



Mary Taylor, CPA  
Auditor of State



**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2008 and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Levy funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Mary Taylor, CPA**  
Auditor of State

August 7, 2009

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The discussion and analysis of the City of Pepper Pike's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the notes thereof.

### **Financial Highlights**

Key financial highlights for 2008 are as follows:

- ◆ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15.4 million. Of this amount, \$1.8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$3.4 million, which represents a decrease of approximately 9.7 percent from 2007. The major factors contributing to this decrease is a reduction in intergovernmental receivables by \$0.7 million and property and income taxes receivable by \$0.2 million.
- ◆ Total liabilities did not have any change compared to 2007. Most current liabilities remained consistent with the previous year except notes payable which decreased by \$1.5 million and contracts payable which increased by \$1 million. Long-term liabilities increased by \$0.5 million compared to 2007.
- ◆ In total, net assets in governmental activities decreased by \$3.4 million during 2008. This represents a 18.1 percent decrease from 2007.

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

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

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

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

The Statement of Net Assets presents information on all the City'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 is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net 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.

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

*Fund Financial Statements*

The analysis of the City's major funds begins on page 17. Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds for the 2008 fiscal year are the General fund, Fire Levy fund and the Northwest Quadrant 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.

*Fiduciary Funds*

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

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

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net assets for 2008 as compared to 2007.

Table 1  
Net Assets  
(In Millions)

	Governmental Activities		
	2008	2007	Change
<b>Assets</b>			
Current and Other Assets	\$12.6	\$15.8	(\$3.2)
Capital Assets, Net	19.2	19.4	(0.2)
<i>Total Assets</i>	<i>\$31.8</i>	<i>\$35.2</i>	<i>(\$3.4)</i>

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Table 1  
 Net Assets (Continued)  
 (In Millions)

	Governmental Activities		
	2008	2007	Change
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	\$9.1	\$9.6	(\$0.5)
Long-term Liabilities			
Due Within One Year	0.6	0.8	(0.2)
Due In More Than One Year	6.7	6.0	0.7
<i>Total Liabilities</i>	<i>16.4</i>	<i>16.4</i>	<i>0.0</i>
<b>Net Assets</b>			
Invested in Capital Assets,			
Net of Related Debt	11.2	12.2	(1.0)
Restricted for:			
Capital Projects	1.7	0.2	1.5
Debt Service	0.1	0.1	0.0
Other Purpose	0.6	0.6	0.0
Unrestricted	1.8	5.7	(3.9)
<i>Total Net Assets</i>	<i>\$15.4</i>	<i>\$18.8</i>	<i>(\$3.4)</i>

Total assets decreased by \$3.4 million during 2008 to end at \$31.8 million as compared to \$35.2 million at the end of 2007. The primary factor was a decrease in equity in pooled cash and cash equivalents of \$2.3 million. There was also a reduction of \$0.7 million in intergovernmental receivables and another \$0.2 million in property taxes receivable and income taxes receivable.

The City has stepped up its 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. The interest rates had started a downward trend at the end of 2007 and continue to do so for most of the year during 2008. Interest revenue decreased by approximately \$341,000 during 2008 compared to 2007. Due to the interest rates in the past two years, the investments have shifted from short term CD's and government notes and bills to longer term federal government agency issues. Even though the State code allows for investments with maturities of five years or less, the City has generally refrained from locking in investments with maturities that are beyond two and a half years due to the volatility in the market. During 2008, declining interest rates are the trend and the City has budgeted accordingly.

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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 2008. As a result of joining the consortium the City has saved approximately \$250,000 since inception, due to the power of volume purchasing afforded by the nine communities jointly bidding. To further reduce expenditures on salt the City implemented a salt brine program which effectively reduces the salt usage by as much as 10-15 percent by mixing it with a pre-wetting solution. The City also purchased a revolutionary salt-brine spreading system which is anticipated to save an additional thirty to forty percent in salt expenses by spreading salt diagonally away from the curb and only onto the street. The City has taken the lead in utilizing the power of pooling resources within the Chagrin Valley communities by promoting sharing of heavy equipment and machinery. For example, if one of the communities in the Chagrin Valley needs a front end loader for a specific project it would borrow that piece of equipment from a neighboring community and reciprocate by allowing the lending community to borrow one of its pieces of equipment when needed.

Another tool used by the City to reduce its long term liability 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 City has also been a part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which has helped save over one hundred thousand dollars each year in premiums. During 2007, the City was informed that for 2008 they would not be invited into the pool due to the claims experience which temporarily increased the amount of premium paid to the Ohio Bureau of Workers' Compensation. To offset this increase the City joined a local Safety Council which reduces the annual premium by 2.0 percent. In addition, the Ten-step business plan was implemented to further reduce the premiums by 5.0 percent. The various departments within the City have established safety committees to meet the Bureau's guidelines and provide the employees with safety 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. A transitional work program has also been implemented to prevent any lost time claims from the Ohio Bureau of Workers' Compensation. These specific actions on the part of the City have managed to reduce the claims as well as virtually eliminating the lost time claims resulting in the City being invited back to a group rating program in year 2009. In addition the City has instituted the Drug Free Work Place program which is estimated to provide an additional 5 percent relief in premiums for the year 2009. These actions are expected to save the City approximately \$115,000 in premiums.

The City's Service Department continued its cost saving measures during the year. With the help of an aggressive recycling campaign approximately 5,025 tons of recycled material and donated material were diverted from the landfill thus saving about \$182,000 in disposal costs. The City was one of the top three recyclers in the County during 2007 and continued this trend in 2008. In 2007, a Shred-It program was instituted whereby on a quarterly basis on a pre-selected date residents can come to the Service Department with up to four boxes of personal and confidential paperwork that they wish to have shredded at no cost to them. This also benefits the City by diverting additional material from landfills. Almost 15.76 tons of papers were shredded using this service. The City also received a Recycle Ohio Grant for the fourth consecutive year in the amount of \$3,800 for subsidizing public awareness for recycling through distribution of

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educational materials and newsletters. The City Service Department was named a Tree City USA for the seventh consecutive year. The City Service Department also continued its residential mixed recycling program which entails 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 2009 which will ensure additional savings by having even more material being diverted from the landfill. The City expended \$40,000 to create an experimental Bio-retention swale at two locations to filter polluted storm surface waters through various natural soils and plant roots to break down harmful chemicals. The City received a grant of \$24,000 from Chagrin River Watershed Partners, which was 60 percent of the total cost. Also, instead of contracting 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 the equipment for the past seven years resulting in additional savings. The Department also purchased three swap loaders which can convert a salt bed to a dump bed in minutes. This affords efficiencies in capital and maintenance costs since instead of two truck chassis the City only needs to purchase one. The Service Department also continues to do repairs and renovation by using the in-house crew as opposed to hiring contractors which ensures maximizing the use of available resources.

Table 2 shows the changes in net assets for fiscal year 2008 and corresponds to the Statement of Activities on page 16. Since the City has prepared the statements following the GASB 34 format in the prior year, revenue and expense comparisons can be made between the years 2008 and 2007.

Table 2  
 Changes in Net Assets  
 (In Millions)

	Governmental Activities		
	2008	2007	Change
<b>Program Revenues</b>			
Charges for Services	\$0.5	\$0.5	\$0.0
Operating Grants and Contributions	0.5	0.3	0.2
Capital Grants and Assessments	0.6	0.1	0.5
<i>Total Program Revenues</i>	<i>\$1.6</i>	<i>\$0.9</i>	<i>\$0.7</i>
<b>General Revenues</b>			
Property Taxes	\$3.0	\$3.4	(\$0.4)
Income Taxes	4.2	4.2	0.0
Estate Taxes	2.0	2.6	(0.6)
Admissions Tax	0.3	0.2	0.1
Grants and Entitlements	0.4	0.6	(0.2)
Investment Earnings	0.3	0.7	(0.4)
Other	0.2	0.1	0.1
<i>Total General Revenues</i>	<i>10.4</i>	<i>11.8</i>	<i>(1.4)</i>
<i>Total Revenues</i>	<i>\$12.0</i>	<i>\$12.7</i>	<i>(\$0.7)</i>

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Table 2  
 Changes in Net Assets (Continued)  
 (In Millions)

	Governmental Activities		
	2008	2007	Change
<b>Program Expenses</b>			
General Government	\$1.3	\$1.7	\$0.4
Security of Persons and Property	6.4	5.6	(0.8)
Transportation	4.6	3.9	(0.7)
Community Environment	0.3	0.3	0.0
Basic Utility Services	2.4	1.7	(0.7)
Interest and Fiscal Charges	0.4	0.5	0.1
<i>Total Program Expenses</i>	<i>15.4</i>	<i>13.7</i>	<i>(1.7)</i>
<i>Change in Net Assets</i>	<i>(3.4)</i>	<i>(1.0)</i>	<i>(2.4)</i>
Net Assets Beginning of Year	18.8	19.8	(1.0)
Net Assets End of Year	<b>\$15.4</b>	<b>\$18.8</b>	<b>(\$3.4)</b>

*Governmental Activities*

Several revenue sources fund governmental activities with the City's 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. For 2008 the revenues generated from this tax amounted to \$4.2 million. 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 2008. The median home sale price in the City per Cleveland Magazine in 2008 was \$455,000. During 2008, the City received \$2.0 million from estate taxes. Recent changes in State law now provide a higher percentage of revenue to the individual communities at the same time lowering the State's share. The State also changed the amount of estates exempt from the tax to \$338,333 effective January 1, 2002.

Security of persons and property and transportation are the major activities of the City accounting for 71.2 percent of the governmental expenses. Currently, there are twenty full-time sworn officers in the Police Department. During 2006, the City was ranked as the number one community amongst sixty-six communities by an annual study conducted by Cleveland Magazine. The Department continued its strong emphasis on the training of its personnel to maintain their proficiency and to keep up with the rapidly changing laws, practices and technology. The Department established a Citizen's Police Academy for the residents, which is a ten-week course to provide them with a comprehensive insight into various daily tasks and operations performed by the department. All cruisers are equipped with a mobile data terminal and an in-car video camera system which can record video and audio of traffic stops, prisoner transports and crime scene information. This could help the City in defending frivolous law suits that may arise from these situations. The Police Department purchased an inexpensive video conferencing system that allows a prisoner to be arraigned remotely by the Municipal Court Judge in lieu of being transported to court by an

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officer thus saving valuable time and money. The Police Department in conjunction with the local school board started a School Resource Officer Program allowing a permanently placed officer to interdict problems or issues involving students before they become criminal matters. 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, the Reverse 911 system installed at a total cost of \$41,767 during 2002 has been used to make routine and emergency telephone calls to 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 continues to be a success. Other programs that the Police Department participated in and which has a regional impact are the Valley Enforcement Group which for the annual cost of \$4,000 per community is able to provide a centralized SWAT team, an Accident Investigation Unit, and a Child Abduction Response Team. The City also participated in the Internet Crimes Against Children Task Force with the Cuyahoga County Task Force. The Police Department generated approximately \$65,293 in revenues from enforcement of traffic and other local laws that went through the Shaker Municipal Court system.

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 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 more efficiently. The Department handled 923 calls for assistance with an average response time of 5 minutes and 42 seconds. Of these, 467 calls were for EMS and 456 for fire related incidents. The total overtime expense during 2008 was \$295,237 as compared to \$270,786 in 2007 and \$281,328 during 2006. During the 2009 May special elections the City placed a 4 mill replacement levy on the ballot and was overwhelmingly approved by the residents for the operation and upkeep of the Fire and EMS departments. The levy is generating approximately \$1.6 million in property taxes, which is \$200,000 more than the expiring levy. The total cost of operating the Fire and EMS departments during 2008 was \$2.1 million with the general fund subsidizing the difference of \$0.4 million between the revenues generated by the property taxes and the actual expenses.

The City's Building Department, since getting certified in 2007, has generated additional revenues from inspection of commercial establishments. The total revenues generated, including deposits, increased from \$159,000 in 2005 to \$230,827 during 2008. The Department issued 22 permits during 2008 for new buildings and remodeling jobs for commercial buildings at a total valuation of \$2,270,919 and 15 permits for new residential homes valued at \$6,605,898. Current construction projects include a previously wooded property of approximately 118 acres which is being converted into 275 single family and multi-family high end homes. The average price of these homes is starting at \$400,000. Once fully built and occupied, the development is expected to generate approximately \$500,000 in additional income tax and property tax revenues.

The City also has an annual road program which entails major and minor resurfacing of the various streets. It also has a crack sealing and concrete repairs program all of which account for approximately \$650,000 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 (OPWC). Since 1998 the City has been successful in obtaining in excess of \$1.8 million in grants or loans from the OPWC. 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 2008, the major funds depicted in the Governmental Funds Balance Sheet (page 17) and

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Statement of Revenues, Expenditures and Changes in Fund Balances (page 19) are the General fund, the Fire Levy fund and the Northwest Quadrant fund.

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

Information about the City's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. The City had several capital projects funds with deficit fund balances. These are caused by the recognition of expenditures on the modified accrual basis of accounting and the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

All governmental funds had total revenues of \$12.4 million and expenditures of \$16.0 million. Other financing sources and uses provided an additional \$1.3 million for operations. The net change in fund balance for the year was most significant in the Northwest Quadrant capital project fund which showed a decrease of \$2.5 million. The total year end fund balance was \$2.2 million for all governmental funds.

#### *General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted at an object level by City Council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of fiscal 2008, the City amended its general fund budget several times. The Finance Department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, budget basis revenue was \$3.2 million above final budget estimates of \$6.4 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenues areas. The final appropriations of \$10.4 million was sufficient to meet the expenditures for the year, which ended up at \$9.6 million or \$0.8 million less than anticipated due to a savings experienced in various contracts for the annual road maintenance program and other areas like health insurance costs.

The City's ending unobligated budgetary fund balance was \$4.1 million higher than the final projected budgetary fund balance amount of \$0.2 million.

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## **Capital Assets and Debt Administration**

### *Capital Assets*

At the end of 2008, the City had \$19.2 million invested in land, buildings, improvements, vehicles, equipment and infrastructure. Table 3 shows fiscal 2008 balances of Capital Assets as compared to 2007:

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

	Governmental Activities		
	2008	2007	Change
Land	\$0.3	\$0.3	\$0.0
Construction in Progress	1.5	0.6	0.9
Improvements to Land	0.1	0.1	0.0
Buildings and Improvements	3.3	3.1	0.2
Vehicles	1.7	1.8	(0.1)
Furniture, Fixtures and Equipment	0.2	0.3	(0.1)
Infrastructure			
Streets	7.6	9.0	(1.4)
Bridges	0.1	0.1	0.0
Sanitary Sewer System	4.4	4.1	0.3
Total Capital Assets	<u>\$19.2</u>	<u>\$19.4</u>	<u>(\$0.2)</u>

Net of depreciation, the balances for the above capital assets decreased by \$.2 million. The construction in progress was higher by \$0.9 million, due to addition expenditures on the northwest quadrant project. There was an increase of \$0.3 million in sanitary sewers due to the installation of a new pump station. There was a \$1.4 million decrease in streets due to depreciation taken in 2008. There was no significant change in land, improvements to land, buildings and improvements, vehicles, and furniture and fixtures. The City continued its aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are replaced every eighteen months or when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on one of the main arteries in the City, as mentioned, the City has effectively pursued external sources of funding twenty to thirty percent of the project in the form of grants and loan assistance programs from State Issue II funds thereby reducing the total amount to be borrowed to provide the matching funds. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

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## **Debt**

At December 31, 2008, the City had \$7.3 million in outstanding long-term liabilities, of which \$6.0 million was in general obligation bonds. Table 4 summarizes the obligations outstanding.

Table 4  
Outstanding Long-term Liabilities at Year End  
(In Millions)

	Governmental Activities	
	2008	2007
General Obligation Bonds	\$6.0	\$5.5
OPWC Loans	1.0	1.0
Compensated Absences	0.3	0.3
Total	<u>\$7.3</u>	<u>\$6.8</u>

At December 31, 2008, the City's overall legal debt margin was \$29,705,769 with an unvoted debt margin of \$10,976,829. The City has an aggressive debt reduction strategy whereby most long term bonds are paid off within ten years as opposed to fifteen or twenty years. At year end, the outstanding general obligation bonded debt was \$5,990,000. In addition, the City had an outstanding balance of \$989,340 on two twenty-year interest free loans obtained from the Ohio Public Works Commission. There was also an amount of \$314,570 booked as compensated absences in the long-term debt obligations for accrued sick leave payable to the employees.

The City had \$3,655,000 outstanding in bond anticipation notes. These proceeds were used for the Northwest Quadrant Sewer Rehabilitation project.

Also, the City has manuscript bonds which 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. These bonds are shown on the balance sheet as interfund receivables/payables between the general fund and the capital projects fund. At year end, the outstanding Special Assessment Manuscript bonds were \$219,373. Additional information concerning the City's manuscript debt can be found in Note 10 to the basic financial statements.

Additional information concerning the City's debt can be found in Notes 17 and 18 to the basic financial statements.

## **Current Related Financial Activities**

The City is financially strong. In addition, the City's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City with full disclosure of the financial position of the City.

**City of Pepper Pike**  
*Cuyahoga County*  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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

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

## Basic Financial Statements

**City of Pepper Pike, Ohio**

*Cuyahoga County  
Statement of Net Assets  
December 31, 2008*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,091,053
Accounts Receivable	97,300
Intergovernmental Receivable	544,132
Prepaid Items	72,632
Materials and Supplies Inventory	107,139
Income Taxes Receivable	1,059,814
Property Taxes Receivable	3,352,288
Special Assessments Receivable	285,051
Nondepreciable Capital Assets	1,820,665
Depreciable Capital Assets, Net	<u>17,359,392</u>
<i>Total Assets</i>	<u>31,789,466</u>
<b>Liabilities</b>	
Accounts Payable	158,367
Contracts Payable	1,028,349
Accrued Wages	254,363
Intergovernmental Payable	441,851
Deferred Revenue	3,177,893
Accrued Interest Payable	76,009
Notes Payable	3,655,000
Vacation Benefits Payable	330,375
Long-Term Liabilities:	
Due Within One Year	568,407
Due In More Than One Year	<u>6,725,503</u>
<i>Total Liabilities</i>	<u>16,416,117</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	11,180,572
Restricted for:	
Capital Projects	1,729,069
Debt Service	106,086
Other Purposes	607,599
Unrestricted	<u>1,750,023</u>
<i>Total Net Assets</i>	<u>\$15,373,349</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike**  
*Cuyahoga County*  
*Statement of Activities*  
*For the Year Ended December 31, 2008*

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	
		Governmental Activities			
Governmental Activities:					
General Government	\$1,353,424	\$81,734	\$0	\$582,231	(\$689,459)
Security of Persons and Property:					
Police	3,814,729	198,201	15,568	0	(3,600,960)
Fire	2,593,661	107,769	193,698	0	(2,292,194)
Public Health Services	27,300	0	0	0	(27,300)
Community Environment	287,345	16,402	3,349	0	(267,594)
Basic Utility Services	2,395,609	0	0	0	(2,395,609)
Transportation	4,614,351	122,903	272,644	0	(4,218,804)
Interest and Fiscal Charges	396,060	0	0	0	(396,060)
<i>Total Governmental Activities</i>	<b><u>\$15,482,479</u></b>	<b><u>\$527,009</u></b>	<b><u>\$485,259</u></b>	<b><u>\$582,231</u></b>	<b><u>(13,887,980)</u></b>

**General Revenues**

Property Taxes Levied for:

General Purposes	1,118,358
Debt Service	526,354
Fire	1,299,559
Police	100,128
Municipal Income Taxes Levied for General Purposes	4,178,509
Estate Taxes	2,031,747
Admissions Taxes	273,353
Grants and Entitlements not Restricted to Specific Programs	421,808
Interest	326,191
Miscellaneous	161,698

*Total General Revenues*

**10,437,705**

Change in Net Assets

**(3,450,275)**

*Net Assets Beginning of Year*

**18,823,624**

*Net Assets End of Year*

**\$15,373,349**

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**

*Cuyahoga County*

*Balance Sheet*

*Governmental Funds*

*December 31, 2008*

	General	Fire Levy	Northwest Quadrant	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$4,500,278	\$89,900	\$1,738,167	\$762,708	\$7,091,053
Property Taxes Receivable	1,362,300	1,327,248	0	662,740	3,352,288
Income Taxes Receivable	1,059,814	0	0	0	1,059,814
Accounts Receivable	50,878	46,422	0	0	97,300
Intergovernmental Receivable	259,733	88,095	0	196,304	544,132
Interfund Receivable	427,373	0	0	0	427,373
Materials and Supplies Inventory	107,139	0	0	0	107,139
Prepaid Items	72,632	0	0	0	72,632
Special Assessments Receivable	0	0	0	285,051	285,051
<i>Total Assets</i>	<u>\$7,840,147</u>	<u>\$1,551,665</u>	<u>\$1,738,167</u>	<u>\$1,906,803</u>	<u>\$13,036,782</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$119,102	\$39,265	\$0	\$0	\$158,367
Contracts Payable	13,920	16,073	990,367	7,989	1,028,349
Accrued Wages	177,346	77,017	0	0	254,363
Intergovernmental Payable	200,331	49,724	0	191,796	441,851
Interfund Payable	0	0	130,000	297,373	427,373
Deferred Revenue	2,318,111	1,445,250	0	1,119,841	4,883,202
Accrued Interest Payable	0	0	32,805	966	33,771
Notes Payable	0	0	3,655,000	0	3,655,000
<i>Total Liabilities</i>	<u>2,828,810</u>	<u>1,627,329</u>	<u>4,808,172</u>	<u>1,617,965</u>	<u>10,882,276</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	281,298	34,438	747,809	25,177	1,088,722
Reserved for Advances	219,373	0	0	0	219,373
Unreserved					
Undesignated, Reported in:					
General Fund	4,510,666	0	0	0	4,510,666
Special Revenue Funds (Deficit)	0	(110,102)	0	285,130	175,028
Debt Service Funds	0	0	0	19,994	19,994
Capital Projects Funds (Deficit)	0	0	(3,817,814)	(41,463)	(3,859,277)
<i>Total Fund Balances (Deficit)</i>	<u>5,011,337</u>	<u>(75,664)</u>	<u>(3,070,005)</u>	<u>288,838</u>	<u>2,154,506</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,840,147</u>	<u>\$1,551,665</u>	<u>\$1,738,167</u>	<u>\$1,906,803</u>	<u>\$13,036,782</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, 2008*

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<b>Total Governmental Fund Balances</b>	\$2,154,506
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*Amounts reported for governmental activities in the statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,180,057
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	174,395
Income Taxes	800,470
Estate Taxes	11,981
Special Assessments	285,051
Intergovernmental	403,505
Charges for Services	29,907
 Total	 1,705,309

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(42,238)
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Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(330,375)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(5,990,000)
OPWC Loans	(989,340)
Compensated Absences	(314,570)
 Total	 (7,293,910)

<i>Net Assets of Governmental Activities</i>	  \$15,373,349
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See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Cuyahoga County*  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2008*

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	General	Fire Levy	Northwest Quadrant	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$1,157,539	\$1,250,336	\$0	\$765,506	\$3,173,381
Municipal Income Taxes	4,211,006	0	0	0	4,211,006
Estate Taxes	2,212,357	0	0	0	2,212,357
Admissions Taxes	273,353	0	0	0	273,353
Charges for Services	198,785	115,802	0	0	314,587
Fees, Licenses and Permits	55,951	0	0	0	55,951
Fines and Forfeitures	70,934	0	0	0	70,934
Intergovernmental	322,443	169,888	0	398,579	890,910
Special Assessments	0	0	0	603,056	603,056
Interest	306,596	0	0	19,595	326,191
Rentals	93,570	0	0	0	93,570
Contributions and Donations	0	0	0	65	65
Other	154,047	6,303	0	1,348	161,698
<i>Total Revenues</i>	<i>9,056,581</i>	<i>1,542,329</i>	<i>0</i>	<i>1,788,149</i>	<i>12,387,059</i>
<b>Expenditures</b>					
Current:					
General Government	1,412,273	0	17,846	142,451	1,572,570
Security of Persons and Property:					
Police	3,411,186	0	0	333,027	3,744,213
Fire	0	2,135,443	0	323,662	2,459,105
Public Health Services	27,300	0	0	0	27,300
Community Environment	282,575	0	0	3,139	285,714
Basic Utility Services	1,873,257	0	0	0	1,873,257
Transportation	2,126,846	0	0	332,383	2,459,229
Capital Outlay	0	0	2,295,598	86,021	2,381,619
Debt Service:					
Principal Retirement	0	0	0	803,407	803,407
Interest and Fiscal Charges	0	0	136,450	268,756	405,206
<i>Total Expenditures</i>	<i>9,133,437</i>	<i>2,135,443</i>	<i>2,449,894</i>	<i>2,292,846</i>	<i>16,011,620</i>
<i>Excess of Revenues Under Expenditures</i>	<i>(76,856)</i>	<i>(593,114)</i>	<i>(2,449,894)</i>	<i>(504,697)</i>	<i>(3,624,561)</i>
<b>Other Financing Sources (Uses)</b>					
General Obligation Bonds Issued	0	0	0	1,260,000	1,260,000
Transfers In	0	460,000	0	822,450	1,282,450
Transfers Out	(873,000)	0	0	(409,450)	(1,282,450)
<i>Total Other Financing Sources (Uses)</i>	<i>(873,000)</i>	<i>460,000</i>	<i>0</i>	<i>1,673,000</i>	<i>1,260,000</i>
<i>Net Change in Fund Balances</i>	<i>(949,856)</i>	<i>(133,114)</i>	<i>(2,449,894)</i>	<i>1,168,303</i>	<i>(2,364,561)</i>
<i>Fund Balances (Deficit) Beginning of Year</i>	<i>5,961,193</i>	<i>57,450</i>	<i>(620,111)</i>	<i>(879,465)</i>	<i>4,519,067</i>
<i>Fund Balances (Deficit) End of Year</i>	<i>\$5,011,337</i>	<i>(\$75,664)</i>	<i>(\$3,070,005)</i>	<i>\$288,838</i>	<i>\$2,154,506</i>

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, 2008*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	(\$2,364,561)
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***Amounts reported for governmental activities in the statement of activities are different because***

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

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

Capital Outlay	1,757,074
Depreciation	<u>(1,999,018)</u>
Total	(241,944)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (810)

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

Property Taxes	(128,982)
Income Taxes	(32,497)
Estate Taxes	(180,610)
Special Assessments	(20,825)
Intergovernmental	16,092
Charges for Services	<u>(8,033)</u>
Total	(354,855)

Other financing sources, such as the issuance of general obligation bonds, in the governmental funds increase long-term liabilities in the statement of net assets. (1,260,000)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 803,407

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental, an interest expenditure is reported when due. 9,146

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

Compensated Absences	(10,465)
Vacation Benefits Payable	<u>(30,193)</u>
Total	<u>(40,658)</u>

*Change in Net Assets of Governmental Activities* (\$3,450,275)

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*  
*General Fund*  
*For the Year Ended December 31, 2008*

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	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$817,258	\$817,258	\$1,226,003	\$408,745
Municipal Income Taxes	2,818,691	2,818,691	4,228,435	1,409,744
Estate Taxes	1,835,954	1,835,954	2,754,190	918,236
Admissions Tax	149,849	149,849	224,794	74,945
Charges for Services	132,511	132,511	198,785	66,274
Fees, Licenses and Permits	38,964	38,964	58,452	19,488
Fines and Forfeitures	44,463	44,463	66,701	22,238
Intergovernmental	214,938	214,938	322,438	107,500
Interest	188,856	188,856	283,310	94,454
Rentals	62,374	62,374	93,570	31,196
Other	68,572	68,572	102,867	34,295
<i>Total Revenues</i>	<u>6,372,430</u>	<u>6,372,430</u>	<u>9,559,545</u>	<u>3,187,115</u>
<b>Expenditures</b>				
Current:				
General Government	1,710,885	1,806,032	1,643,945	162,087
Security of Persons and Property:				
Police	3,477,949	3,667,922	3,381,907	286,015
Public Health Services	28,759	30,355	27,525	2,830
Community Environment	295,338	311,773	287,246	24,527
Basic Utility Services	1,939,304	2,042,513	1,869,479	173,034
Transportation	2,406,837	2,531,987	2,362,051	169,936
<i>Total Expenditures</i>	<u>9,859,072</u>	<u>10,390,582</u>	<u>9,572,153</u>	<u>818,429</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,486,642)</u>	<u>(4,018,152)</u>	<u>(12,608)</u>	<u>4,005,544</u>
<b>Other Financing Uses</b>				
Advances Out	(214,110)	(226,171)	(208,000)	18,171
Transfers Out	(898,645)	(949,268)	(873,000)	76,268
<i>Total Other Financing Uses</i>	<u>(1,112,755)</u>	<u>(1,175,439)</u>	<u>(1,081,000)</u>	<u>94,439</u>
<i>Net Change in Fund Balance</i>	<u>(4,599,397)</u>	<u>(5,193,591)</u>	<u>(1,093,608)</u>	<u>4,099,983</u>
<i>Fund Balance Beginning of Year</i>	<u>5,037,518</u>	<u>5,037,518</u>	<u>5,037,518</u>	<u>0</u>
Prior Year Encumbrances Appropriated	382,737	382,737	382,737	0
<i>Fund Balance End of Year</i>	<u><b>\$820,858</b></u>	<u><b>\$226,664</b></u>	<u><b>\$4,326,647</b></u>	<u><b>\$4,099,983</b></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, 2008*

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	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$1,381,683	\$1,381,683	\$1,250,336	(\$131,347)
Charges for Services	118,404	118,404	107,148	(11,256)
Intergovernmental	194,699	194,699	176,190	(18,509)
Other	6,965	6,965	6,303	(662)
<i>Total Revenues</i>	1,701,751	1,701,751	1,539,977	(161,774)
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	2,236,047	2,109,597	2,109,430	167
<i>Excess of Revenues Under Expenditures</i>	(534,296)	(407,846)	(569,453)	(161,607)
<b>Other Financing Sources</b>				
Transfers In	508,323	508,323	460,000	(48,323)
<i>Net Change in Fund Balance</i>	(25,973)	100,477	(109,453)	(209,930)
<i>Fund Balance Beginning of Year</i>	6,389	6,389	6,389	0
Prior Year Encumbrances Appropriated	103,247	103,247	103,247	0
<i>Fund Balance End of Year</i>	<u>\$83,663</u>	<u>\$210,113</u>	<u>\$183</u>	<u>(\$209,930)</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Cuyahoga County*  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2008*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$245,930</u>
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**Liabilities**

Deposits Held and Due to Others	<u>\$245,930</u>
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See accompanying notes to the basic financial statements

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**City of Pepper Pike, Ohio**  
*Cuyahoga County*  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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

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

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

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations 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 Notes 12 to the basic financial statements.

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City’s accounting policies are described below.

**City of Pepper Pike, Ohio**  
*Cuyahoga County*  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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**A. Basis of Presentation**

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

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

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

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

**Northwest Quadrant Capital Projects Fund** – The Northwest Quadrant fund receives note proceeds for the construction and reconstruction of storm sewers in the Northwest Quadrant.

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 agency funds account for tree planting and construction deposits.

#### **C. Measurement Focus**

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

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

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

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

**Deferred 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, 2008, but which were levied to finance year 2009 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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts

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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 financial statements.

During 2008, investments were limited to federal home loan bank bonds and STAROhio. Investments are reported at fair value which is based on quoted market prices.

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, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$306,596, which includes \$99,582 assigned from other City funds.

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

**G. Inventory**

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2008, 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated

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based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

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

***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. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net assets rather than as a long-term liability.

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

***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.

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***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 long-term advances.

***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 or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$2,442,754, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for street construction, maintenance and repair and the operation of the fire department.

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

***O. Interfund Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

***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 that are either unusual in nature or infrequent in occurrence.

***Q. Estimates***

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

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### **Note 3 - Change in Accounting Principles**

For 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address current and potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City's financial statements.

### **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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general and major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments are reported at cost (budget) rather than fair value (GAAP).
5. Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (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	(\$949,856)	(\$133,114)
Net Adjustment for Revenue Accruals	527,139	(2,352)
Beginning Fair Value Adjustments for Investments	2,700	0
Ending Fair Value Adjustment for Investments	(26,875)	0
Advances Out	(208,000)	0
Net Adjustment for Expenditure Accruals	(72,587)	115,730
Encumbrances	(366,129)	(89,717)
Budget Basis	<u>(\$1,093,608)</u>	<u>(\$109,453)</u>

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## **Note 5 – Fund Deficits**

Fund balances at December 31, 2008, included the following individual fund deficits:

### ***Special Revenue Funds***

Fire Levy	\$75,664
Police Pension	86,976
Fire Pension	93,100

### ***Capital Projects Funds***

Northwest Quadrant	3,070,005
Pepper Pike Waste Water Treatment Plant	47,273
Brainard Road Sewerline	88,285
Lander/Emerson Waterline	44,202
Kersdale Road Waterline	87,852
Thornapple Waterline	16,607
Windy Hill Waterline	20,859

The fire levy, police pension and fire pension special revenue funds' and the Pepper Pike Waste Water Treatment Plant, Thornapple waterline and the Windy Hill waterline capital projects funds' deficits are caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Northwest Quadrant, Brainard Road sewerline, Lander/Emerson waterline, Kersdale Road waterline capital projects funds' deficits are the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, the deficit will be eliminated.

## **Note 6 - Deposits and Investments**

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

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

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

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

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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 can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

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

## **Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$603,848 of the City's bank balance of \$1,366,869 was uninsured and uncollateralized. Although the

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securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

### **Investments**

Investments are reported at fair value. As of December 31, 2008, the City had the following investments:

	Maturity				Total
	Less Than Six Months	More Than Six Months But Less Than One Year	More Than One Year But Less Than Three Years		
Federal Home Loan Bank Bonds	\$753,175	\$1,000,000	\$2,023,700		\$3,776,875
STAROhio	2,075,894	0	0		2,075,894
Total Portfolio	<u>\$2,829,069</u>	<u>\$1,000,000</u>	<u>\$2,023,700</u>		<u>\$5,852,769</u>

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk** The Federal Home Loan Bank Bonds carry a rating of AAA by Standard & Poor's and STAROhio carries a rating of AAA by Standard & Poor's. The City has no investment policy that addresses credit risk.

**Concentration of Credit Risk** The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2008:

Investment Issuer	Percentage of Investments
Federal Home Loan Bank Bonds	64.53%
STAROhio	35.47

### **Note 7 - Receivables**

Receivables at December 31, 2008, consisted primarily of municipal income taxes, property and estate taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts.

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

All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$249,063 in the special assessment bond retirement fund. At December 31, 2008 the amount of delinquent special assessments was \$9,399.

**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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) is for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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.

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. 2008 public utility property taxes which became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments 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 full tax rate for all City operations for the year ended December 31, 2008, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$374,578,810
Other Real Estate	31,196,660
Tangible Personal Property	
Public Utility	5,414,390
General Tangible Personal Property	473,495
Total Assessed Values	<u><u>\$411,663,355</u></u>

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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 and outstanding delinquencies which are measurable as of December 31, 2008 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund, the fire levy fund and the police and fire pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2008 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 a revenue while the remainder of the receivable is deferred.

***B. Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2008 follows:

Homestead and Rollback	\$224,409
Gasoline Tax	99,365
Local Government	72,333
Estate Tax	47,923
Permissive Tax	42,414
Northeast Ohio Coordinating Agency	40,000
Bureau of Worker's Compensation	13,455
Court Fines	<u>4,233</u>
 Total	 <u>\$544,132</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 first and tenth business days of the following month. Income tax revenue is credited entirely to the general fund.

**Note 8 - 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.

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**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, 2008.

**Note 9 – Other Employee Benefits**

**A. 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.

**B. Health Insurance**

The City has contracted with Hometown Health Network to provide employee health care coverage.

**Note 10 - Interfund Transfers and Balances**

**A. Interfund Transfers**

Transfers made during the year ended December 31, 2008 were as follows:

Transfer To	Transfer From		Total All Funds
	General	Other Governmental Funds	
Fire Levy	\$460,000	\$0	\$460,000
Other Governmental Funds:			
Municipal Emergency Grant	3,000	0	3,000
Police Pension	210,000	0	210,000
Fire Pension	200,000	0	200,000
Bond Retirement Fund	0	409,450	409,450
Total Other Governmental Funds	413,000	409,450	822,450
Total All Funds	\$873,000	\$409,450	\$1,282,450

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The general fund transfer to the fire levy special revenue fund was to subsidize the revenue from the 4 mill fire levy which was not sufficient to cover the expenditures in the fire levy fund for 2008. The general fund transfer to the municipal emergency grant special revenue fund was to move unrestricted balances to support programs and projects accounted for in this fund. The general fund transfer to the police pension and fire pension special revenue funds were to subsidize the .3 mill police pension levy and .3 mill fire pension levy which were not sufficient to cover the City's annual liabilities with regards to the City's contributions to these pension funds. The Brainard Road Waterline and Pinetree Water Improvement capital projects funds' transfers to the bond retirement fund were made for debt repayment.

**B. Interfund Balances**

On the fund financial statements interfund balances at December 31, 2008 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
<b>Major Funds</b>				
General	\$219,373	\$208,000	\$0	\$0
<b>Nonmajor Capital Project Funds</b>				
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	44,500
Brainard Road Sewer	0	0	87,864	0
Lander/Emerson Waterline	0	0	44,000	0
Kersdale Road Waterline	0	0	87,509	0
Northwest Quadrant	0	0	0	130,000
Thornapple Water Main	0	0	0	14,000
Windy Hill Water Main	0	0	0	19,500
<i>Totals</i>	<b>\$219,373</b>	<b>\$208,000</b>	<b>\$219,373</b>	<b>\$208,000</b>

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

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

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

The manuscript notes were issued by the City and purchased by the general fund as an investment. The remaining interfund balances at December 31, 2008 were made to support projects in the Northwest Quadrant, Pepper Pike Wastewater Treatment Plant and East Road, Thornapple Water Main, and Windy Hill Water Main capital projects funds' pending the receipt of assessments and grant monies that will be used to repay the loans. All are expected to be paid within one year.

**City of Pepper Pike, Ohio**  
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**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/2007	Additions	Deductions	Balance 12/31/2008
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	<u>586,460</u>	<u>962,855</u>	<u>0</u>	<u>1,549,315</u>
<i>Total Capital Assets not being Depreciated</i>	<i><u>857,810</u></i>	<i><u>962,855</u></i>	<i><u>0</u></i>	<i><u>1,820,665</u></i>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	\$221,806	\$0	\$0	\$221,806
Buildings and Improvements	4,087,398	283,085	0	4,370,483
Vehicles	3,375,987	136,058	0	3,512,045
Furniture, Fixtures and Equipment	1,730,152	76	(9,639)	1,720,589
Infrastructure				
Streets	28,975,154	0	0	28,975,154
Bridges	249,605	0	0	249,605
Sanitary Sewers	<u>5,228,450</u>	<u>375,000</u>	<u>0</u>	<u>5,603,450</u>
<i>Total Capital Assets being Depreciated</i>	<i><u>43,868,552</u></i>	<i><u>794,219</u></i>	<i><u>(9,639)</u></i>	<i><u>44,653,132</u></i>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(126,553)	(7,965)	0	(134,518)
Buildings and Improvements	(1,003,985)	(70,481)	0	(1,074,466)
Vehicles	(1,578,390)	(255,719)	0	(1,834,109)
Furniture, Fixtures and Equipment	(1,435,831)	(106,534)	8,829	(1,533,536)
Infrastructure				
Streets	(19,916,460)	(1,448,758)	0	(21,365,218)
Bridges	(113,139)	(4,992)	0	(118,131)
Sanitary Sewers	<u>(1,129,193)</u>	<u>(104,569)</u>	<u>0</u>	<u>(1,233,762)</u>
<i>Total Accumulated Depreciation</i>	<i><u>(25,303,551)</u></i>	<i><u>(1,999,018)</u></i>	<i><u>8,829</u></i>	<i><u>(27,293,740)</u></i>
<i>Total Capital Assets being Depreciated, Net</i>	<i><u>18,565,001</u></i>	<i><u>(1,204,799)</u></i>	<i><u>(810)</u></i>	<i><u>17,359,392</u></i>
<i>Total Capital Assets, Net</i>	<i><u>\$19,422,811</u></i>	<i><u>(\$241,944)</u></i>	<i><u>(\$810)</u></i>	<i><u>\$19,180,057</u></i>

\*Depreciation expense was charged to governmental activities as follows:

General Government	\$65,623
Security of Persons and Property:	
Police	51,787
Fire	125,105
Community Development	375
Basic Utility Services	194,358
Transportation	<u>1,561,770</u>
<i>Total Depreciation Expense</i>	<i><u>\$1,999,018</u></i>

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## **Note 12 – 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 112 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 county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2008. Financial information can be obtained by contacting the Joseph Migliorini, Chairman, 175 South Main Street, Akron, Ohio 44308.

## **Note 13 - Defined Benefit Pension Plans**

### **A. Ohio Public Employees Retirement System**

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

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The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$212,929, \$242,455 and \$252,796 respectively; 81.9 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$1,474 made by the City and \$1,053 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$196,701 and \$213,459 for the year ended December 31, 2008, \$191,121 and \$205,505 for the year ended December 31, 2007, \$173,815 and \$186,710 for the year ended December 31, 2006. 69.2 percent has been contributed for police and 66.6 percent has been contributed for firefighters for 2008. The full amount has been contributed for 2007 and 2006.

**Note 14 – Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

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

To qualify for post-employment health care coverage, age-and-service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

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Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$212,929, \$159,701 and \$123,650 respectively; 81.9 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

Funding policy – OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2008, the employer contribution allocated to the healthcare plan was 6.75 percent of

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covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$104,136 and \$83,527 for the year ended December 31, 2008, \$101,182 and \$80,415 for the year ended December 31, 2007, and \$114,644 and \$89,046 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 69.2 percent has been contributed for police and 66.6 percent has been contributed for firefighters for 2008.

### **Note 15 - 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 types of insurance:

Type	Deductible	Coverage
Property	\$1,000	\$10,869,413
Boiler and Machinery	1,000	10,869,413
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	5,000	1,000,000
Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	50,000
Employee Dishonesty	N/A	10,000

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.

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**Note 16 - Outstanding Contractual Commitments**

The City entered into various contracts with construction contractors during the year. Of the total amounts authorized by Council ordinance, the following amount remains unspent as of December 31, 2008:

Construction Contractors	Amount Remaining
Longo Sewer Construction Company	\$1,683,758
ABC Piping Company	48,934
Breathing Air Systems	37,107
Advance Industrial Roof Company	21,745
Rooftech, Incorporated	<u>13,668</u>
<b>Totals</b>	<b><u>\$1,805,212</u></b>

**Note 17 – Notes Payable**

A summary of the note transactions for the year ended December 31, 2008 follows:

	Outstanding 12/31/2007	Issued	Retired	Outstanding 12/31/2008
4.15% Various Purpose Improvement Notes				
- Maturing September 18, 2008	\$5,137,000	\$0	(\$5,137,000)	\$0
1.95% Sanitary Sewer Improvement Notes				
- Maturing June 17, 2009	0	3,655,000	0	3,655,000
<b>Total</b>	<b><u>\$5,137,000</u></b>	<b><u>\$3,655,000</u></b>	<b><u>(\$5,137,000)</u></b>	<b><u>\$3,655,000</u></b>

In 2007, the City issued \$5,137,000 to refinance a portion of the notes that matured on October 2, 2007. These notes helped finance the improvements to the Pepper Hills waste water treatment plant, the storm sewer project on Cedar Road and the reconstruction of storm sewers in the Northwest Quadrant. These notes mature on September 18, 2008.

In 2008, the City issued \$3,655,000 to refinance a portion of the notes that matured on September 18, 2008. These notes helped finance the reconstruction of storm sewers in the Northwest Quadrant. These notes mature on June 17, 2009.

All notes are backed by the full faith and credit of the City of Pepper Pike and mature within one year. The note liability is reflected in the fund which received the proceeds and will repay the debt. The notes are generally issued in anticipation of long-term bond financing and refinanced until such bonds are issued.

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**Note 18 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2008 follows:

	Principal Outstanding 12/31/2007	Additions	Deletions	Principal Outstanding 12/31/2008	Amounts Due In One Year
<b><i>Governmental Activities</i></b>					
<b>General Obligation Bonds</b>					
1997 5.35% Brookwood Water					
Serial Bonds	\$495,000	\$0	(\$50,000)	\$445,000	\$50,000
1998 3.90% - 4.60% Street Improvement					
Serial Bonds	300,000	0	(300,000)	0	0
2001 2.50% - 4.00% Road Improvement					
Serial Bonds	1,195,000	0	(300,000)	895,000	300,000
2007 4.00 - 5.00 % Various Purpose					
Serial Bonds	1,705,000	0	(85,000)	1,620,000	120,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00 % Street Improvement					
Serial Bonds	0	620,000	0	620,000	30,000
Term Bonds	0	640,000	0	640,000	0
<i>Total General Obligation Bonds</i>	<i>5,465,000</i>	<i>1,260,000</i>	<i>(735,000)</i>	<i>5,990,000</i>	<i>500,000</i>
<b>OPWC Loans</b>					
1996 0% Pinetree Water	236,738	0	(26,304)	210,434	26,304
2007 0% Brainard Road	821,009	0	(42,103)	778,906	42,103
<i>Total OPWC Loans</i>	<i>1,057,747</i>	<i>0</i>	<i>(68,407)</i>	<i>989,340</i>	<i>68,407</i>
<b>Other Long-term Obligations</b>					
Compensated Absences	304,105	152,053	(141,588)	314,570	0
<i>Total Governmental Activities</i>	<i>\$6,826,852</i>	<i>\$1,412,053</i>	<i>(\$944,995)</i>	<i>\$7,293,910</i>	<i>\$568,407</i>

General obligation bonds are the direct obligation of the City and will be paid from the debt service fund using property tax revenues. The Ohio Public Works Commission (OPWC) projects are being paid from the bond retirement debt service fund. Compensated absences will be paid from the general and fire levy special revenue fund.

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

On April 15, 1998, the City issued \$3,005,000 in general obligations bonds for the resurfacing of Shaker Boulevard (\$1,145,500) and the resurfacing of Gates Mills Boulevard (\$1,863,100). The bonds were issued for a twenty year period with a final maturity on December 1, 2018.

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On November 1, 2001, the City issued \$2,995,000 in general obligations bonds for resurfacing Fairmount Boulevard (\$1,335,000) and South Woodland (\$1,660,000). The bonds were issued for a ten year period with a final maturity on December 1, 2011.

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

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

Year	Amount
2020	\$190,000
2021	200,000
Total	<u><u>\$390,000</u></u>

The remaining principal amount of the term bonds (\$205,000) will mature at the stated maturity on December 1, 2022.

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

Year	Amount
2023	\$210,000
2024	230,000
2025	235,000
2026	245,000
Total	<u><u>\$920,000</u></u>

The remaining principal amount of the term bonds (\$255,000) will mature at the stated maturity on December 1, 2027.

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

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

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Year	Amount
2021	\$65,000
2022	75,000
2023	75,000
Total	<u><u>\$215,000</u></u>

The remaining principal amount of the term bonds (\$75,000) will mature at the stated maturity on December 1, 2024.

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

Year	Amount
2025	\$80,000
2026	85,000
2027	90,000
Total	<u><u>\$255,000</u></u>

The remaining principal amount of the term bonds (\$95,000) will mature at the stated maturity on December 1, 2028.

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

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

As of December 31, 2008, the City's overall legal debt margin was \$29,705,769. The unvoted legal debt margin was \$10,976,829. Principal and interest requirements to retire the long-term general obligation bonds and the OPWC loans as of December 31, 2008 are as follows:

	General Obligation Bonds					OPWC Loan	
	Serial		Term				
	Principal	Interest	Principal	Interest			
2009	\$500,000	\$278,939	\$0	\$0	\$68,407		
2010	520,000	247,745	0	0	68,407		
2011	515,000	226,707	0	0	68,407		
2012	235,000	205,570	0	0	68,407		
2013	235,000	195,657	0	0	68,407		
2014-2018	1,275,000	816,280	0	0	289,429		
2019-2023	300,000	165,105	1,020,000	374,975	210,515		
2024-2028	0	0	1,390,000	189,000	147,361		
Total	<u><u>\$3,580,000</u></u>	<u><u>\$2,136,003</u></u>	<u><u>\$2,410,000</u></u>	<u><u>\$563,975</u></u>	<u><u>\$989,340</u></u>		

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**Note 19 – Subsequent Event**

Beginning in 2009, the City belongs to the Ohio Public Treasurers Group Rating Pool, an insurance purchasing pool for workers' compensation. This pool allows public employers to group together to potentially achieve lower premium rates than they could individually. Each year, the participants pay an enrollment fee to cover the costs of administering the pool. The City could potentially reduce their workers' compensation liability because of participation in this pool.

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# Mary Taylor, CPA

## Auditor of State

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

City of 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 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the City's management in a separate letter dated August 7, 2009.

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**Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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



**Mary Taylor, CPA**  
Auditor of State

August 7, 2009



# Mary Taylor, CPA

Auditor of State

CITY OF PEPPER PIKE  
CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

A handwritten signature in cursive script that reads "Susan Babbitt".

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 15, 2009**