



**Auditor of State
Betty Montgomery**

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Members of City Council

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2002 and the respective changes in financial position where applicable, and the respective budgetary comparison for the General Fund and Fire Levy Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

May 27, 2003

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City of Pepper Pike
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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2002
Unaudited

The discussion and analysis of the City of Pepper Pike's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2002. 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 financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2002 are as follows:

- ◆ The assets of the City of Pepper Pike exceeded its liabilities at the close of the most recent fiscal year by \$22.4 million. Of this amount, \$9.1 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$0.7 million, which represents a decrease of approximately 2.1 percent over 2001. The biggest change was a decrease in the cash and cash equivalents of \$0.9 million. There was also an overall cumulative decline of \$0.2 million in other assets such as taxes receivable, due from other governments, investments, materials and supplies, and special assessments receivable. These decreases were offset positively by an increase in depreciable assets of \$0.4 million.
- ◆ Total liabilities decreased by \$0.4 million which represents a decrease of 4.0 percent compared to 2001. The main factors contributing to this decrease were a decrease of \$0.6 million in long-term liabilities specifically a paydown of \$650,000 towards principal amounts for the outstanding general obligation bond issues. However, there was a total increase of \$0.2 million in the categories of due to other governments, deferred revenues, accrued wages, and accounts payable.
- ◆ In total, net assets in governmental activities decreased by \$0.3 million during 2002. This represents a 1.3 percent decrease from 2001.

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the City of Pepper Pike's basic financial statements. The City of Pepper Pike'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 Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Pepper Pike's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Pepper Pike is improving

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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 Assets 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.

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 10. Fund financial reports provide detailed information about the City's major funds. The City of Pepper Pike 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 are the General fund, Fire Levy fund, Bond Retirement fund, and the South Woodland 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 Assets and the Statement of Activities) and governmental funds.

Government-wide Financial Analysis - City of Pepper Pike as a whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

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Table 1 provides a summary of the City's net assets for 2002 as compared to 2001.

Table 1
City of Pepper Pike Net Assets
(In Millions)

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Assets		
Current and Other Assets	\$14.9	\$16.0
Capital Assets, Net	<u>17.3</u>	<u>16.9</u>
<i>Total Assets</i>	32.2	32.9
Liabilities		
Current Liabilities and Other Liabilities	3.4	3.2
Long-term Liabilities		
Due Within One Year	0.9	0.9
Due In More Than One Year	<u>5.5</u>	<u>6.1</u>
<i>Total Liabilities</i>	<u>9.8</u>	<u>10.2</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	11.3	10.2
Restricted for:		
Capital Projects	1.2	2.5
Debt Service	0.5	0.6
Other Purpose	0.3	0.2
Unrestricted	<u>9.1</u>	<u>9.2</u>
<i>Total Net Assets</i>	<u><u>\$22.4</u></u>	<u><u>\$22.7</u></u>

Total assets went down to \$32.2 million during 2002 from \$32.9 million at the end of 2001. The two big contributing factors were an increase in Depreciable Capital Assets due to a restatement of the 2001 year end balance and a decrease in cash and cash equivalents of \$0.9 million primarily due to the completion of the improvements to South Woodland Road, which fund had carried a balance of \$1.6 million at the end of 2001 but was down to \$0.4 million at the end of 2002. The other capital project funds such as Gates Mills Boulevard Improvement fund, Shaker Boulevard Improvement fund, Lander Emerson Waterline fund, Kersdale Water fund and Brookwood Water fund were all closed and their cash balances totalling approximately \$0.4 million were transferred to the Bond Retirement fund as required by the Ohio Revised Code to satisfy future debt service payments on funds borrowed in the

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open market for these projects. This \$1.6 million reduction was offset by an increase in cash balances of the General fund, Bond Retirement fund, Fairmount Boulevard Improvement fund, Street Construction fund and State Highway fund totalling \$0.7 million.

The total net assets of the City decreased by \$0.3 million. The following factors were responsible for this decrease:

- ◆ Decrease in cash and cash equivalents of \$0.9 million over 2001.
- ◆ Decrease in other assets of \$0.2 million.
- ◆ Decrease in long-term liabilities of \$0.7 million
- ◆ Increase of \$0.4 million in the depreciable capital assets
- ◆ Increase of \$0.2 million in other liabilities

The City has tried to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past year, the investments have shifted from short term CD's and government notes and bills to longer term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has refrained from locking in investments with maturities that are beyond two and a half years due to the volatility in the market. As expected, investment earnings continued to drop as the Federal Reserve maintained its thrust on rate cuts.

Also, the City continues to work in the direction of reducing its current liabilities and expenditures by stabilizing short and long-term liabilities. As an example, the City continued to use the consortium formed during 2000 by joining hands with nine surrounding communities for the purchase of road salt and other supplies during 2002. After discovering that the price of road salt was going to double for the 2001-2002 winter season, the City had purchased approximately 5,000 tons of road salt at the 2000 contract price and stored it on site for the entire winter season thus saving approximately \$100,000 compared to the 2001 pricing. This resulted in the City having ample supplies for the severe winter that ensued at the end of 2002. As a result of joining the consortium the City saved approximately \$55,000 in the first year alone, due to the power of volume purchasing afforded by the nine communities jointly bidding. These savings are expected to grow as more communities join the group and pool in their quantities to allow for bigger bargaining power.

Another tool used by the City to reduce its long term liabilities is to pay off accumulated sick leave for employees who have a balance in excess of 960 hours of sick time remaining in their account at the end of each year. This excess is paid off at the rate of 1 hour for every two hours in excess of the 960 hours. This allows the City to buy back accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement of the employee. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to a future date. The total amount paid out for accumulated sick leave at the end of 2002 was \$27,511 as compared to \$26,403 at the end of 2001.

The City of Pepper Pike is also part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which helped save approximately \$45,000 in premiums for the year as compared to being strictly a State funded employer. The various departments within the City have established safety committees to meet the Bureau guidelines and provide the employees with safety

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equipment to enable them to perform their tasks efficiently and also, as much as possible, to help keep the City premises an injury free work place. Random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The City's service department developed programs which resulted in additional savings during the year. An aggressive recycling campaign was conducted which diverted approximately 381 tons of recycled material from the landfill thus saving about \$11,742 in disposal costs. During 2002, the City received a Recycle Ohio grant in the amount of \$12,000 for the purchase of recycled materials and also for subsidizing public awareness for recycling through distribution of educational materials and newsletters. The service department also started a pilot residential mixed recycling program which entailed picking up recyclable material at the residences as opposed to having the residents drop off the material at the service garage. This was a big success and will be continued during 2003 which will ensure additional savings by having even more material being diverted from the landfill. Also, instead of contracting out the street sweeping of City streets to private contractors at an annual cost of \$6,000, the service department purchased a used street sweeper for \$5,000 during 2001 and has been using this equipment for the past two years resulting in additional savings.

Table 2 shows the changes in net assets for fiscal year 2002 and corresponds to the Statement of Activities on page 15. Since this is the third year the City has prepared the statements following the GASB 34 format, revenue and expense comparisons can be made between the years 2001 and 2002.

Table 2
 Changes in Net Assets
 (In Millions)

	<u>Governmental Activities</u>	
	2002	2001
Program Revenues		
Charges for Services	\$0.2	\$0.2
Operating Grants, Contributions and Interest	0.2	0.2
Capital Grants and Contributions	0.4	0.1
<i>Total Program Revenues</i>	0.8	0.5
General Revenues		
Property Taxes	3.0	2.9
Income Taxes	3.4	3.6
Grants and Entitlements	2.2	1.4
Investment Earnings	0.4	0.3
Other	0.1	0.1
<i>Total Revenues</i>	\$9.1	\$8.3

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	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Program Expenses		
General Government	\$1.3	\$1.1
Security of Persons and Property	4.4	4.0
Public Health Services	0.0	0.0
Transportation	3.0	3.4
Community Environment	0.2	0.2
Basic Utility Services	1.4	1.3
Interest and Fiscal Charges	0.2	0.2
<i>Total Program Expenses</i>	<u>10.5</u>	<u>10.2</u>
<i>Change in Net Assets</i>	<u>(\$0.6)</u>	<u>(\$1.4)</u>

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is one percent on gross income and has not changed since 1971 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community receive a fifty percent tax credit on their city tax for Pepper Pike, the credit limit being one percent. During 2002 the revenues generated from this tax amounted to \$3.4 million as compared to \$3.6 million during 2001. The drop in revenues seemed to be a nationwide occurrence due to the general state of the economy. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. The City also conducts joint efforts with the Regional Income Tax Agency (RITA), the City's income tax collection agency, in tracking new taxpayers, especially contractors performing short term projects within the City. Property tax revenues come in a close second generating \$3.0 million in revenues for the year 2002, which constituted an increase of four percent over the \$2.9 million collected during 2001. The median home value in the City is \$385,000.

Security of Persons and Property and Transportation are the major activities of the City generating seventy percent of the governmental expenses. Currently, there are nineteen full-time sworn officers in the police department. During 2002, the City was rated number one amongst the top five communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. The department continued to place strong emphasis on the training of its personnel to maintain their proficiency and to keep up with the rapidly changing laws, practices and technology. In 2000, the jail was converted to a three-day holding facility to reduce the costs of operations of a full-fledged jail and the liabilities associated with running such a facility. Also, during 2002 the City purchased and installed a Reverse 911 system at a total cost of \$41,767, which will facilitate the routine and emergency telephone notification of all residences within the City and will also be able to provide daily check-up phone calls to homebound seniors to ensure their safety and well being. The court-sanctioned self-supporting juvenile diversion program which was put in effect in June 1999 proved to be a success. The City was reimbursed \$1,075 during 2002 from Cuyahoga County.

The fire department consists of twelve full-time and seventeen part-time fire fighters. All but one of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day to day

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operation of the fire department. Techniques such as driving rodeos, live practice burn-downs, continuing education classes, practice drills and watching training videos help keep the men updated to perform their jobs most efficiently. The department handled 806 calls for assistance of which approximately 372 were for EMS and 434 for fire and fire related incidents. The total amount spent on overtime expenses during 2002 was \$243,749 as compared to \$258,223 during 2001. This constituted a decrease of more than five percent over 2001. During the 1999 general elections the residents of the City overwhelmingly approved a 4 mill replacement levy for the operation and upkeep of the fire and EMS department which generates approximately \$1.2 million in property taxes. The total cost of operating the fire and EMS department during 2002 was \$1.5 million with the general fund subsidizing the difference between the revenues generated by the property taxes and the actual expenditures.

The City also has an annual road program which entails major and minor resurfacing of the various streets in Pepper Pike. It also has a crack sealing and concrete repairs program all of which account for approximately \$500,000 in governmental expenses for the upkeep and maintenance of the roadways within the City limits. For the major resurfacing projects, the City has actively pursued and has been successful in obtaining grants, and financial assistance from the Ohio Public Works Commission. These grants and loan assistance programs account for twenty to thirty percent of the actual costs of the project, the balance being borrowed from the open market by way of bond issues, which reduces the amount of borrowing the City has to undertake. During 2002 the major fund depicted in the Governmental Funds Balance Sheet (page 16) and Statement of Revenues, Expenditures and Changes in Fund Balances (page 18) is the South Woodland fund. This project commenced during 2001 and was close to being completed at the end of 2002. The City has received a grant from the OPWC in the amount of \$423,824, which constitutes twenty percent of the estimated project cost. The City's share is being funded by a ten year GO bond in the amount of \$1,660,000. The reconstruction of Fairmount Boulevard was completed during 2001 and the reconstruction of Gates Mills Boulevard was completed during 2000. Thus these two were not considered major funds during 2002.

The City's Funds

Information about the City's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10.0 million and expenditures of \$11.1 million. The net change in fund balance for the year was most significant in the South Woodland Road fund showing a decrease in fund balance of more than \$1 million due to the fact the project was performed during 2002 but the funding occurred during 2001. The General fund reflected an increase of \$104,904 at the end of 2002. The total year end fund balance of \$8.6 million is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

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

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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 fiscal 2002, the City amended its general fund budget once at the end of the fiscal year. 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.

For the General fund, budget basis revenue was \$1.9 million above original budget estimates of \$5.5 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenues areas. The original appropriations of \$7.2 million was sufficient to meet the expenditures for the year, which ended up at \$7.0 million or \$0.2 million less than anticipated due to a savings experienced in contracts for the annual road maintenance program and other areas like health insurance costs.

The City's ending unobligated budgetary fund balance was \$2.0 million higher than the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2002, the City of Pepper Pike had \$17.3 million invested in land, buildings, and equipment.

Table 3 shows fiscal 2002 balances of Capital Assets as compared to 2001:

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

	Governmental Activities	
	2002	2001
Land	\$0.3	\$0.3
Improvements to Land	0.1	0.1
Buildings and Improvements	3.4	3.4
Vehicles	0.6	0.3
Furniture, Fixtures and Equipment	0.4	0.1
Infrastructure		
Streets	11.5	11.6
Bridges	0.1	0.1
Sanitary Sewer System	0.9	1.0
Total Capital Assets	\$17.3	\$16.9

Net of depreciation, the balances for the above capital assets remained practically unchanged. The streets inventory was lower by \$0.1 million as a net result of annual depreciation expense of \$1.1 million offset by an increase in the inventory of \$1.0 million due to some resurfacing and reconstruction

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projects. However, this belies the City's aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks, ambulances, rubbish trucks etc. are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the maximum time frame. Police cars are replaced every eighteen months or when they have been driven approximately 65,000 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 cracksealed 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 of Pepper Pike, as mentioned before, 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. See Note 12 to the basic financial statements for additional information on capital assets.

Debt

At December 31, 2002, the City of Pepper Pike had \$6.4 million in outstanding debt, of which \$5.2 million was in general obligation bonds. Table 4 summarizes the bonds outstanding.

Table 4
 Outstanding Debt at Year End
 (In Millions)

	<u>Governmental Activities</u>	
	2002	2001
Manuscript Bonds	\$0.4	\$0.4
General Obligation Bonds	5.2	5.8
OPWC Loans	0.4	0.4
Compensated Absences	0.4	0.4
Total	\$6.4	\$7.0

At December 31, 2002, the City's overall legal debt margin was \$36,252,612 with an unvoted debt margin of \$19,249,757. The City of Pepper Pike has an aggressive debt reduction attitude whereby most long term bonds are paid off within ten years as opposed to fifteen or twenty years. Also, the manuscript bonds represent five separate water and sewer improvement issues in the form of manuscript bonds issued by the City. Manuscript bonds are bonds 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. At year end, the outstanding general obligation debt was

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\$5,240,000 and the outstanding special assessment manuscript bonds were \$358,138. In addition, the City had an outstanding balance of \$368,258 on a twenty-year interest free loan obtained from the Ohio Water Pollution Loan Control fund and 2002 was the sixth year in the repayment cycle. There was also an amount of \$429,553 booked as compensated absences in the long-term debt obligations for items such as accrued sick leave and accrued vacation payable to the employees. See Note 15 for additional information on debt.

Current Related Financial Activities

The City of Pepper Pike is strong financially. In addition, the City of Pepper Pike'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 of Pepper Pike 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 citizen's, 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 Director Prashant Shah, CPA, at the City of Pepper Pike, 28000 Shaker Boulevard, Pepper Pike, Ohio 44124, phone number (216)831-8500.

City of Pepper Pike, Ohio

Cuyahoga County

Statement of Net Assets

December 31, 2002

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,768,333
Investments	358,138
Accounts Receivable	22,786
Due from Other Governments	399,326
Prepaid Items	98,115
Materials and Supplies Inventory	73,356
Taxes Receivable:	
Property	2,927,802
Income	928,637
Special Assessments Receivable	335,975
Land	271,350
Depreciable Capital Assets, Net	17,030,228
<i>Total Assets</i>	<u>32,214,046</u>
Liabilities	
Accounts Payable	150,015
Accrued Wages	99,375
Due to Other Governments	347,784
Deferred Revenue	2,769,453
Accrued Interest Payable	19,156
Long-Term Liabilities:	
Due Within One Year	941,561
Due In More Than One Year	5,454,388
<i>Total Liabilities</i>	<u>9,781,732</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,335,182
Restricted for:	
Capital Projects	1,263,093
Debt Service	555,492
Other Purposes	218,386
Unrestricted	9,060,161
<i>Total Net Assets</i>	<u><u>\$22,432,314</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike
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Statement of Activities
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	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$1,336,397	\$126,773	\$0	\$0	(\$1,209,624)
Security of Persons and Property	4,431,355	9,157	0	0	(4,422,198)
Public Health Services	21,669	75	0	0	(21,594)
Transportation	2,946,963	0	195,118	395,462	(2,356,383)
Community Environment	190,849	52,688	21,310	0	(116,851)
Basic Utility Services	1,375,552	0	0	0	(1,375,552)
Interest and Fiscal Charges	222,626	0	0	0	(222,626)
<i>Total Governmental Activities</i>	<u>\$10,525,411</u>	<u>\$188,693</u>	<u>\$216,428</u>	<u>\$395,462</u>	<u>(9,724,828)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	1,211,884
Debt Service	471,312
Other Purposes	1,280,510
Income Tax	3,396,975
Grants and Entitlements not Restricted to Specific Programs	2,249,064
Investment Earnings	354,741
Gain on Sale of Capital Asset	2,441
Miscellaneous	134,591
<i>Total General Revenues</i>	<u>9,101,518</u>
Change in Net Assets	(623,310)
<i>Net Assets Beginning of Year - (Restated See Note 3)</i>	<u>23,055,624</u>
<i>Net Assets End of Year</i>	<u><u>\$22,432,314</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Cuyahoga County

Balance Sheet

Governmental Funds

December 31, 2002

	General	Fire Levy	Bond Retirement	South Woodland
Assets				
Equity in Pooled Cash and Cash Equivalents	\$7,779,847	\$65,918	\$179,779	\$405,258
Investments	358,138	0	0	0
Receivables:				
Taxes:				
Property	1,046,366	1,183,857	507,329	0
Income	928,637	0	0	0
Accounts	22,786	0	0	0
Interfund	227,253	0	0	0
Special Assessments	0	0	335,975	0
Due from Other Governments	182,085	73,279	31,456	0
Materials and Supplies Inventory	73,356	0	0	0
Prepaid Items	98,115	0	0	0
<i>Total Assets</i>	<u>\$10,716,583</u>	<u>\$1,323,054</u>	<u>\$1,054,539</u>	<u>\$405,258</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$134,077	\$15,549	\$0	\$0
Interfund Payable	0	0	0	0
Accrued Wages	80,632	18,743	0	0
Due to Other Governments	40,595	0	0	0
Deferred Revenue	1,877,291	1,257,136	874,760	0
<i>Total Liabilities</i>	<u>2,132,595</u>	<u>1,291,428</u>	<u>874,760</u>	<u>0</u>
Fund Balances				
Reserved for Encumbrances	197,151	31,224	0	196,247
Reserved for Inventory	73,356	0	0	0
Unreserved:				
Undesignated, Reported in:				
General Fund	8,313,481	0	0	0
Special Revenue Funds	0	402	0	0
Debt Service Funds	0	0	179,779	0
Capital Projects Funds	0	0	0	209,011
<i>Total Fund Balances</i>	<u>8,583,988</u>	<u>31,626</u>	<u>179,779</u>	<u>405,258</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,716,583</u>	<u>\$1,323,054</u>	<u>\$1,054,539</u>	<u>\$405,258</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2002

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$10,326,656
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$1,337,531	\$9,768,333	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,301,578
0	358,138		
190,250	2,927,802	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
0	928,637	Property and Other Taxes	158,349
0	22,786	Income Taxes	794,672
0	227,253	Special Assessments	335,975
0	335,975	Intergovernmental	237,378
112,506	399,326		
0	73,356	Total	1,526,374
0	98,115		
<u>\$1,640,287</u>	<u>\$15,139,721</u>	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(307,189)
\$389	\$150,015	In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when do.	(19,156)
227,253	227,253		
0	99,375	Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
0	40,595	General Obligations Bonds	(5,240,000)
286,640	4,295,827	Special Assessment Manuscript Bonds	(358,138)
		OPWC Loan	(368,258)
514,282	4,813,065	Compensated Absences	(429,553)
37,102	461,724	Total	(6,395,949)
0	73,356		
		<i>Net Assets of Governmental Activities</i>	<u><u>\$22,432,314</u></u>
0	8,313,481		
267,770	268,172		
0	179,779		
821,133	1,030,144		
<u>1,126,005</u>	<u>10,326,656</u>		
<u>\$1,640,287</u>	<u>\$15,139,721</u>		

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2002

	General	Fire Levy	Bond Retirement	South Woodland
Revenues				
Property and Other Taxes	\$1,226,688	\$1,120,085	\$478,490	\$0
Municipal Income Tax	3,418,117	0	0	0
Charges for Services	62,995	0	0	0
Fines and Forfeitures	101,938	0	0	0
Intergovernmental	1,986,347	144,584	129,871	0
Special Assessments	0	0	41,006	0
Interest	354,741	0	0	0
Rentals	23,760	0	0	0
Contributions and Donations	0	0	0	0
Other	124,863	5,728	0	0
<i>Total Revenues</i>	<u>7,299,449</u>	<u>1,270,397</u>	<u>649,367</u>	<u>0</u>
Expenditures				
Current:				
General Government	1,349,677	0	26,526	0
Security of Persons and Property	2,521,916	1,544,653	0	0
Public Health Services	21,669	0	0	0
Transportation	1,430,212	0	0	0
Community Environment	169,235	0	0	0
Basic Utility Services	1,245,538	0	0	0
Capital Outlay	0	0	0	1,226,673
Debt Service:				
Principal Retirement	0	0	699,708	0
Interest and Fiscal Charges	0	0	235,871	0
<i>Total Expenditures</i>	<u>6,738,247</u>	<u>1,544,653</u>	<u>962,105</u>	<u>1,226,673</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>561,202</u>	<u>(274,256)</u>	<u>(312,738)</u>	<u>(1,226,673)</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	3,702	0	0	0
Transfers In	0	200,000	464,369	0
Transfers Out	(460,000)	0	0	0
<i>Total Other Financing Sources and Uses</i>	<u>(456,298)</u>	<u>200,000</u>	<u>464,369</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	104,904	(74,256)	151,631	(1,226,673)
<i>Fund Balances Beginning of Year - (Restated See Note 3)</i>	8,507,063	105,882	28,148	1,631,931
Decrease in Reserve for Inventory	(27,979)	0	0	0
<i>Fund Balances End of Year</i>	<u><u>\$8,583,988</u></u>	<u><u>\$31,626</u></u>	<u><u>\$179,779</u></u>	<u><u>\$405,258</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Cuyahoga County

*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, 2002*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$1,071,633)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$179,876	\$3,005,139	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
0	3,418,117	Capital Outlay	1,825,820
0	62,995	Depreciation	<u>(1,788,980)</u>
0	101,938	Total	36,840
625,916	2,886,718	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	41,006	Property and Other Taxes	(41,433)
0	354,741	Income Taxes	(21,142)
0	23,760	Special Assessments	(41,006)
385	385	Intergovernmental	<u>(26,149)</u>
4,000	134,591	Total	(129,730)
810,177	10,029,390	Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(1,261)
		Repayment of bond principal and loans is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	699,708
0	1,376,203	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	13,245
460,984	4,527,553	Some expenses reported in the statement of activities, such as compensated absences and contractually required pension contributions, do not require the use of current financial resources and therefore are not reported in governmental funds.	
0	21,669	Compensated Absences	(40,506)
67,021	1,497,233	Pension Obligation	<u>(101,994)</u>
20,134	189,369	Total	(142,500)
0	1,245,538	Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.	(27,979)
84,908	1,311,581		
0	699,708		
0	235,871		
633,047	11,104,725		
177,130	(1,075,335)		
0	3,702		
260,000	924,369		
(464,369)	(924,369)		
(204,369)	3,702		
(27,239)	(1,071,633)		
1,153,244	11,426,268		
0	(27,979)		
\$1,126,005	\$10,326,656	Change in Net Assets of Governmental Activities	<u>(\$623,310)</u>

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$1,107,439	\$1,107,439	\$1,226,688	\$119,249
Municipal Income Tax	3,059,569	3,055,902	3,464,783	408,881
Charges for Services	73,550	73,550	63,091	(10,459)
Fines and Forfeitures	63,000	63,000	100,173	37,173
Intergovernmental	711,520	715,187	2,007,531	1,292,344
Interest	350,000	350,000	411,942	61,942
Rentals	23,760	23,760	23,760	0
Other	110,030	110,030	124,863	14,833
<i>Total Revenues</i>	<u>5,498,868</u>	<u>5,498,868</u>	<u>7,422,831</u>	<u>1,923,963</u>
Expenditures				
Current:				
General Government	1,319,934	1,470,661	1,412,242	58,419
Security of Persons and Property	2,645,844	2,698,109	2,523,330	174,779
Public Health Services	26,676	26,676	24,484	2,192
Transportation	1,702,878	1,638,436	1,591,747	46,689
Community Environment	172,935	180,365	169,544	10,821
Basic Utility Services	1,359,422	1,425,042	1,315,901	109,141
<i>Total Expenditures</i>	<u>7,227,689</u>	<u>7,439,289</u>	<u>7,037,248</u>	<u>402,041</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,728,821)</u>	<u>(1,940,421)</u>	<u>385,583</u>	<u>2,326,004</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	0	3,702	3,702
Transfers Out	(661,032)	(661,032)	(460,000)	201,032
Advances In	492,200	492,200	82,750	(409,450)
Advances Out	0	0	(103,589)	(103,589)
<i>Total Other Financing Sources (Uses)</i>	<u>(168,832)</u>	<u>(168,832)</u>	<u>(477,137)</u>	<u>(308,305)</u>
<i>Net Change in Fund Balance</i>	(1,897,653)	(2,109,253)	(91,554)	2,017,699
<i>Fund Balance Beginning of Year</i>	7,287,722	7,287,722	7,287,722	0
Prior Year Encumbrances Appropriated	516,879	516,879	516,879	0
<i>Fund Balance End of Year</i>	<u>\$5,906,948</u>	<u>\$5,695,348</u>	<u>\$7,713,047</u>	<u>\$2,017,699</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$1,172,809	\$1,172,809	\$1,120,085	(\$52,724)
Intergovernmental	140,300	140,300	144,584	4,284
Other	0	0	5,728	5,728
<i>Total Revenues</i>	1,313,109	1,313,109	1,270,397	(42,712)
Expenditures				
Current:				
Security of Persons and Property	1,676,084	1,576,084	1,556,837	19,247
<i>Excess of Revenues Under Expenditures</i>	(362,975)	(262,975)	(286,440)	23,465
Other Financing Sources				
Transfers In	250,000	250,000	200,000	(50,000)
<i>Net Change in Fund Balance</i>	(112,975)	(12,975)	(86,440)	(26,535)
<i>Fund Balance Beginning of Year</i>	5,023	5,023	5,023	0
Prior Year Encumbrances Appropriated	114,584	114,584	114,584	0
<i>Fund Balance End of Year</i>	<u>\$6,632</u>	<u>\$106,632</u>	<u>\$33,167</u>	<u>(\$26,535)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Fiduciary Net Assets
Agency Funds
December 31, 2002

Assets

Equity Pooled in Cash and Cash Equivalents	<u><u>\$129,735</u></u>
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Liabilities

Deposits Held and Due to Others	<u><u>\$129,735</u></u>
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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, 2002

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 of Pepper Pike (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity.”

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.

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 for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City participates in the Northeast Ohio Public Energy Council, which is defined as a jointly governed organization. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest nor responsibility on the part of the participating governments. This organization is discussed in Note 11.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of Pepper Pike 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

A. Basis of Presentation

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as either 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 liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Pepper Pike and/or the general laws of Ohio.

Fire Levy Special Revenue Fund – The Fire Levy special revenue fund is used to account for monies received from a fire levy. Monies are used to maintain fire equipment and for salaries of firemen.

Bond Retirement Debt Service Fund – The Bond Retirement fund receives property taxes for the payment of general long-term debt principal, interest and related costs.

South Woodland Capital Projects Fund – The South Woodland capital projects fund received proceeds from the sale of bonds to be used for improvements to South Woodland Road.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

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

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

C. Measurement Focus

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include financial activities of the primary government, except for fiduciary funds.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements 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 revenues 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.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the exchange on which the tax is imposed takes place. 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

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 Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of 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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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.

F. Cash and Cash Equivalents

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

During 2002, investments were limited to Federal Home Loan Bank Notes, Federal Home Loan Mortgage Notes, Federal National Mortgage Association Notes, STAROhio, and special assessment manuscript bonds.

STAROhio is an investment pool managed by the State Treasurer's Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2002.

Interest was distributed to the General fund. Interest revenue credited to the General fund during 2002 amounted to \$354,741, which includes \$73,265 assigned from other City funds.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, 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.

I. 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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand dollars. The City's infrastructure consists of streets, bridges and sanitary sewers. 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. Interest incurred during the construction of capital assets is also capitalized.

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:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Description	Estimated Lives
Land	N/A
Improvements to Land	20 years
Buildings and Improvements	30-75 years
Vehicles	5-10 years
Furniture, Fixtures and Equipment	10 years
Infrastructure	20-100 years

J. 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 offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are 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.

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.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and inventories.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

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

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

O. Interfund Activity

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.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2002.

Q. Estimates

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

Note 3 – Restatement of Prior Year Net Assets

The net assets balance as of December 31, 2001 was restated by \$488,625 in the General fund due to an overstatement of tax revenue. This restatement caused the fund balance to decrease from \$8,995,688 to \$8,507,063.

The December 31, 2001 net assets balance was restated due to an understatement of capital assets. The \$357,099 understatement increased net assets from \$22,698,525 to \$23,055,624 as of December 31, 2001.

Note 4 - 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 Statements 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:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

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. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments reported at cost (budget) rather than fair value (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund and for the major special revenue fund.

Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	\$104,904	(\$74,256)
Net Adjustment for Revenue Accruals	89,585	0
Beginning Fair Value Adjustment for Investments	134,775	0
Ending Fair Value Adjustment for Investments	(100,978)	0
Advances In	82,750	0
Advances Out	(103,589)	0
Net Adjustment for Expenditures Accruals	48,363	20,567
Encumbrances	(347,364)	(32,751)
Budget Basis	(\$91,554)	(\$86,440)

Note 5 - Accountability

A. Fund Deficits

Fund balances at December 31, 2002, included the following individual fund deficits:

Special Revenue Fund:	
Recycle Ohio Grant	\$16,134
Capital Projects Funds:	
Lander Emerson	113,061
Pepper Hills Waste Water Treatment Plant	87,455
Kersdale Water	10,603

The special revenue and capital projects fund deficits are caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis. The General fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

B. Compliance

The special revenue police pension fund had expenditures plus encumbrances in excess of appropriations in the amount of \$229 contrary to Ohio Revised Code Section 5705.41.

Note 6 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposits 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 deposits maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

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

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

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits At year end, the carrying amount of the City's deposits was \$94,520 and the bank balance was \$355,682. Of the bank balance:

1. \$206,362 was covered by federal depository insurance.
2. \$149,320 was uncollateralized and uninsured. Although the securities were held by the pledging financial institution's trust department or agent in the financial institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments The City's investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured or registered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

	Category 1	Fair Value
Manuscript Bonds	\$358,138	\$358,138
Federal Home Loan Bank Notes	5,041,474	5,041,474
Federal Home Loan Mortgage Notes	2,026,550	2,026,550
Federal National Mortgage Association Notes	1,009,550	1,009,550
STAROhio		1,725,974
Total Investments	<u>\$8,435,712</u>	<u>\$10,161,686</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with maturities of three months or less at the time of their purchase by the City.

A reconciliation between the classifications of cash and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3, is as follows:

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement 9</i>	\$9,898,068	\$358,138
Investments of Cash Management Pool:		
Federal Home Loan Bank Notes	(5,041,474)	5,041,474
Federal Home Loan Mortgage Notes	(2,026,550)	2,026,550
Federal National Mortgage Association Notes	(1,009,550)	1,009,550
STAROhio	(1,725,974)	1,725,974
<i>GASB Statement 3</i>	<u>\$94,520</u>	<u>\$10,161,686</u>

Note 7 - Receivables

Receivables at December 31, 2002, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts.

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

Special assessments expected to be collected in more than one year amount to \$293,920 in the special assessment bond retirement fund.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes which became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2002, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$298,408,580
Other Real Estate	30,109,360
Tangible Personal Property	
Public Utility	6,620,200
General Tangible Personal Property	4,918,953
Total Assessed Values	\$340,057,093

Real property taxes are payable annually or semi-annually. If paid annually, the 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.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Pepper Pike. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2002 and for which there is an enforceable legal claim. The entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2002 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2002 follows:

Local Government	\$27,228
Homestead and Rollback	181,408
Estate Tax	89,980
Gasoline and Excise Tax	18,183
Permissive Motor Vehicle License Tax	20,409
Auto Regulation	17,133
Cents Per Gallon	36,810
Ohio Recycle Grant	8,175
	<u>8,175</u>
Total	<u>\$399,326</u>

C. 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 tenth business day of the following month. Income tax revenue is credited entirely to the general fund.

Note 8 - Interfund Transfers and Balances

Transfers made during fiscal year 2002 were \$200,000 to Fire Levy, \$464,369 to Bond Retirement, \$125,000 to Police Pension and \$135,000 to Fire Pension special revenue funds from the General fund. These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

On the fund financial statements interfund balances at December 31, 2002 were:

Fund	Receivable	Payable
General	\$227,253	\$0
Recycle Ohio Grant Special Revenue Fund	0	16,134
Capital Projects Funds		
Lander/Emerson Water Line	0	113,061
PepperHills Wasterwater Treatment Plant	0	87,455
Kersdale Water Line	0	10,603
<i>Total Capital Projects</i>	0	211,119
<i>Totals</i>	\$227,253	\$227,253

The interfund payables were advances for grant monies that the funds will receive at a later date.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Note 9- Contingencies

A. 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.

B. 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 is 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, 2002.

Note 10 - 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 120 work days, unless more than 120 work days are approved by the Mayor. Upon retirement, employees with 20 or more years of service shall be paid at the rate of one day for every two days accumulated. As of December 31, 2002 the liability for unpaid compensated absences was \$429,553 for the entire City.

Note 11 – Jointly Governed Organization

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 and natural gas. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas 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 and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each community 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 2002. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Note 12 - Capital Assets

Capital asset activity for the year ended December 31, 2002, was as follows:

Governmental Activities	<u>Balance 12/31/2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2002</u>
Capital Assets not being Depreciated:				
Land	\$271,350	\$0	\$0	\$271,350
Capital Assets being Depreciated:				
Improvements to Land	206,811	14,995	0	221,806
Buildings and Improvements	3,885,626	194,177	0	4,079,803
Vehicles	2,090,601	176,722	(54,238)	2,213,085
Furniture, Fixtures and Equipment	1,126,807	320,668	(80,071)	1,367,404
Infrastructure:				
Streets	23,829,171	1,119,258	0	24,948,429
Bridges	170,770	0	0	170,770
Sanitary Sewers	1,813,073	0	0	1,813,073
Total Capital Assets being Depreciated	<u>33,122,859</u>	<u>1,825,820</u>	<u>(134,309)</u>	<u>34,814,370</u>
Less Accumulated Depreciation:				
Improvements to Land	(64,333)	(13,238)	0	(77,571)
Buildings and Improvements	(573,948)	(74,416)	0	(648,364)
Vehicles	(1,420,979)	(245,589)	52,977	(1,613,591)
Furniture, Fixtures and Equipment	(864,313)	(226,309)	80,071	(1,010,551)
Infrastructure:				
Streets	(12,233,607)	(1,191,459)	0	(13,425,066)
Bridges	(100,755)	(1,708)	0	(102,463)
Sanitary Sewers	(870,275)	(36,261)	0	(906,536)
Total Accumulated Depreciation	<u>(16,128,210)</u>	<u>(1,788,980)*</u>	<u>133,048</u>	<u>(17,784,142)</u>
Total Capital Assets being Depreciated, Net	<u>16,994,649</u>	<u>36,840</u>	<u>(1,261)</u>	<u>17,030,228</u>
Governmental Activities Capital Assets, Net	<u>\$17,265,999</u>	<u>\$36,840</u>	<u>(\$1,261)</u>	<u>\$17,301,578</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$118,629
Security of Persons and Property	216,654
Transportation	1,229,428
Basic Utility Services	223,327
Community Environment	942
Total Depreciation Expense	<u>\$1,788,980</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$183,753, \$178,966, and \$120,089, respectively. The full amount has been contributed for 2001 and 2000. 79.47 percent has been contributed for 2002, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

B. Ohio Police and Fire Pension Fund

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12 percent for police and 16.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$143,934 and \$162,746 for the year ended December 31, 2002, \$128,726 and \$152,578 for the year ended December 31, 2001, and \$119,779 and \$146,897 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 67.04 percent and 58.09 percent, respectively, have been contributed for 2002, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

Note 14 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

was 13.55 percent of covered payroll; 5 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$92,414. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001 the percent used to fund healthcare was 7.50 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$94,935 for police and \$77,617 for fire. The OP&F's total health care expense for the year ended December 31, 2001 (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, (the latest information available) was 13,174 for police and 10,239 for firefighters.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

Note 15 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2002 follows:

	Outstanding 12/31/2001	Additions	Deletions	Outstanding 12/31/2002	Due In One Year
Governmental Activities					
General Obligation Bonds					
1997 5.35%					
Brookwood Water	\$795,000	\$0	(\$50,000)	\$745,000	\$50,000
1998 4.00%					
Street Improvement	2,100,000	0	(300,000)	1,800,000	300,000
2001 2.50 %					
Road Improvement	2,995,000	0	(300,000)	2,695,000	300,000
<i>Total General Obligation Bonds</i>	<u>\$5,890,000</u>	<u>\$0</u>	<u>(\$650,000)</u>	<u>\$5,240,000</u>	<u>\$650,000</u>
Special Assessment Manuscript Bonds					
1996 5.05%					
Brainard Road Water	36,595	0	(6,616)	29,979	6,950
1996 5.75%					
Brainard Road Water	138,314	0	(6,056)	132,258	6,405
1999 5.75%					
Lander Emerson Road Sewer	72,000	0	(4,000)	68,000	4,000
2000 5.75%					
Kersdale Road Improvement	134,633	0	(6,732)	127,901	6,732
Total Special Assessment Manuscript Bonds	<u>381,542</u>	<u>0</u>	<u>(23,404)</u>	<u>358,138</u>	<u>24,087</u>
Other Long-Term Debt					
1995 0% OPWC Loan	394,562	0	(26,304)	368,258	26,304
Compensated Absences	389,047	429,553	(389,047)	429,553	241,170
<i>Total Governmental Activities</i>	<u>\$7,055,151</u>	<u>\$429,553</u>	<u>(\$1,088,755)</u>	<u>\$6,395,949</u>	<u>\$941,561</u>

As of December 31, 2002, the City's overall legal debt margin was \$36,252,612. The unvoted legal debt margin was \$19,249,757. Principal and interest requirements to retire the long-term general obligation bonds, special assessment manuscript bonds and the Ohio Public Works Commission (OPWC) loan as of December 31, 2002 are as follows:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

	General Obligation Bonds		Special Assessment Bonds		OPWC	Totals
	Principal	Interest	Principal	Interest	Loan	
2003	\$650,000	\$211,181	\$24,087	\$18,682	\$26,304	\$930,254
2004	650,000	188,109	24,806	17,470	26,304	906,689
2005	650,000	163,382	25,564	16,214	26,304	881,464
2006	650,000	138,358	26,364	14,912	26,304	855,938
2007	650,000	112,582	18,742	13,563	26,304	821,191
2008-2012	1,745,000	235,438	101,169	52,620	131,521	2,265,748
2013-2017	245,000	38,788	102,480	23,937	105,217	515,422
2018-2022	0	0	34,926	3,842	0	38,768
Total	\$5,240,000	\$1,087,838	\$358,138	\$161,240	\$368,258	\$7,215,474

General obligation bonds are the direct obligation of the City and will be paid from the debt service fund using property tax revenues. Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The Ohio Public Works Commission (OPWC) project is complete and is being paid from the Bond Retirement debt service fund. Compensated absences will be paid from the general fund.

Note 16 - Outstanding Contractual Commitments

The City has several continuing contracts with construction contractors. Of the total amounts authorized by Council ordinance, the following amounts remain unspent as of December 31, 2002:

Project	Amount Remaining
South Woodland Improvement	\$196,247
Sanitary Sewer Point	75,435
Asphalt Paving	116,492
Concrete Paving	23,123
Chagrin Blvd Turn Lane	44,310
	<u>\$455,607</u>

Note 17 - Risk Management

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 Company for the following coverage:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2002

<u>Type</u>	<u>Deductible</u>	<u>Coverage</u>
Property	\$1,000	\$9,060,263
Boiler and Machinery	1,000	9,060,263
Inland Marine	500	351,094
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement and Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000

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

The City participates in the Ohio Municipal League Group Rating (OML) for workers' compensation. The intent of the OML is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management skills by virtue of its grouping and representation with other participants in the OML. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the OML. Each participant pays its workers' compensation premium to the State based on the rate for the OML rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OML. 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 OML. Participation in the OML is limited to cities that can meet OML's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the OML.



**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Members of City Council

We have audited the financial statements of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated May 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 27, 2003.

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www.auditor.state.oh.us

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 27, 2003



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

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
JUNE 17, 2003**