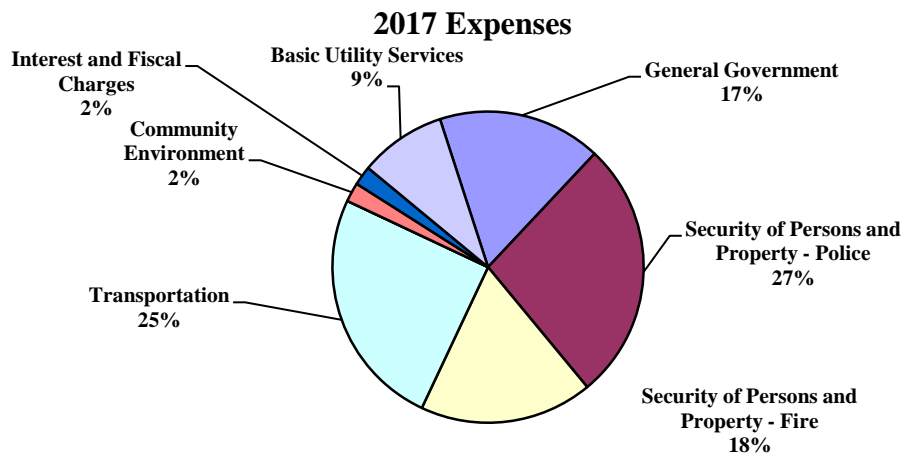


Funding for the governmental activities comes from several different sources, with the most significant being the municipal income tax. Other prominent sources of revenue are property taxes and grants.

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 increased due to higher licenses and permits and charges for services revenues.

Capital grants and assessments decreased significantly in 2017 mainly due to a decrease in the capital improvement fund.



Expenses increased from 2016 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 increased in 2017 primarily due to higher personal service expenditures as well as to an increase in related accounts payable.

General government expenditures increased mainly due to losses on disposal of general government capital assets. Transportation expenditures increased due to higher depreciation costs as well as to an increase in expenditures relating to the net pension liability.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 exceeded expenditures and other financing uses. The fire levy special revenue fund had a decrease in fund balance due to expenditures exceeding revenues. 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 exceeded expenditures. The capital improvement fund had a decrease in fund balance due mainly to an increase in expenditures, 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 2017, 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.

In 2017, 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.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Capital Assets and Long-term Obligations

Capital Assets

Table 3 shows 2017 balances of capital assets as compared to 2016:

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

	Governmental Activities	
	2017	2016
Land	\$936,866	\$936,866
Construction in Progress	1,326,780	643,420
Improvements to Land	156,100	158,169
Buildings and Improvements	2,747,593	2,958,499
Vehicles	1,284,022	899,080
Furniture, Fixtures and Equipment	935,331	785,054
Infrastructure		
Streets	8,236,030	7,141,457
Bridges and Culverts	67,974	70,556
Sanitary Sewer System	8,749,644	8,992,969
Total Capital Assets	\$24,440,340	\$22,586,070

Governmental capital assets, net of depreciation, increased due to current year additions outpacing annual depreciation. For 2017, primary additions included construction in progress for various street reconstruction projects, land improvements, 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 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.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Outstanding Long-term Obligations

Table 4 summarizes the long-term obligations outstanding.

Table 4
 Outstanding Long-term Obligations at Year End

	Governmental Activities	
	2017	2016
General Obligation Bonds	\$0	\$45,000
Special Assessment Bonds	5,478,769	5,865,333
OPWC Loans	1,431,523	1,532,571
Net Pension Liability	8,781,511	8,531,488
Capital Lease	3,255	4,365
Compensated Absences	181,424	188,947
Total	\$15,876,482	\$16,167,704

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. Employer pension contributions are made from the general and fire levy special revenue fund. The capital lease will be paid from the general fund. 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 two 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 \$34,924. Additional information concerning the City's manuscript debt can be found in Note 16 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.

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.

City of Pepper Pike, Ohio

Statement of Net Position

December 31, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$15,064,243
Accounts Receivable	221,076
Intergovernmental Receivable	492,436
Prepaid Items	62,267
Materials and Supplies Inventory	65,307
Income Taxes Receivable	1,274,281
Property Taxes Receivable	3,664,731
Special Assessments Receivable	4,792,117
Nondepreciable Capital Assets	2,263,646
Depreciable Capital Assets, Net	<u>22,176,694</u>
<i>Total Assets</i>	<u>50,076,798</u>
Deferred Outflows of Resources	
Pension	<u>2,468,657</u>
Liabilities	
Accounts Payable	283,881
Contracts Payable	5,920
Accrued Wages	130,699
Intergovernmental Payable	98,836
Accrued Interest Payable	19,884
Vacation Benefits Payable	206,666
Long-Term Liabilities:	
Due Within One Year	586,600
Due In More Than One Year	
Net Pension Liability (See Note 11)	8,781,511
Other Amounts	<u>6,508,371</u>
<i>Total Liabilities</i>	<u>16,622,368</u>
Deferred Inflows of Resources	
Property Taxes	3,528,392
Pension	<u>357,787</u>
<i>Total Deferred Inflows of Resources</i>	<u>3,886,179</u>
Net Position	
Net Investment in Capital Assets	17,545,562
Restricted for:	
Capital Projects	2,839,314
Debt Service	4,956,874
Other Purposes	3,100,507
Unrestricted	<u>3,594,651</u>
<i>Total Net Position</i>	<u><u>\$32,036,908</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services and Sales	Operating Grants	Capital Grants and Assessments	Governmental Activities
Governmental Activities:					
General Government	\$1,848,614	\$111,073	\$678	\$1,898	(\$1,734,965)
Security of Persons and Property:					
Police	2,874,108	215,211	15,352	0	(2,643,545)
Fire	1,929,083	131,535	222,866	0	(1,574,682)
Public Health Services	37,473	3,489	0	0	(33,984)
Community Environment	154,335	12,422	2,830	0	(139,083)
Basic Utility Services	902,670	57,590	0	0	(845,080)
Transportation	2,603,407	109,029	318,546	224,167	(1,951,665)
Interest and Fiscal Charges	252,733	0	0	0	(252,733)
<i>Total Governmental Activities</i>	<u>\$10,602,423</u>	<u>\$640,349</u>	<u>\$560,272</u>	<u>\$226,065</u>	<u>(9,175,737)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	1,659,621
Debt Service	237,155
Fire	1,490,267
Police	231,574
Municipal Income Taxes Levied for General Purposes	5,755,722
Admissions Taxes	298,578
Franchise Tax	83,960
Grants and Entitlements not Restricted to Specific Programs	489,243
Interest	52,590
Gain on Sale of Capital Asset	61,564
Other	257,275
<i>Total General Revenues</i>	<u>10,617,549</u>
Change in Net Position	1,441,812
<i>Net Position Beginning of Year</i>	<u>30,595,096</u>
<i>Net Position End of Year</i>	<u>\$32,036,908</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$9,187,937	\$1,432,707	\$214,229	\$1,867,072	\$2,362,298	\$15,064,243
Property Taxes Receivable	1,683,550	1,511,355	234,914	0	234,912	3,664,731
Income Taxes Receivable	1,274,281	0	0	0	0	1,274,281
Accounts Receivable	84,955	136,121	0	0	0	221,076
Intergovernmental Receivable	207,788	98,726	15,365	0	170,557	492,436
Interfund Receivable	34,924	0	0	0	0	34,924
Materials and Supplies Inventory	6,404	663	0	0	58,240	65,307
Prepaid Items	59,808	2,459	0	0	0	62,267
Special Assessments Receivable	0	0	4,757,193	0	34,924	4,792,117
<i>Total Assets</i>	<u>\$12,539,647</u>	<u>\$3,182,031</u>	<u>\$5,221,701</u>	<u>\$1,867,072</u>	<u>\$2,860,931</u>	<u>\$25,671,382</u>
Liabilities						
Accounts Payable	\$214,337	\$35,340	\$0	\$27,758	\$6,446	\$283,881
Contracts Payable	5,920	0	0	0	0	5,920
Accrued Wages	92,911	37,788	0	0	0	130,699
Intergovernmental Payable	35,251	7,965	0	0	55,620	98,836
Accrued Interest Payable	0	0	0	0	143	143
Interfund Payable	0	0	0	0	34,924	34,924
<i>Total Liabilities</i>	<u>348,419</u>	<u>81,093</u>	<u>0</u>	<u>27,758</u>	<u>97,133</u>	<u>554,403</u>
Deferred Inflows of Resources						
Property Taxes	1,620,913	1,455,133	226,174	0	226,172	3,528,392
Unavailable Revenue	914,818	279,466	4,781,298	0	191,406	6,166,988
<i>Total Deferred Inflows of Resources</i>	<u>2,535,731</u>	<u>1,734,599</u>	<u>5,007,472</u>	<u>0</u>	<u>417,578</u>	<u>9,695,380</u>
Fund Balances						
Nonspendable	90,405	3,122	0	0	58,240	151,767
Restricted	0	1,363,217	214,229	1,839,314	2,327,065	5,743,825
Assigned	54,366	0	0	0	0	54,366
Unassigned (Deficit)	9,510,726	0	0	0	(39,085)	9,471,641
<i>Total Fund Balances</i>	<u>9,655,497</u>	<u>1,366,339</u>	<u>214,229</u>	<u>1,839,314</u>	<u>2,346,220</u>	<u>15,421,599</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$12,539,647</u>	<u>\$3,182,031</u>	<u>\$5,221,701</u>	<u>\$1,867,072</u>	<u>\$2,860,931</u>	<u>\$25,671,382</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, 2017*

Total Governmental Fund Balances \$15,421,599

*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. 24,440,340

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	136,339
Income Taxes	649,110
Special Assessments	4,792,117
Intergovernmental	385,805
Charges for Services	<u>203,617</u>

Total 6,166,988

In the statement of activities, interest is accrued on outstanding bonds, whereas
 in governmental funds, an interest expenditure is reported when due. (19,741)

Vacation benefits payable is not expected to be paid with expendable available
 financial resources and therefore not reported in the funds. (206,666)

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	2,468,657
Deferred Inflows - Pension	(357,787)
Net Pension Liability	<u>(8,781,511)</u>

Total (6,670,641)

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

Special Assessment Bonds	(5,478,769)
OPWC Loans	(1,431,523)
Capital Lease	(3,255)
Compensated Absences	<u>(181,424)</u>

Total (7,094,971)

Net Position of Governmental Activities \$32,036,908

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, 2017

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$1,658,615	\$1,489,375	\$237,015	\$0	\$231,434	\$3,616,439
Municipal Income Taxes	5,822,736	0	0	0	0	5,822,736
Admissions Taxes	305,595	0	0	0	0	305,595
Charges for Services	3,158	117,333	0	0	0	120,491
Fees, Licenses and Permits	378,910	0	0	0	0	378,910
Fines and Forfeitures	32,926	0	0	0	7,220	40,146
Intergovernmental	261,601	207,684	230,729	0	348,291	1,048,305
Special Assessments	0	0	551,793	0	13,307	565,100
Interest	48,129	0	0	0	4,461	52,590
Rentals	84,388	0	0	0	0	84,388
Franchise Tax	98,989	0	0	0	0	98,989
Other	223,234	18,322	0	15,719	0	257,275
<i>Total Revenues</i>	<u>8,918,281</u>	<u>1,832,714</u>	<u>1,019,537</u>	<u>15,719</u>	<u>604,713</u>	<u>12,390,964</u>
Expenditures						
Current:						
General Government	1,191,036	0	208,830	0	0	1,399,866
Security of Persons and Property:						
Police	2,219,764	0	0	0	281,973	2,501,737
Fire	0	1,862,163	0	0	70,613	1,932,776
Public Health Services	37,473	0	0	0	0	37,473
Community Environment	133,418	0	0	0	5,516	138,934
Basic Utility Services	615,313	0	0	0	0	615,313
Transportation	1,166,995	0	0	0	206,485	1,373,480
Capital Outlay	0	0	0	3,484,954	0	3,484,954
Debt Service:						
Principal Retirement	1,110	0	531,048	0	0	532,158
Interest and Fiscal Charges	0	0	253,150	0	2,531	255,681
<i>Total Expenditures</i>	<u>5,365,109</u>	<u>1,862,163</u>	<u>993,028</u>	<u>3,484,954</u>	<u>567,118</u>	<u>12,272,372</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,553,172</u>	<u>(29,449)</u>	<u>26,509</u>	<u>(3,469,235)</u>	<u>37,595</u>	<u>118,592</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	28,862	0	0	34,000	0	62,862
Transfers In	0	0	0	2,855,000	410,000	3,265,000
Transfers Out	(3,265,000)	0	0	0	0	(3,265,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,236,138)</u>	<u>0</u>	<u>0</u>	<u>2,889,000</u>	<u>410,000</u>	<u>62,862</u>
<i>Net Change in Fund Balances</i>	317,034	(29,449)	26,509	(580,235)	447,595	181,454
<i>Fund Balances Beginning of Year</i>	<u>9,338,463</u>	<u>1,395,788</u>	<u>187,720</u>	<u>2,419,549</u>	<u>1,898,625</u>	<u>15,240,145</u>
<i>Fund Balances End of Year</i>	<u>\$9,655,497</u>	<u>\$1,366,339</u>	<u>\$214,229</u>	<u>\$1,839,314</u>	<u>\$2,346,220</u>	<u>\$15,421,599</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, 2017*

Net Change in Fund Balances - Total Governmental Funds \$181,454

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	3,484,839	
Current Year Depreciation	<u>(1,419,765)</u>	
Total		2,065,074

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. (210,804)

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

Delinquent Property Taxes	2,178	
Income Taxes	(67,014)	
Admissions Taxes	(7,017)	
Franchise Tax	(15,029)	
Special Assessments	(338,357)	
Intergovernmental	532	
Charges for Services	<u>16,414</u>	
Total		(408,293)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 647,631

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,367,719)

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. 532,158

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	1,384	
Amortization of Bond Premium	<u>1,564</u>	
Total		2,948

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	7,523	
Vacation Benefits Payable	<u>(8,160)</u>	
Total		<u>(637)</u>

Change in Net Position of Governmental Activities \$1,441,812

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,597,157	\$1,646,300	\$1,658,615	\$12,315
Municipal Income Taxes	5,588,578	5,671,613	5,803,625	132,012
Admissions Taxes	307,156	283,000	318,975	35,975
Charges for Services	3,041	3,500	3,158	(342)
Fees, Licenses and Permits	364,870	319,325	378,910	59,585
Fines and Forfeitures	33,115	36,250	34,389	(1,861)
Intergovernmental	252,740	263,210	262,465	(745)
Interest	69,036	54,000	71,692	17,692
Rentals	81,261	77,000	84,388	7,388
Franchise Tax	82,667	87,000	85,848	(1,152)
Other	214,173	209,000	222,414	13,414
<i>Total Revenues</i>	<u>8,593,794</u>	<u>8,650,198</u>	<u>8,924,479</u>	<u>274,281</u>
Expenditures				
Current:				
General Government	1,226,444	1,256,678	1,201,831	54,847
Security of Persons and Property:				
Police	2,157,812	2,209,205	2,182,777	26,428
Public Health Services	36,269	37,133	35,693	1,440
Community Environment	187,549	192,016	168,050	23,966
Basic Utility Services	693,498	710,015	641,907	68,108
Transportation	1,256,262	1,286,183	1,185,295	100,888
Leisure Time Activities	1,000	1,000	0	1,000
<i>Total Expenditures</i>	<u>5,558,834</u>	<u>5,692,230</u>	<u>5,415,553</u>	<u>276,677</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,034,960</u>	<u>2,957,968</u>	<u>3,508,926</u>	<u>550,958</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	25,000	25,000	28,862	3,862
Transfers Out	(3,265,000)	(3,265,000)	(3,265,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(3,240,000)</u>	<u>(3,240,000)</u>	<u>(3,236,138)</u>	<u>3,862</u>
<i>Net Change in Fund Balance</i>	(205,040)	(282,032)	272,788	554,820
<i>Fund Balance Beginning of Year</i>	8,811,023	8,811,023	8,811,023	0
Prior Year Encumbrances Appropriated	90,685	90,685	90,685	0
<i>Fund Balance End of Year</i>	<u>\$8,696,668</u>	<u>\$8,619,676</u>	<u>\$9,174,496</u>	<u>\$554,820</u>

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, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$1,499,824	\$1,479,010	\$1,489,375	\$10,365
Charges for Services	115,474	107,000	114,670	7,670
Intergovernmental	221,311	197,550	219,769	22,219
Other	18,451	19,000	18,322	(678)
<i>Total Revenues</i>	1,855,060	1,802,560	1,842,136	39,576
Expenditures				
Current:				
Security of Persons and Property:				
Fire	2,142,548	2,142,548	1,951,852	190,696
<i>Net Change in Fund Balance</i>	(287,488)	(339,988)	(109,716)	230,272
<i>Fund Balance Beginning of Year</i>	1,110,968	1,110,968	1,110,968	0
Prior Year Encumbrances Appropriated	350,853	350,853	350,853	0
<i>Fund Balance End of Year</i>	<u>\$1,174,333</u>	<u>\$1,121,833</u>	<u>\$1,352,105</u>	<u>\$230,272</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$353,180</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$353,180</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, 2017

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 17 and 18 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, 2017

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, 2017

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, 2017

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, 2017, but which were levied to finance 2018 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 15. 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, 2017

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 2017, the City invested in STAR Ohio, money market accounts and negotiable certificates of deposits. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. The fair value of the money market fund is determined by the fund's current share price.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2017 amounted to \$48,129, which includes \$16,053 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.

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, 2017, 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 acquisition 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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.

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 receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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).

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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.

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 3 – Fund Deficits

Fund balances at December 31, 2017, included the following individual fund deficits:

<i>Capital Projects Funds</i>	
Lander/Emerson Waterline	\$12,056
Kersdale Road Waterline	27,029

The 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.

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
<i>Nonspendable</i>						
Inventory	\$6,404	\$663	\$0	\$0	\$58,240	\$65,307
Prepays	59,808	2,459	0	0	0	62,267
Interfund Loans	24,193	0	0	0	0	24,193
<i>Total Nonspendable</i>	90,405	3,122	0	0	58,240	151,767
<i>Restricted for</i>						
Street Construction, Maintenance and Repair	0	0	0	0	1,037,088	1,037,088
Recycle Ohio	0	0	0	0	22,466	22,466
Fire Department	0	1,363,217	0	0	0	1,363,217
Police Pension	0	0	0	0	79,442	79,442
Fire Pension	0	0	0	0	108,921	108,921
Beautification	0	0	0	0	9,348	9,348
Law Enforcement	0	0	0	0	13,905	13,905
Emergency Assistance	0	0	0	0	11,727	11,727
Municipal Emergency	0	0	0	0	40,132	40,132
Urban Forestry	0	0	0	0	18	18
Debt Service	0	0	214,229	0	0	214,229
Capital Improvements	0	0	0	1,839,314	1,004,018	2,843,332
<i>Total Restricted</i>	0	1,363,217	214,229	1,839,314	2,327,065	5,743,825
<i>Assigned to</i>						
Purchases on Order:						
Other Operating	54,366	0	0	0	0	54,366
<i>Unassigned (Deficit)</i>	9,510,726	0	0	0	(39,085)	9,471,641
<i>Total Fund Balances</i>	\$9,655,497	\$1,366,339	\$214,229	\$1,839,314	\$2,346,220	\$15,421,599

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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).
3. Investments are reported at cost (budget) rather than at fair value (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.
5. 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	\$317,034	(\$29,449)
Net Adjustment for Revenue Accruals	(24,146)	6,963
Ending Fair Value Adjustment for Investments	23,563	0
Ending Unrecorded Cash	6,781	2,459
Net Adjustment for Expenditure Accruals	28,265	(6,628)
Encumbrances	(78,709)	(83,061)
Budget Basis	\$272,788	(\$109,716)

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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;
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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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.

Investments

Investments are reported at fair value. At December 31, 2017, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Standard and Poor's Rating</u>	<u>Percent of Total Investments</u>
Net Asset Value Per Share:				
Star Ohio	\$5,818,709	Average 52.1 days	AAAm	N/A
Money Market Accounts	12,396	7 days	N/A	0.10
Negotiable CD's	2,032,000	Less than one year	N/A	17.18
Negotiable CD's	<u>3,968,000</u>	Less than three years	N/A	33.54
Total Portfolio	<u><u>\$11,831,105</u></u>			

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2017. All of the City's investments are valued using quoted market prices (Level 1 inputs).

Credit Risk All investments carry 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, 2017, 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 \$4,384,369 in the bond retirement fund. At December 31, 2017 the amount of delinquent special assessments was \$26,038.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes are levied after October 1, 2017 on the assessed value as of January 1, 2017 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

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. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$9.72 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2017 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$393,661,680
Other Real Estate	33,555,200
Public Utility Property	7,962,230
Total Assessed Values	\$435,179,110

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, 2017 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2017 follows:

Homestead and Rollback	\$239,569
Gasoline Tax	112,063
Orange City Schools	79,099
Permissive Tax	43,130
Local Government	16,730
Shaker Heights Municipal Court	<u>1,845</u>
Total	<u><u>\$492,436</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. 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, 2017.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
<i>Capital Assets not being Depreciated</i>				
Land	\$936,866	\$0	\$0	\$936,866
Construction in Progress	643,420	1,433,164	(749,804)	1,326,780
<i>Total Capital Assets not being Depreciated</i>	1,580,286	1,433,164	(749,804)	2,263,646
<i>Capital Assets being Depreciated</i>				
Improvements to Land	377,027	11,850	(137,138)	251,739
Buildings and Improvements	4,689,486	90,995	(304,968)	4,475,513
Vehicles	3,678,944	578,547	(137,625)	4,119,866
Furniture, Fixtures and Equipment	2,451,608	300,619	(25,254)	2,726,973
Infrastructure				
Streets	32,997,647	1,819,468	(802,248)	34,014,867
Bridges and Culverts	258,189	0	0	258,189
Sanitary Sewers	12,166,294	0	0	12,166,294
<i>Total Capital Assets being Depreciated</i>	56,619,195	2,801,479	(1,407,233)	58,013,441
<i>Less: Accumulated Depreciation</i>				
Improvements to Land	(218,858)	(7,177)	130,396	(95,639)
Buildings and Improvements	(1,730,987)	(101,124)	104,191	(1,727,920)
Vehicles	(2,779,864)	(193,605)	137,625	(2,835,844)
Furniture, Fixtures and Equipment	(1,666,554)	(147,057)	21,969	(1,791,642)
Infrastructure				
Streets	(25,856,190)	(724,895)	802,248	(25,778,837)
Bridges and Culverts	(187,633)	(2,582)	0	(190,215)
Sanitary Sewers	(3,173,325)	(243,325)	0	(3,416,650)
<i>Total Accumulated Depreciation</i>	(35,613,411)	(1,419,765) *	1,196,429	(35,836,747)
<i>Total Capital Assets being Depreciated, Net</i>	21,005,784	1,381,714	(210,804)	22,176,694
<i>Total Capital Assets, Net</i>	\$22,586,070	\$2,814,878	(\$960,608)	\$24,440,340

*Depreciation expense was charged to governmental activities as follows:

General Government	\$92,845
Security of Persons and Property:	
Police	76,712
Fire	86,255
Community Development	4,562
Basic Utility Services	186,269
Transportation	973,122
Total Depreciation Expense	\$1,419,765

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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.

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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, including requirements for reduced and unreduced benefits):

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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:

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$243,843 for 2017. Of this amount, \$31,402 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F 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 OP&F 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.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
	19.50 %	24.00 %
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$403,788 for 2017. Of this amount, \$54,288 is reported as an intergovernmental payable.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. 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:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0139440%	0.0886510%	
Prior Measurement Date	<u>0.0137830%</u>	<u>0.0955080%</u>	
Change in Proportionate Share	<u>0.0001610%</u>	<u>-0.0068570%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,166,446	\$5,615,065	\$8,781,511
Pension Expense	\$664,191	\$703,528	\$1,367,719

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$4,291	\$1,588	\$5,879
Changes of assumptions	502,237	0	502,237
Net difference between projected and actual earnings on pension plan investments	471,557	546,041	1,017,598
Changes in proportion and differences between City contributions and proportionate share of contributions	13,674	281,638	295,312
City contributions subsequent to the measurement date	<u>243,843</u>	<u>403,788</u>	<u>647,631</u>
Total Deferred Outflows of Resources	<u>\$1,235,602</u>	<u>\$1,233,055</u>	<u>\$2,468,657</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$18,845	\$12,929	\$31,774
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>16,201</u>	<u>309,812</u>	<u>\$326,013</u>
Total Deferred Inflows of Resources	<u>\$35,046</u>	<u>\$322,741</u>	<u>\$357,787</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

\$647,631 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2018	\$388,346	\$213,683	\$602,029
2019	413,999	213,683	627,682
2020	168,191	164,200	332,391
2021	(13,823)	(30,745)	(44,568)
2022	0	(48,249)	(48,249)
Thereafter	0	(6,046)	(6,046)
Total	<u>\$956,713</u>	<u>\$506,526</u>	<u>\$1,463,239</u>

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 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, 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, 2015. The prior 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.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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 2016 and the long-term expected real rates of return:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 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 contractually required rates, as actuarially determined. 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.

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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
County's proportionate share of the net pension liability	\$4,837,452	\$3,166,446	\$1,773,956

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F'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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
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
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 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 OP&F's target asset allocation as of December 31, 2016, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

* levered 2x

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F'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	\$7,478,602	\$5,615,065	\$4,035,693

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

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, 2017, three members of the Architectural Review Board and fifteen part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

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 pension 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

OPERS maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016 and 2015 was \$18,757, \$36,052 and \$34,308 respectively. For 2017, 87.18 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.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 OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B 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 OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F 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 contribution to OP&F for the years ended December 31, 2017, 2016 and 2015 were \$403,788, \$417,411 and \$419,826, respectively, of which \$9,973, \$9,952, and \$9,971, respectively, was allocated to the healthcare plan. For 2017, 86.65 percent has been contributed for both police and firefighters with the balance being reported as an *intergovernmental payable*. The full amount has been contributed for 2016 and 2015.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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	\$8,825,663
Boiler and Machinery	1,000	8,825,663
Inland Marine	1,000	1,157,556
Vehicle	N/A	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	1,000	50,000
Employee Dishonesty	10,000	750,000
Vehicle Physical Damage	500	Actual cash value
Emergency Services Portable Equipment	1,000	305,000

Settled claims have not exceeded this commercial coverage in any of the past three 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, 2017

Note 14 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2017 follows:

	Principal Outstanding 12/31/2016	Additions	Deletions	Principal Outstanding 12/31/2017	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds					
1997 5.35% Brookwood Water Serial Bonds	\$45,000	\$0	(\$45,000)	\$0	\$0
Special Assessment Bonds					
2007 4.00 - 5.00% Various Purpose Serial Bonds	510,000	0	(160,000)	350,000	175,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00% Street Improvement Serial Bonds	245,000	0	(60,000)	185,000	60,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13% Street Improvement Serial Bonds	2,495,000	0	(155,000)	2,340,000	160,000
Premium on Bonds	20,333	0	(1,564)	18,769	0
2010 2.00 - 4.25% Windy Hill Bonds Serial Bonds	118,000	0	(5,000)	113,000	5,000
2010 2.00 - 4.25% Thornapple Bonds Serial Bonds	67,000	0	(5,000)	62,000	5,000
<i>Total Special Assessment Bonds</i>	<u>5,865,333</u>	<u>0</u>	<u>(386,564)</u>	<u>5,478,769</u>	<u>405,000</u>
OPWC Loans					
2007 0% Brainard Road	442,082	0	(42,103)	399,979	42,103
2013 0% Lander Road	1,090,489	0	(58,945)	1,031,544	58,945
<i>Total OPWC Loans</i>	<u>1,532,571</u>	<u>0</u>	<u>(101,048)</u>	<u>1,431,523</u>	<u>101,048</u>
Other Long-term Obligations					
Net Pension Liability:					
OPERS	2,387,390	779,056	0	3,166,446	0
OP&F	6,144,098	0	(529,033)	5,615,065	0
<i>Total Net Pension Liability</i>	<u>8,531,488</u>	<u>779,056</u>	<u>(529,033)</u>	<u>8,781,511</u>	<u>0</u>
Capital Lease	4,365	0	(1,110)	3,255	1,110
Compensated Absences	188,947	47,373	(54,896)	181,424	79,442
<i>Total Other Long-term Obligations</i>	<u>8,724,800</u>	<u>826,429</u>	<u>(585,039)</u>	<u>8,966,190</u>	<u>80,552</u>
<i>Total Governmental Activities</i>	<u>\$16,167,704</u>	<u>\$826,429</u>	<u>(\$1,117,651)</u>	<u>\$15,876,482</u>	<u>\$586,600</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

General obligation bonds are the direct obligation of the City and were paid in 2017 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) 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 capital lease will be paid from the general fund. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the general and fire levy special revenue fund.

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, 2017

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 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, 2017, the City's overall legal debt margin was \$44,476,513. The unvoted legal debt margin was \$22,717,557. Principal and interest requirements to retire the long-term general obligation bonds, special assessment bonds and the OPWC loans as of December 31, 2017 are as follows:

	Special Assessment Bonds				OPWC Loan
	Serial		Term		
	Principal	Interest	Principal	Interest	
2018	\$405,000	\$119,362	\$0	\$117,525	\$101,048
2019	410,000	104,207	0	117,525	101,048
2020	245,000	88,487	190,000	117,525	101,049
2021	185,000	79,475	265,000	108,975	101,048
2022	195,000	72,538	280,000	96,725	101,048
2023-2027	1,095,000	239,576	1,580,000	268,000	484,191
2028-2030	515,000	31,741	95,000	4,750	442,091
Total	\$3,050,000	\$735,386	\$2,410,000	\$831,025	\$1,431,523

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 15 – Capital Leases

During 2015, the City entered into a lease agreement for a copier. This lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of December 31, 2017 can be found in the table below.

<i>Asset:</i>	Governmental Activities
Equipment	\$5,827
Less: Accumulated Depreciation	(1,748)
Book Value as of December 31, 2017	\$4,079

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year Ending December 31,	Governmental Activities
2018	\$1,110
2019	1,110
2020	1,035
Present Value of Minimum Lease	\$3,255

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

Note 16 - Interfund Transfers and Balances

Interfund Transfers

Transfer To	Transfer From General
Major Funds:	
Capital Improvement	\$2,855,000
Other Governmental Funds	
Police Pension	160,000
Emergency Capital Improvement	250,000
Total Other Governmental Funds	410,000
Total	\$3,265,000

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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. Per City Council, the transfers from the general fund to the Pepper Pike wastewater treatment plant and east road, northwest quadrant and Thornapple water main capital projects funds were to reclass prior year interfund advances for balances that were not going to be repaid.

Interfund Balances

On the fund financial statements interfund balances at December 31, 2017 were:

	Receivable	Payable
	Manuscript Notes	Manuscript Notes
General	\$34,924	\$0
Lander/Emerson Waterline	0	8,000
Kersdale Road Waterline	0	26,924
<i>Totals</i>	\$34,924	\$34,924

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.

Note 17 – 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 18 – 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 2017. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

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 2017.

Note 19 – Significant Commitments

Contractual Commitments

As of December 31, 2017, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid to Date	Remaining Contract
Ronyak Paving, Inc.	\$488,865	\$344,751	\$144,114
Ronyak Paving, Inc.	688,815	617,014	71,801
A&J Cement Contractors, Inc.	247,625	172,276	75,349
Tri-Mor Corp.	477,925	399,599	78,326
Tri-Mor Corp.	111,960	0	111,960
	<u>\$2,015,190</u>	<u>\$1,533,640</u>	<u>\$481,550</u>

Remaining commitments were encumbered at year end.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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	\$78,709
Fire Levy	83,061
Capital Improvement	659,679
Other Governmental Funds	<u>102,790</u>
Total	<u><u>\$924,239</u></u>

Note 20 – Change in Accounting Principle

For 2017, the City/County implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City/County's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Required Supplementary Information

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 Four Years (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.0139440%	0.0137830%	0.0141610%	0.0141610%
City's Proportionate Share of the Net Pension Liability	\$3,166,446	\$2,387,390	\$1,707,974	\$1,669,397
City's Covered Payroll	\$1,802,617	\$1,715,425	\$1,736,950	\$1,947,240
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.66%	139.17%	98.33%	85.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date which is the prior 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 Four Years (1)**

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0886510%	0.0955080%	0.0871146%	0.0871146%
City's Proportionate Share of the Net Pension Liability	\$5,615,065	\$6,144,098	\$4,512,899	\$4,242,754
City's Covered Payroll	\$1,990,270	\$1,994,297	\$1,778,486	\$1,824,396
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	282.13%	308.08%	253.75%	232.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	72.20%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$243,843	\$216,314	\$205,851	\$208,434	\$253,141
Contributions in Relation to the Contractually Required Contribution	<u>(243,843)</u>	<u>(216,314)</u>	<u>(205,851)</u>	<u>(208,434)</u>	<u>(253,141)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,875,715	\$1,802,617	\$1,715,425	\$1,736,950	\$1,947,240
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$403,788	\$407,459	\$409,855	\$364,569	\$317,904
Contributions in Relation to the Contractually Required Contribution	<u>(403,788)</u>	<u>(407,459)</u>	<u>(409,855)</u>	<u>(364,569)</u>	<u>(317,904)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,994,615	\$1,990,270	\$1,994,297	\$1,778,486	\$1,824,396
Contributions as a Percentage of Covered Payroll:	20.24%	20.47%	20.55%	20.50%	17.43%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$302,274	\$338,305	\$332,410	\$414,284	\$410,160
<u>(302,274)</u>	<u>(338,305)</u>	<u>(332,410)</u>	<u>(414,284)</u>	<u>(410,160)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,080,743	\$2,298,653	\$2,276,125	\$2,806,659	\$2,780,196
14.53%	14.72%	14.60%	14.76%	14.75%

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City of Pepper Pike, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates 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.

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2018.

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 report is not suitable for any other purpose.

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

December 28, 2018

OHIO AUDITOR OF STATE
KEITH FABER



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
JANUARY 22, 2019**