

Dave Yost • Auditor of State

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Member of 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, 2010, 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 City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison 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 November 4, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Dave Yost
Auditor of State

November 4, 2011

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

The discussion and analysis of the City of Pepper Pike's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. 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 2010 are as follows:

- The City implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. These measures included layoffs, no wage increase from 2009, furloughs, pay reduction, reducing overtime, and a pension buy-out program.
- The City was unsuccessful in garnering voter support for a .5 percent increase in the income rate from the current 1 percent at a special election in August.
- Due to cost-cutting measures, the City's capital improvement program was halted during 2010, with only the Pepper Pike waste water treatment plant project moving forward towards completion.

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, increases or decreases 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.

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 8. 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 2010 fiscal year are the general fund, fire levy fund and the bond retirement fund.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
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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.

Proprietary Funds

The City maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City's internal service fund is a self insurance fund that accounts for medical benefits of the City's employees. The proprietary fund uses the accrual basis of accounting.

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 2010 as compared to 2009.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$9,215,674	\$7,570,096	\$1,645,578
Capital Assets, Net	19,999,471	21,960,549	(1,961,078)
<i>Total Assets</i>	<u>29,215,145</u>	<u>29,530,645</u>	<u>(315,500)</u>
Liabilities			
Current Liabilities and Other Liabilities	4,165,155	4,540,162	(375,007)
Long-term Liabilities			
Due Within One Year	823,404	703,407	119,997
Due In More Than One Year	8,871,762	9,524,906	(653,144)
<i>Total Liabilities</i>	<u>13,860,321</u>	<u>14,768,475</u>	<u>(908,154)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	11,094,683	12,668,746	(1,574,063)
Restricted for:			
Capital Projects	483,682	0	483,682
Debt Service	242,761	300,547	(57,786)
Other Purpose	844,873	683,387	161,486
Unrestricted	2,688,825	1,109,490	1,579,335
<i>Total Net Assets</i>	<u>15,354,824</u>	<u>14,762,170</u>	<u>592,654</u>

Total assets decreased primarily due to annual depreciation exceeding current year additions. This decrease was offset by an increase in cash.

Total liabilities decreased due to the repayment of long-term debt and cost-cutting measures implemented by the City.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

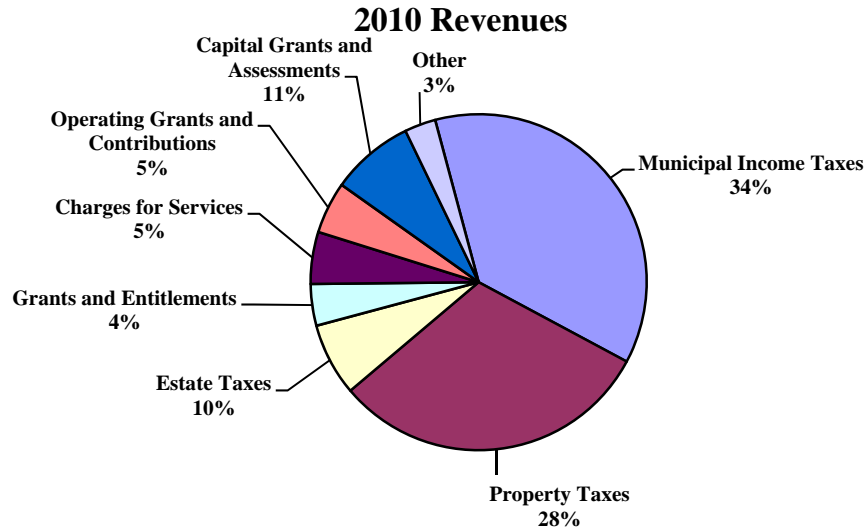
Table 2 shows the changes in net assets for the years ended December 31, 2010 and December 31, 2009 and corresponds to the Statement of Activities on page 14.

Table 2
Changes in Net Assets

	Governmental Activities		
	2010	2009	Change
Program Revenues			
Charges for Services	\$558,173	\$565,583	(\$7,410)
Operating Grants and Contributions	563,748	505,031	58,717
Capital Grants and Assessments	1,329,578	892,182	437,396
<i>Total Program Revenues</i>	<u>2,451,499</u>	<u>1,962,796</u>	<u>488,703</u>
General Revenues			
Property Taxes	3,296,719	3,331,707	(34,988)
Income Taxes	3,915,429	3,946,715	(31,286)
Estate Taxes	1,217,843	676,130	541,713
Admissions Tax	262,349	279,130	(16,781)
Grants and Entitlements	419,539	419,008	531
Investment Earnings	7,400	69,409	(62,009)
Other	108,745	96,564	12,181
<i>Total General Revenues</i>	<u>9,228,024</u>	<u>8,818,663</u>	<u>409,361</u>
<i>Total Revenues</i>	<u>11,679,523</u>	<u>10,781,459</u>	<u>898,064</u>
Program Expenses			
General Government	1,331,746	2,202,769	(871,023)
Security of Persons and Property	4,853,420	6,192,180	(1,338,760)
Public Health Services	27,983	31,947	(3,964)
Community Environment	266,681	301,938	(35,257)
Basic Utility Services	1,210,599	1,416,159	(205,560)
Transportation	3,021,477	915,239	2,106,238
Interest and Fiscal Charges	374,963	332,406	42,557
<i>Total Program Expenses</i>	<u>11,086,869</u>	<u>11,392,638</u>	<u>(305,769)</u>
<i>Change in Net Assets</i>	592,654	(611,179)	1,203,833
Net Assets Beginning of Year	<u>14,762,170</u>	<u>15,373,349</u>	<u>(611,179)</u>
Net Assets End of Year	<u><u>\$15,354,824</u></u>	<u><u>\$14,762,170</u></u>	<u><u>\$592,654</u></u>

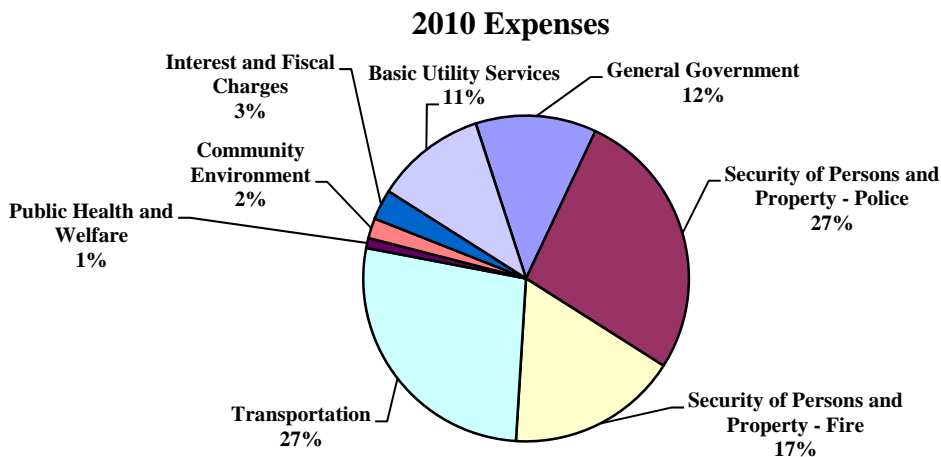
City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Governmental Activities



Governmental activities increased the City's net asset by \$0.6 million.

The City's revenues increased by \$898,064. During 2010, estate taxes which have been a significant revenue source over the years came in at \$1,217,843 compared to \$676,130 during 2009. Capital grants increased by \$437,396, as the result of additional State monies received for the wastewater treatment plant project.



Expenses decreased by \$305,769. City management continues to implement cost cutting measures in order to stabilize operations for service delivery. Security of persons and property is the major activity of the City expenses. All City programs experienced decreases, with the exception of transportation and interest and fiscal charges. The \$2,106,238 increase in transportation is due to no road construction projects being done in 2009.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

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 \$11,876,051 and expenditures of \$10,201,434. Other financing sources and uses provided an additional \$245,000 for operations. The net change in fund balance for the year was most significant in the general fund which showed an increase of \$973,629. The total year end fund balance was \$3.5 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 2010, 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 \$636,247 above final budget estimates of \$7,251,728, as the City received more estate tax monies than was expected. The final appropriations of \$7,346,925 was sufficient to meet the expenditures for the year, which ended up at \$7,096,005 or \$250,920 less than anticipated due to a savings experienced in various contracts for the annual road maintenance program.

The City's ending unobligated budgetary fund balance was \$973,686 higher than the final projected budgetary fund balance amount of \$871,136.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Debt Administration and Capital Assets

Debt

At December 31, 2010, the City had \$9,695,166 in outstanding long-term liabilities, of which \$8,589,718 was in general obligation bonds. Table 4 summarizes the obligations outstanding.

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

	Governmental Activities	
	2010	2009
General Obligation Bonds	\$8,589,718	\$8,981,282
OPWC Loans	852,526	920,933
Compensated Absences	252,922	326,098
Total	\$9,695,166	\$10,228,313

At December 31, 2010, the City's overall legal debt margin was \$33,541,434 with an unvoted debt margin of \$13,677,508. 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 \$8,560,000. In addition, the City had an outstanding balance of \$852,526 on two twenty-year interest free loans obtained from the Ohio Public Works Commission. There was also an amount of \$252,922 booked as compensated absences in the long-term debt obligations for accrued sick leave payable to the employees.

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 \$199,683. Additional information concerning the City's manuscript debt can be found in Note 15 to the basic financial statements.

Additional information concerning the City's debt can be found in Note 16 to the basic financial statements.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Capital Assets

Table 3 shows fiscal 2010 balances of Capital Assets as compared to 2009:

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

	Governmental Activities		
	2010	2009	Change
Land	\$271,350	\$271,350	\$0
Construction in Progress	3,120,685	3,001,236	119,449
Improvements to Land	71,358	79,323	(7,965)
Buildings and Improvements	3,187,471	3,275,805	(88,334)
Vehicles	1,117,916	1,708,259	(590,343)
Furniture, Fixtures and Equipment	507,647	263,930	243,717
Infrastructure			
Streets	5,283,104	6,761,898	(1,478,794)
Bridges	126,482	128,978	(2,496)
Sanitary Sewer System	6,313,458	6,469,770	(156,312)
Total Capital Assets	<u>\$19,999,471</u>	<u>\$21,960,549</u>	<u>(\$1,961,078)</u>

Net of depreciation, the balances for the above capital assets decreased by \$1,961,078. The construction in progress was higher by \$119,449, due to additional expenditures on the Pepper Pike wastewater treatment plant project. The remaining increases and decreases are due to changes in accumulated depreciation. The City placed on hold its aggressive stance on maintaining its assets, including infrastructure, in excellent condition, due to the lack of available funding. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced 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 10 to the basic financial statements.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
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Current Related Financial Activities

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

Contacting the City of Pepper Pike's Financial Management

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

Basic Financial Statements

City of Pepper Pike, Ohio

Statement of Net Assets

December 31, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,793,672
Accounts Receivable	145,482
Intergovernmental Receivable	553,352
Prepaid Items	50,385
Materials and Supplies Inventory	58,394
Income Taxes Receivable	923,740
Property Taxes Receivable	3,420,878
Special Assessments Receivable	264,859
Deferred Charges	4,912
Nondepreciable Capital Assets	3,392,035
Depreciable Capital Assets, Net	<u>16,607,436</u>
<i>Total Assets</i>	<u>29,215,145</u>
Liabilities	
Accounts Payable	36,882
Contracts Payable	155,586
Claims Payable	89,155
Accrued Wages	50,231
Intergovernmental Payable	319,663
Deferred Revenue	3,210,858
Accrued Interest Payable	40,594
Vacation Benefits Payable	262,186
Long-Term Liabilities:	
Due Within One Year	823,404
Due In More Than One Year	<u>8,871,762</u>
<i>Total Liabilities</i>	<u>13,860,321</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,094,683
Restricted for:	
Capital Projects	483,682
Debt Service	242,761
Other Purposes	844,873
Unrestricted	<u>2,688,825</u>
<i>Total Net Assets</i>	<u><u>\$15,354,824</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Activities
For the Year Ended December 31, 2010

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$1,331,746	\$295,316	\$0	\$609,408	(\$427,022)
Security of Persons and Property:					
Police	3,035,015	4,716	0	0	(3,030,299)
Fire	1,818,405	139,851	227,520	0	(1,451,034)
Public Health Services	27,983	0	0	0	(27,983)
Community Environment	266,681	51,194	54,245	0	(161,242)
Basic Utility Services	1,210,599	0	0	0	(1,210,599)
Transportation	3,021,477	67,096	281,983	720,170	(1,952,228)
Interest and Fiscal Charges	374,963	0	0	0	(374,963)
<i>Total Governmental Activities</i>	<u>\$11,086,869</u>	<u>\$558,173</u>	<u>\$563,748</u>	<u>\$1,329,578</u>	<u>(8,635,370)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	1,288,590
Debt Service	413,078
Fire	1,387,003
Police	208,048
Municipal Income Taxes Levied for General Purposes	3,915,429
Estate Taxes	1,217,843
Admissions Taxes	262,349
Grants and Entitlements not Restricted to Specific Programs	419,539
Interest	7,400
Miscellaneous	108,745
<i>Total General Revenues</i>	<u>9,228,024</u>
Change in Net Assets	592,654
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>14,762,170</u>
<i>Net Assets End of Year</i>	<u><u>\$15,354,824</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Balance Sheet

Governmental Funds

December 31, 2010

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,922,014	\$100,146	\$175,839	\$1,243,303	\$3,441,302
Property Taxes Receivable	1,404,361	1,440,371	360,092	216,054	3,420,878
Income Taxes Receivable	923,740	0	0	0	923,740
Accounts Receivable	62,476	83,006	0	0	145,482
Intergovernmental Receivable	278,547	96,226	28,868	149,711	553,352
Interfund Receivable	474,664	0	0	0	474,664
Materials and Supplies Inventory	58,394	0	0	0	58,394
Prepaid Items	50,385	0	0	0	50,385
Special Assessments Receivable	0	0	85,380	179,479	264,859
<i>Total Assets</i>	<u>\$5,174,581</u>	<u>\$1,719,749</u>	<u>\$650,179</u>	<u>\$1,788,547</u>	<u>\$9,333,056</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$30,335	\$6,106	\$0	\$441	\$36,882
Contracts Payable	23,614	0	0	131,972	155,586
Accrued Wages	29,029	21,202	0	0	50,231
Intergovernmental Payable	125,384	47,374	0	146,905	319,663
Interfund Payable	0	0	0	474,664	474,664
Deferred Revenue	2,171,361	1,611,702	474,340	521,611	4,779,014
Accrued Interest Payable	0	0	0	879	879
<i>Total Liabilities</i>	<u>2,379,723</u>	<u>1,686,384</u>	<u>474,340</u>	<u>1,276,472</u>	<u>5,816,919</u>
Fund Balances					
Reserved for Encumbrances	245,388	0	0	1,257,827	1,503,215
Reserved for Advances	199,683	0	0	0	199,683
Unreserved					
Undesignated, Reported in:					
General Fund	2,349,787	0	0	0	2,349,787
Special Revenue Funds	0	33,365	0	493,110	526,475
Debt Service Fund	0	0	175,839	0	175,839
Capital Projects Funds (Deficit)	0	0	0	(1,238,862)	(1,238,862)
<i>Total Fund Balances</i>	<u>2,794,858</u>	<u>33,365</u>	<u>175,839</u>	<u>512,075</u>	<u>3,516,137</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,174,581</u>	<u>\$1,719,749</u>	<u>\$650,179</u>	<u>\$1,788,547</u>	<u>\$9,333,056</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2010*

Total Governmental Fund Balances \$3,516,137

*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. 19,999,471

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

Property Taxes	210,020
Income Taxes	592,470
Estate Taxes	30,012
Special Assessments	264,859
Intergovernmental	395,690
Charges for Services	75,105

Total 1,568,156

Internal service funds are used by management to charge the costs of insurance
 to individual funds. The assets and liabilities of the internal service fund are
 included as part of governmental activities in the statement of net assets. 263,215

Bond issuance costs are considered deferred charges and will be amortized
 over the life of the bonds on the statement of net assets. 4,912

In the statement of activities, interest is accrued on outstanding bonds, whereas
 in governmental funds, an interest expenditure is reported when due. (39,715)

Vacation benefits payable is not expected to be paid with expendable available
 financial resources and therefore not reported in the funds. (262,186)

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

General Obligation Bonds	(8,589,718)
OPWC Loans	(852,526)
Compensated Absences	(252,922)

Total (9,695,166)

Net Assets of Governmental Activities \$15,354,824

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,287,549	\$1,388,235	\$415,628	\$208,234	\$3,299,646
Municipal Income Taxes	4,076,116	0	0	0	4,076,116
Estate Taxes	1,260,280	0	0	0	1,260,280
Admissions Taxes	262,349	0	0	0	262,349
Charges for Services	4,716	108,806	0	0	113,522
Fees, Licenses and Permits	231,429	0	0	0	231,429
Fines and Forfeitures	51,194	0	0	0	51,194
Intergovernmental	362,598	192,453	57,735	1,081,409	1,694,195
Special Assessments	0	0	630,147	0	630,147
Interest	3,810	0	0	3,590	7,400
Rentals	67,096	0	0	0	67,096
Contributions and Donations	0	0	0	10,045	10,045
Franchise Tax	63,887	0	0	0	63,887
Other	104,872	2,000	0	1,873	108,745
<i>Total Revenues</i>	<u>7,775,896</u>	<u>1,691,494</u>	<u>1,103,510</u>	<u>1,305,151</u>	<u>11,876,051</u>
Expenditures					
Current:					
General Government	1,219,770	0	82,647	0	1,302,417
Security of Persons and Property:					
Police	2,824,444	0	0	272,827	3,097,271
Fire	0	1,533,376	0	227,144	1,760,520
Public Health Services	28,103	0	0	0	28,103
Community Environment	265,343	0	0	1,634	266,977
Basic Utility Services	1,175,476	0	0	0	1,175,476
Transportation	968,131	0	0	271,649	1,239,780
Capital Outlay	0	0	0	234,465	234,465
Debt Service:					
Principal Retirement	0	0	703,407	0	703,407
Interest and Fiscal Charges	0	0	388,018	0	388,018
Bond Issuance Costs	0	0	0	5,000	5,000
<i>Total Expenditures</i>	<u>6,481,267</u>	<u>1,533,376</u>	<u>1,174,072</u>	<u>1,012,719</u>	<u>10,201,434</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,294,629</u>	<u>158,118</u>	<u>(70,562)</u>	<u>292,432</u>	<u>1,674,617</u>
Other Financing Sources (Uses)					
General Obligation Bonds Issued	0	0	0	245,000	245,000
Transfers In	0	0	3,931	321,000	324,931
Transfers Out	(321,000)	0	0	(3,931)	(324,931)
<i>Total Other Financing Sources (Uses)</i>	<u>(321,000)</u>	<u>0</u>	<u>3,931</u>	<u>562,069</u>	<u>245,000</u>
<i>Net Change in Fund Balances</i>	973,629	158,118	(66,631)	854,501	1,919,617
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>1,821,229</u>	<u>(124,753)</u>	<u>242,470</u>	<u>(342,426)</u>	<u>1,596,520</u>
<i>Fund Balances End of Year</i>	<u>\$2,794,858</u>	<u>\$33,365</u>	<u>\$175,839</u>	<u>\$512,075</u>	<u>\$3,516,137</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010*

Net Change in Fund Balances - Total Governmental Funds \$1,919,617

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

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

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

Capital Outlay	145,250	
Depreciation	(2,106,328)	
Total	(1,961,078)	(1,961,078)

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

Property Taxes	(2,927)	
Income Taxes	(160,687)	
Estate Taxes	(42,437)	
Special Assessments	(20,739)	
Intergovernmental	(783)	
Charges for Services	31,045	
Total	(196,528)	(196,528)

Other financing sources, such as general obligation bonds issued, in the governmental funds increase long-term liabilities in the statement of net assets. (245,000)

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. 703,407

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued. 5,000

The internal service funds used by management are not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities. 200,021

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

Accrued Interest	11,579	
Amortization of Bond Issuance Costs	(88)	
Amortization of Bond Premium	1,564	
Total	13,055	13,055

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	73,176	
Vacation Benefits Payable	80,984	
Total	154,160	154,160

Change in Net Assets of Governmental Activities \$592,654

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,231,088	\$1,231,088	\$1,287,549	\$56,461
Municipal Income Taxes	4,821,324	4,821,324	4,031,686	(789,638)
Estate Taxes	270,000	270,000	1,387,590	1,117,590
Admissions Taxes	220,000	220,000	294,900	74,900
Charges for Services	1,500	1,500	4,716	3,216
Fees, Licenses and Permits	162,500	162,500	231,429	68,929
Fines and Forfeitures	55,855	55,855	52,314	(3,541)
Intergovernmental	346,761	346,761	360,545	13,784
Interest	1,000	1,000	6,370	5,370
Franchise Tax	55,000	55,000	63,887	8,887
Rentals	36,600	36,600	67,796	31,196
Other	50,100	50,100	99,193	49,093
<i>Total Revenues</i>	7,251,728	7,251,728	7,887,975	636,247
Expenditures				
Current:				
General Government	1,201,532	1,367,490	1,309,122	58,368
Security of Persons and Property:				
Police	2,761,659	3,034,854	2,990,758	44,096
Public Health Services	34,723	34,723	28,103	6,620
Community Environment	239,693	280,560	270,549	10,011
Basic Utility Services	1,395,577	1,404,346	1,340,774	63,572
Transportation	1,142,394	1,224,952	1,156,699	68,253
<i>Total Expenditures</i>	6,775,578	7,346,925	7,096,005	250,920
<i>Excess of Revenues Over (Under) Expenditures</i>	476,150	(95,197)	791,970	887,167
Other Financing Sources (Uses)				
Advances In	249,900	249,900	249,900	0
Advances Out	0	0	(2,481)	(2,481)
Transfers Out	(505,000)	(410,000)	(321,000)	89,000
<i>Total Other Financing Sources (Uses)</i>	(255,100)	(160,100)	(73,581)	86,519
<i>Net Change in Fund Balance</i>	221,050	(255,297)	718,389	973,686
<i>Fund Balance Beginning of Year</i>	840,057	840,057	840,057	0
Prior Year Encumbrances Appropriated	286,376	286,376	286,376	0
<i>Fund Balance End of Year</i>	\$1,347,483	\$871,136	\$1,844,822	\$973,686

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$1,898,067	\$1,898,231	\$1,388,234	(\$509,997)
Charges for Services	149,829	149,842	109,584	(40,258)
Intergovernmental	263,132	263,155	192,453	(70,702)
Other	<u>2,735</u>	<u>2,735</u>	<u>2,000</u>	<u>(735)</u>
<i>Total Revenues</i>	2,313,763	2,313,963	1,692,271	(621,692)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	<u>1,626,340</u>	<u>1,676,820</u>	<u>1,602,091</u>	<u>74,729</u>
<i>Excess of Revenues Over Expenditures</i>	687,423	637,143	90,180	(546,963)
Other Financing Sources				
Transfers In	95,000	95,000	0	(95,000)
Transfers Out	<u>0</u>	<u>(44,000)</u>	<u>0</u>	<u>44,000</u>
<i>Total Other Financing Sources</i>	<u>95,000</u>	<u>51,000</u>	<u>0</u>	<u>(51,000)</u>
<i>Net Change in Fund Balance</i>	782,423	688,143	90,180	(597,963)
<i>Fund Balance Beginning of Year</i>	713	713	713	0
Prior Year Encumbrances Appropriated	<u>6,480</u>	<u>6,480</u>	<u>6,480</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$789,616</u>	<u>\$695,336</u>	<u>\$97,373</u>	<u>(\$597,963)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Fund Net Assets
Internal Service Fund
December 31, 2010

	<u>Self Insurance</u>
Assets	
Cash and Cash Equivalents	\$352,370
Liabilities	
Claims Payable	<u>89,155</u>
Net Assets	
Unrestricted	<u><u>\$263,215</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Year Ended December 31, 2010*

	<u>Self Insurance</u>
Operating Revenues	
Charges for Services	\$972,350
Operating Expenses	
Contractual Services	206,748
Claims	571,078
<i>Total Operating Expenses</i>	777,826
<i>Operating Income</i>	194,524
Nonoperating Income	
Interest	5,497
<i>Change in Net Assets</i>	200,021
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	63,194
<i>Net Assets End of Year</i>	\$263,215

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Cash Flows
Internal Service Fund
For the Year Ended December 31, 2010

	<u>Self Insurance</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$972,350
Cash Payments to Suppliers for Goods and Services	(206,748)
Cash Payments for Claims	(569,014)
<i>Net Cash Provided by Operating Activities</i>	196,588
Cash Flows from Investing Activities	
Interest on Investments	5,497
<i>Net Increase in Cash and Cash Equivalents</i>	202,085
<i>Cash and Cash Equivalents Beginning of Year</i>	150,285
<i>Cash and Cash Equivalents End of Year</i>	\$352,370
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$194,524
Adjustments:	
Increase in Claims Payable	2,064
<i>Net Cash Provided by Operating Activities</i>	\$196,588

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, 2010

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$265,469</u></u>
 Liabilities	
Deposits Held and Due to Others	<u><u>\$265,469</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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 Ohio Association of Public Treasurers Rating Pool, the Northeast Ohio Public Energy Council, and the Valley Enforcement Regional Council of Governments, which are defined as an insurance purchasing pool and 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. These organizations are discussed in Notes 14 and 17 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The 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
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as governmental, proprietary 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

Bond Retirement Fund – The bond retirement fund receives property taxes and special assessments for the payment of general long-term debt principal, interest and related costs for various City improvements.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The City only has an internal service fund.

Internal Service Fund The internal service fund accounts for financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's only internal service fund is a self insurance fund that accounts for medical benefits of the City's employees.

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.

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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its internal service fund.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the 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, 2010, but which were levied to finance year 2011 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

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

During 2010, investments were limited to federal home loan bank bonds, federal home loan mortgage corporation notes and STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2010 amounted to \$3,810, which includes \$315 assigned from other City funds.

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

Inventory

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

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

Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

Bond Issuance Costs

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

As permitted by state statute, the city paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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.

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.

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. 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

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.

Estimates

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

Note 3 - Change in Accounting Principle and Restatement of Prior Year's Fund Equity

Change in Accounting Principle

For Fiscal year 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51 "Accounting and Reporting for Intangible Assets". GASB Statement No. 51 establishes accounting and financial reporting of such assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of intangible assets among state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

Restatement of Prior Year's Fund Equity

In the prior year, the City incorrectly recorded cash and claims payable in the internal service fund. The restatement increased net assets in the internal service fund at December 31, 2009 by \$3,910 from \$59,284 to \$63,194. The restatement also restated governmental net assets at December 31, 2009 by \$3,910 from \$14,758,260 to \$14,762,170.

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:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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. 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 fire levy.

Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	\$973,629	\$158,118
Net Adjustment for Revenue Accruals	112,079	777
Advances In	249,900	0
Advances Out	(2,481)	0
Net Adjustment for Expenditure Accruals	(337,863)	(65,942)
Encumbrances	(276,875)	(2,773)
Budget Basis	\$718,389	\$90,180

Note 5 – Fund Deficits

Fund balances at December 31, 2010, included the following individual fund deficits:

Special Revenue Funds

Police Pension	\$72,676
Fire Pension	70,419

Capital Projects Funds

Northwest Quadrant	24,000
Brainard Road Sewerline	79,284
Lander/Emerson Waterline	40,185
Kersdale Road Waterline	81,093
Thornapple Waterline	2,481

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

The Brainard Road sewer line, Lander/Emerson waterline and 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.

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;

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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, \$1,549,039 of the City's bank balance of \$2,690,344 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

Investments

Investments are reported at fair value. As of December 31, 2010, the City had the following investments:

	Fair Value	Maturity
STAR Ohio	\$1,126,123	58 Days Average

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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 STAROhio carries a rating of AAA by Standard & Poor's. The City has no investment policy that addresses credit risk.

Note 7 - Receivables

Receivables at December 31, 2010, 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.

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 \$229,061 in the special assessment bond retirement fund. At December 31, 2010 the amount of delinquent special assessments was \$36,135.

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 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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. 2010 public utility property taxes which became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2010

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

were levied after October 1, 2009, on the value as of December 31, 2009; however, the City received no tangible personal property tax revenue from telephone company property. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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, 2010, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$359,841,300
Other Real Estate	31,596,760
Tangible Personal Property	
Public Utility	5,840,450
Total Assessed Values	\$397,278,510

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, 2010 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 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.

Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2010 follows:

Homestead and Rollback	\$228,537
Estate Tax	120,047
Gasoline Tax	101,120
Local Government	66,462
Permissive Tax	34,157
Court Fines	3,029
Total	\$553,352

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

Litigation

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

Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2010.

Note 9 – Other Employee Benefits

Compensated Absences

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

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation. Unused sick leave can be accumulated up to 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/2009	Additions	Deductions	Balance 12/31/2010
<i>Capital Assets not being Depreciated</i>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	3,001,236	119,449	0	3,120,685
<i>Total Capital Assets not being Depreciated</i>	<u>3,272,586</u>	<u>119,449</u>	<u>0</u>	<u>3,392,035</u>
<i>Capital Assets being Depreciated</i>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,402,955	0	0	4,402,955
Vehicles	3,708,761	22,115	(349,890)	3,380,986
Furniture, Fixtures and Equipment	1,858,587	3,686	0	1,862,273
Infrastructure				
Streets	29,575,874	0	0	29,575,874
Bridges	249,605	0	0	249,605
Sanitary Sewers	7,815,601	0	0	7,815,601
<i>Total Capital Assets being Depreciated</i>	<u>47,833,189</u>	<u>25,801</u>	<u>(349,890)</u>	<u>47,509,100</u>
<i>Less: Accumulated Depreciation</i>				
Improvements to Land	(142,483)	(7,965)	0	(150,448)
Buildings and Improvements	(1,127,150)	(88,334)	0	(1,215,484)
Vehicles	(2,000,502)	(262,568)	0	(2,263,070)
Furniture, Fixtures and Equipment	(1,594,657)	(109,859)	349,890	(1,354,626)
Infrastructure				
Streets	(22,813,976)	(1,478,794)	0	(24,292,770)
Bridges	(120,627)	(2,496)	0	(123,123)
Sanitary Sewers	(1,345,831)	(156,312)	0	(1,502,143)
<i>Total Accumulated Depreciation</i>	<u>(29,145,226)</u>	<u>(2,106,328) *</u>	<u>349,890</u>	<u>(30,901,664)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>18,687,963</u>	<u>(2,080,527)</u>	<u>0</u>	<u>16,607,436</u>
<i>Total Capital Assets, Net</i>	<u>\$21,960,549</u>	<u>(\$1,961,078)</u>	<u>\$0</u>	<u>\$19,999,471</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$92,024
Security of Persons and Property:	
Police	66,793
Fire	117,572
Community Development	375
Basic Utility Services	188,511
Transportation	1,641,053
Total Depreciation Expense	<u>\$2,106,328</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 11 - Defined Benefit Pension Plans

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, but less than, 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 and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's contribution rate for 2010 was 14.00 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2010, 2009, and 2008 was \$222,053, \$250,337, and \$212,929, respectively. For 2010, 85.10 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Neither the City or plan members made contributions to the Member-Directed Plan for 2010.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publically 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 – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters were \$170,628 and \$161,782 for the year ended December 31, 2010, \$197,950 and \$216,334 for the year ended December 31, 2009, and \$196,701 and \$213,459 for the year ended December 31, 2008, respectively. For 2010, 71.62 percent for police and 67.64 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

Note 12 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers fund post-employment health care through their 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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$126,461, \$181,013 and \$212,929, respectively. For 2010, 85.10 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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 on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-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 health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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 healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publically 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 – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police and firefighters were \$90,333 and \$63,306 for the year ended December 31, 2010, \$104,797 and \$84,653 for the year ended December 31, 2009, and \$104,136 and \$83,527 for the year ended December 31, 2008, respectively. For 2010, 71.62 percent has been contributed for police and 67.64 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 13 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year, the City contracted with Selective Insurance Company for the following types of insurance:

Type	Deductible	Coverage
Property	\$1,000	\$11,141,147
Boiler and Machinery	1,000	11,141,147
Inland Marine	500	376,460
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.

Workers' Compensations

The City participates in the Ohio Association of Public Treasurers Rating Pool (OAPT) for worker's compensation. The intent of the OAPT is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management skills by virtue of its grouping and representation with other participants in the OAPT. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OAPT. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OAPT.

Self - Insurance

Medical insurance is offered to employees through a self-insurance internal service fund. The City's monthly premiums are paid to the fiscal agent who in turn pays the claims on the City's behalf. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$35,000 per employee, per year.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Beginning in 2009, the City offered medical, surgical and prescription drug claims coverage to all employees through a self – insurance internal service fund. Klais and Company serves as the third party administrator. (A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$500,000 per employee, per year.) The claims liability of \$67,767 reported in the internal service fund at December 31, 2010 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund’s claims liability amount in fiscal year 2009 and 2010 were:

	Beginning of Year	Year Claims	Claim Payments	End of Year
2009	\$0	\$235,372	\$148,281	\$87,091
2010	87,091	658,169	656,105	89,155

Note 14 – Insurance Purchasing Pool

The Ohio Association of Public Treasurers Rating Pool has created a group insurance pool for purpose of creating a group rating plan for workers’ compensation. The governing body is comprised of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the City and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Integrated Consulting to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on claims experience of each member as compared to the total claims experience of the group.

Note 15 - Interfund Transfers and Balances

Interfund Transfers

The general fund made transfers to the police pension and fire pension special revenue funds in the amounts of \$175,000 and \$145,000, respectively. These transfers 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 transfer from the windy hill water main capital projects fund to the bond retirement fund of \$3,931 was to close out the fund. The general fund also made a transfer of \$1,000 to the windy hill fund.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Interfund Balances

On the fund financial statements interfund balances at December 31, 2010 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$199,683	\$274,981	\$0	\$0
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	78,906	0
Lander/Emerson Waterline	0	0	40,000	0
Kersdale Road Waterline	0	0	80,777	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<i>Totals</i>	<u>\$199,683</u>	<u>\$274,981</u>	<u>\$199,683</u>	<u>\$274,981</u>

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 remaining interfund balances at December 31, 2010 were made to support projects in the Pepper Pike wastewater treatment plant and East Road, northwest quadrant and thornapple water main capital projects funds' pending the receipt of assessments and grant monies that will be used to repay the loans.

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 16 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2010 follows:

	Principal Outstanding 12/31/2009	Additions	Deletions	Principal Outstanding 12/31/2010	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds					
1997 5.35% Brookwood Water					
Serial Bonds	\$395,000	\$0	(\$50,000)	\$345,000	\$50,000
2001 2.50% - 4.00% Road Improvement					
Serial Bonds	595,000	0	(300,000)	295,000	295,000
2007 4.00 - 5.00 % Various Purpose					
Serial Bonds	1,500,000	0	(125,000)	1,375,000	125,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00 % Street Improvement					
Serial Bonds	590,000	0	(45,000)	545,000	45,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13 % Street Improvement					
Serial Bonds	3,460,000	0	(115,000)	3,345,000	135,000
Premium on Bonds	31,282	0	(1,564)	29,718	0
2010 Windy Hill Bonds					
Serial Bonds	0	148,000	0	148,000	5,000
2010 Thornapple Bonds					
Serial Bonds	0	97,000	0	97,000	5,000
Total General Obligation Bonds	8,981,282	245,000	(636,564)	8,589,718	660,000
OPWC Loans					
1996 0% Pinetree Water	184,130	0	(26,304)	157,826	26,304
2007 0% Brainard Road	736,803	0	(42,103)	694,700	42,103
Total OPWC Loans	920,933	0	(68,407)	852,526	68,407
Other Long-term Obligations					
Compensated Absences	326,098	150,693	(223,869)	252,922	94,997
Total Governmental Activities	\$10,228,313	\$395,693	(\$928,840)	\$9,695,166	\$823,404

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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 Fairmount 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	\$390,000

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	\$920,000

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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:

<u>Year</u>	<u>Amount</u>
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:

<u>Year</u>	<u>Amount</u>
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 September 22, 2009, the City issued \$3,460,000 in street improvement bonds. These bonds were issued to help retire \$3,708,000 of notes issued for improvements to the Northwest Quadrant. The general obligation bonds will be paid from property and income taxes from the general obligation bond retirement debt service fund. The bonds were issued for a twenty year period with a final maturity on December 1, 2029.

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

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

As of December 31, 2010, the City's overall legal debt margin was \$33,541,434. The unvoted legal debt margin was \$13,677,508. Principal and interest requirements to retire the long-term general obligation bonds and the OPWC loans as of December 31, 2010 are as follows:

	General Obligation Bonds				OPWC Loan
	Serial		Term		
	Principal	Interest	Principal	Interest	
2011	\$660,000	\$352,026	\$0	\$0	\$68,407
2012	385,000	326,395	0	0	68,407
2013	385,000	313,483	0	0	68,407
2014	405,000	299,745	0	0	68,407
2015	410,000	285,033	0	0	68,407
2016-2020	1,915,000	1,102,435	190,000	85,525	236,819
2021-2025	1,015,000	321,651	1,450,000	413,200	210,515
2026-2030	975,000	102,679	770,000	65,250	63,157
Total	\$6,150,000	\$3,103,447	\$2,410,000	\$563,975	\$852,526

Note 17 – Jointly Governed Organizations

Northeast Ohio Public Energy Council (NOPEC)

The City is a member of the NOPEC, 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 126 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 2010. Financial information can be obtained by contacting 31320 Solon Road, Suite 20, Solon, Ohio 11120.

Valley Enforcement Regional Council of Governments

The City is a member of Valley Enforcement Regional Council of Governments (“VERCOG”), a jointly governed organization. VERCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit.



Dave Yost • Auditor of State

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

City of 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, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

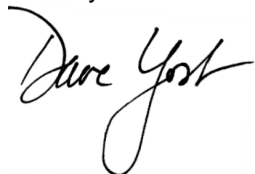
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

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 did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 4, 2011.

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

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

Dave Yost
Auditor of State

November 4, 2011



Dave Yost • Auditor of State

CITY OF PEPPER PIKE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 29, 2011**