



Dave Yost • Auditor of State



**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Fire Levy Fund	18
Statement of Fiduciary Assets and Liabilities - Agency Funds	19
Notes to the Basic Financial Statements	20
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Schedule of Findings	51

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2013, and the respective changes in financial position and the respective budgetary comparisons for the General and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

December 11, 2014

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*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, 2013. 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 2013 are as follows:

- The City's net position increased by over \$5.2 million due mainly to an increase in cash and cash equivalents resulting from revenues continuing to significantly exceed expenditures, despite a decrease in overall revenues due to a large drop in estate tax monies. The increase in net position was also due to an increase in net capital assets resulting from current year additions outpacing annual depreciation. The increase in net position was partially offset by an increase in long-term liabilities due to the issuance of an OPWC loan for the Lander Road reconstruction project.
- The City previously implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. Due to unsuccessful attempt for a .5 percent tax increase in August of 2010, the majority of these measures are still in place.
- In 2013, capital asset additions consisted of construction in progress for the Lander Road reconstruction project, land improvements, building and improvements, the purchase of various equipment, a new police vehicle and major road repairs. The City also completed construction on the Pepper Pike pump station project.
- Outstanding bonded debt decreased during 2013 due to annual debt payments.

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

---

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

*Fund Financial Statements*

The analysis of the City's major funds begins on page 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 2013 are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement and the Lander Road capital projects funds.

*Governmental Funds*

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

*Fiduciary Funds*

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

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

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net position for 2013 as compared to 2012.



**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2013  
Unaudited

Table 1  
Net Position

	Governmental Activities		
	2013	2012	Change
<b>Assets</b>			
Current and Other Assets	\$24,919,773	\$20,376,094	\$4,543,679
Capital Assets, Net	20,015,753	19,095,371	920,382
<i>Total Assets</i>	<u>44,935,526</u>	<u>39,471,465</u>	<u>5,464,061</u>
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	752,590	818,050	(65,460)
Long-term Liabilities			
Due Within One Year	534,769	539,794	(5,025)
Due In More Than One Year	8,273,882	7,930,220	343,662
<i>Total Liabilities</i>	<u>9,561,241</u>	<u>9,288,064</u>	<u>273,177</u>
<b>Deferred Inflows of Resources</b>	<u>3,273,803</u>	<u>3,311,934</u>	<u>(38,131)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	11,693,272	11,214,877	478,395
Restricted for:			
Capital Projects	2,706,673	850,000	1,856,673
Debt Service	6,157,994	6,385,251	(227,257)
Other Purpose	1,767,175	1,282,660	484,515
Unrestricted	9,775,368	7,138,679	2,636,689
<i>Total Net Position</i>	<u>\$32,100,482</u>	<u>\$26,871,467</u>	<u>\$5,229,015</u>

Total current and other assets for governmental activities increased due to an increase in cash and cash equivalents resulting from revenues continuing to exceed expenditures, despite a decrease in overall revenues due to a large drop in estate tax monies. The decrease in revenues was partially offset by almost \$1,539,000 in intergovernmental monies received in advance from the City of Cleveland for a waterline project to take place in 2014. Net investment in capital assets increased due to additions of construction in progress for the Lander Road reconstruction project, land improvements, building and improvements, the purchase of various equipment, a new police vehicle and major road repairs. This increase was partially offset by annual depreciation. The increase in long-term liabilities was due to the issuance of an OPWC loan for the Lander Road reconstruction project.

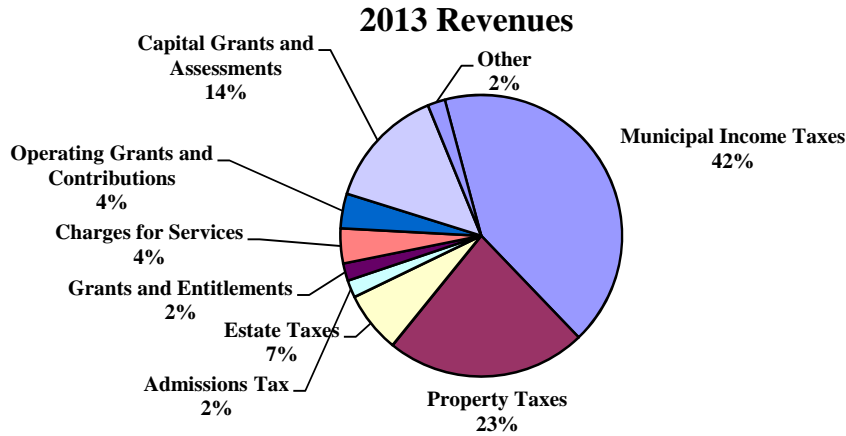
**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

Table 2  
Changes in Net Position

	Governmental Activities		
	2013	2012	Change
<b>Program Revenues</b>			
Charges for Services	\$609,864	\$580,522	\$29,342
Operating Grants and Contributions	556,505	556,870	(365)
Capital Grants and Assessments	1,983,397	1,056,016	927,381
<i>Total Program Revenues</i>	<u>3,149,766</u>	<u>2,193,408</u>	<u>956,358</u>
<b>General Revenues</b>			
Property Taxes	3,347,792	3,246,576	101,216
Income Taxes	5,968,424	4,821,340	1,147,084
Estate Taxes	996,829	3,664,459	(2,667,630)
Admissions Tax	289,302	254,697	34,605
Franchise Tax	45,896	108,502	(62,606)
Grants and Entitlements	295,048	310,920	(15,872)
Investment Earnings	11,349	11,071	278
Gain on Sale of Capital Assets	24,596	0	24,596
Other	208,012	243,844	(35,832)
<i>Total General Revenues</i>	<u>11,187,248</u>	<u>12,661,409</u>	<u>(1,474,161)</u>
<i>Total Revenues</i>	<u>14,337,014</u>	<u>14,854,817</u>	<u>(517,803)</u>
<b>Program Expenses</b>			
General Government	1,198,548	1,354,060	155,512
Security of Persons and Property	4,185,266	4,890,769	705,503
Public Health Services	28,595	54,412	25,817
Community Environment	282,169	273,452	(8,717)
Basic Utility Services	1,147,862	1,015,598	(132,264)
Transportation	1,944,416	1,902,783	(41,633)
Interest and Fiscal Charges	321,143	336,776	15,633
<i>Total Program Expenses</i>	<u>9,107,999</u>	<u>9,827,850</u>	<u>719,851</u>
<i>Change in Net Position</i>	5,229,015	5,026,967	202,048
Net Position Beginning of Year	<u>26,871,467</u>	<u>21,844,500</u>	<u>5,026,967</u>
Net Position End of Year	<u>\$32,100,482</u>	<u>\$26,871,467</u>	<u>\$5,229,015</u>

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

*Governmental Activities*



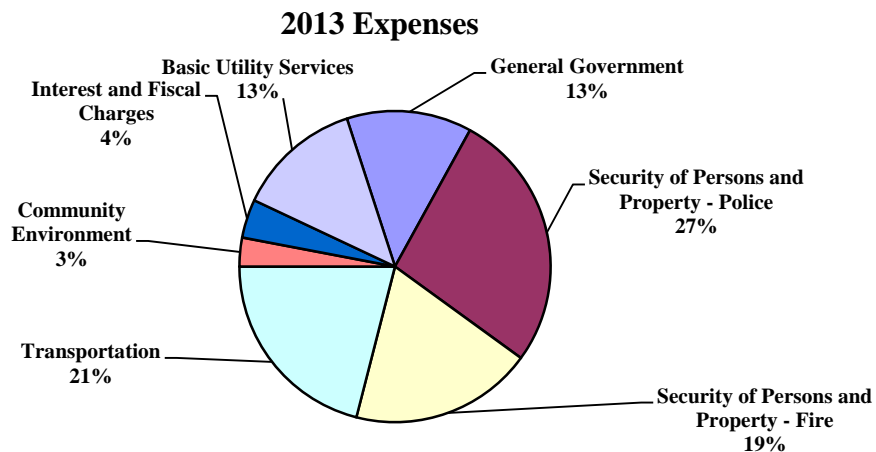
Funding for the governmental activities comes from several different sources, with the most significant being the municipal income tax. Other prominent sources of revenue are property taxes and grants.

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

Charges for services increased due to higher fines and forfeitures and rental revenues.

Capital grants and assessments increased significantly in 2013 mainly due to almost \$1,539,000 in intergovernmental monies received in advance from the City of Cleveland for a waterline project.

Estate taxes decreased significantly in 2013 due to a large settlement received in 2012.



Expenses decreased from 2012 levels. City management continues to implement cost-cutting measures in order to stabilize operations for service delivery. The City's largest program expenditure is security of persons and property which is composed of police and fire. Security of persons and property decreased in 2013 mainly due to a reduction in salary expenditures resulting from (1) police and fire new hire

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

---

replacements being brought in at lower salary amounts than retirees and (2) the police and fire departments changing to the “working chief model” whereby the chief is responsible for department administration as well as works in the field thus cutting down total department hours.

Basic utility services and transportation expenditures both increased due to a greater amount of infrastructure costs being expensed rather than capitalized in 2013.

Another major expense is general government which decreased in 2013 due to a drop in general government payables.

**The City's Funds**

Information about the City's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement and Lander Road capital project funds. Despite a decrease in revenues due to less estate tax being collected, the general fund had an increase in fund balance during the year as revenues and other financing sources continued to exceed expenditures and other financing uses. The fire levy special revenue fund had an increase in fund balance due to a decrease in expenditures for firefighter salaries. The bond retirement fund had an increase in fund balance resulting from an increase in special assessments as revenues continued to outpace expenditures. The capital improvement fund had an increase in fund balance due mainly to intergovernmental monies received in advance from the City of Cleveland for a waterline project to take place in 2014. The Lander Road fund had a decrease in fund balance resulting from project expenditures exceeding revenues and other financing sources in 2013.

*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 2013, the City amended its general fund budget several times. The Finance Department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

In 2013, the general fund's actual revenue plus other financing sources exceeded the final revenue estimate due to higher than estimated municipal income taxes and estate taxes. Actual expenditures plus other financing uses were under the final budget due to lower transportation expenditures resulting from a decrease in road maintenance contract services, producing an overall positive variance.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

**Capital Assets and Long-term Obligations**

*Capital Assets*

Table 3 shows 2013 balances of Capital Assets as compared to 2012:

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

	Governmental Activities	
	2013	2012
Land	\$751,350	\$751,350
Construction in Progress	1,380,474	1,297,870
Improvements to Land	149,007	54,503
Buildings and Improvements	2,909,030	2,982,401
Vehicles	649,615	845,954
Furniture, Fixtures and Equipment	341,508	281,120
Infrastructure		
Streets	4,071,111	4,176,676
Bridges	78,302	80,884
Sanitary Sewer System	9,685,356	8,624,613
Total Capital Assets	\$20,015,753	\$19,095,371

Governmental capital assets, net of depreciation, increased due to current year additions outpacing annual depreciation. For 2013, primary additions included construction in progress for the Lander Road reconstruction project, land improvements, building and improvements, the purchase of various equipment, a new police vehicle and major road repairs. Also, the Pepper Pike pump station project was completed in 2013. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on one of the main arteries in the City, as mentioned, the City has effectively pursued external sources of funding twenty to thirty percent of the project in the form of grants and loan assistance programs from State Issue II funds thereby reducing the total amount to be borrowed to provide the matching funds. Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

***Outstanding Long-term Obligations***

Table 4 summarizes the long-term obligations outstanding.

Table 4  
 Outstanding Long-term Liabilities at Year End

	Governmental Activities	
	2013	2012
General Obligation Bonds	\$195,000	\$245,000
Special Assessment Bonds	6,960,026	7,296,590
OPWC Loans	1,466,394	715,712
Compensated Absences	187,231	212,712
Total	\$8,808,651	\$8,470,014

The bonds and OPWC loans in governmental activities are to finance various improvement projects and will be paid from the bond retirement fund with property taxes and special assessments. The compensated absences category represents accrued sick leave payable to employees and will be paid from the general and fire levy special revenue fund. Additional information concerning the City's long-term obligations can be found in Note 16 to the basic financial statements.

Also, the City has manuscript notes which represent three separate water and sewer improvement issues in the form of manuscript notes issued by the City. Manuscript notes are notes issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the general fund from the debt service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. These notes are shown on the balance sheet as interfund receivables/payables between the general fund and the various capital project funds. At year end, the outstanding special assessment manuscript notes were \$115,471. Additional information concerning the City's manuscript debt can be found in Note 15 to the basic financial statements.

**Current Related Financial Activities**

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

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

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

**City of Pepper Pike, Ohio**

*Statement of Net Position*

*December 31, 2013*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$12,201,779
Accounts Receivable	190,685
Intergovernmental Receivable	794,299
Prepaid Items	46,581
Materials and Supplies Inventory	48,875
Income Taxes Receivable	2,083,220
Property Taxes Receivable	3,415,203
Special Assessments Receivable	6,139,131
Nondepreciable Capital Assets	2,131,824
Depreciable Capital Assets, Net	<u>17,883,929</u>
<i>Total Assets</i>	<u>44,935,526</u>
<b>Liabilities</b>	
Accounts Payable	84,779
Contracts Payable	160,852
Accrued Wages	56,783
Intergovernmental Payable	225,190
Accrued Interest Payable	25,483
Vacation Benefits Payable	199,503
Long-Term Liabilities:	
Due Within One Year	534,769
Due In More Than One Year	<u>8,273,882</u>
<i>Total Liabilities</i>	<u>9,561,241</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	<u>3,273,803</u>
<b>Net Position</b>	
Net Investment in Capital Assets	11,693,272
Restricted for:	
Capital Projects	2,706,673
Debt Service	6,157,994
Other Purposes	1,767,175
Unrestricted	<u>9,775,368</u>
<i>Total Net Position</i>	<u><u>\$32,100,482</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2013

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:				
General Government	\$1,198,548	\$86,854	\$0	\$7,237
Security of Persons and Property:				
Police	2,475,115	185,561	14,683	0
Fire	1,710,151	146,372	228,770	0
Public Health Services	28,595	2,345	0	0
Community Environment	282,169	21,919	5,000	0
Basic Utility Services	1,147,862	80,631	0	0
Transportation	1,944,416	86,182	308,052	1,976,160
Interest and Fiscal Charges	321,143	0	0	0
<i>Total Governmental Activities</i>	<u>\$9,107,999</u>	<u>\$609,864</u>	<u>\$556,505</u>	<u>\$1,983,397</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	1,524,327
Debt Service	206,926
Fire	1,510,190
Police	106,349
Municipal Income Taxes Levied for General Purposes	5,968,424
Estate Taxes	996,829
Admissions Taxes	289,302
Franchise Taxes	45,896
Grants and Entitlements not Restricted to Specific Programs	295,048
Interest	11,349
Gain on Sale of Capital Asset	24,596
Miscellaneous	208,012
<i>Total General Revenues</i>	<u>11,187,248</u>
Change in Net Position	5,229,015
<i>Net Position Beginning of Year (Restated - See Note 3)</i>	<u>26,871,467</u>
<i>Net Position End of Year</i>	<u>\$32,100,482</u>

See accompanying notes to the basic financial statements



**City of Pepper Pike, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2013*

	General	Fire Levy	Bond Retirement	Capital Improvement	Lander Road	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Equity in Pooled Cash and Cash Equivalents	\$7,419,898	\$702,338	\$161,266	\$2,863,142	\$0	\$1,055,135	\$12,201,779
Property Taxes Receivable	1,551,373	1,430,889	216,471	0	0	216,470	3,415,203
Income Taxes Receivable	2,083,220	0	0	0	0	0	2,083,220
Accounts Receivable	94,794	95,891	0	0	0	0	190,685
Intergovernmental Receivable	521,057	96,588	14,615	0	0	162,039	794,299
Interfund Receivable	701,836	0	0	0	0	0	701,836
Materials and Supplies Inventory	4,744	428	0	0	0	43,703	48,875
Prepaid Items	46,581	0	0	0	0	0	46,581
Special Assessments Receivable	0	0	6,023,660	0	0	115,471	6,139,131
<i>Total Assets</i>	<u>\$12,423,503</u>	<u>\$2,326,134</u>	<u>\$6,416,012</u>	<u>\$2,863,142</u>	<u>\$0</u>	<u>\$1,592,818</u>	<u>\$25,621,609</u>
<b>Liabilities</b>							
Accounts Payable	\$58,874	\$5,594	\$0	\$4,155	\$0	\$16,156	\$84,779
Contracts Payable	8,538	0	0	152,314	0	0	160,852
Accrued Wages	38,560	18,223	0	0	0	0	56,783
Intergovernmental Payable	119,219	53,319	0	0	0	52,652	225,190
Accrued Interest Payable	0	0	0	0	0	504	504
Interfund Payable	0	0	0	0	306,689	395,147	701,836
<i>Total Liabilities</i>	<u>225,191</u>	<u>77,136</u>	<u>0</u>	<u>156,469</u>	<u>306,689</u>	<u>464,459</u>	<u>1,229,944</u>
<b>Deferred Inflows of Resources</b>							
Property Taxes	1,487,146	1,371,640	207,509	0	0	207,508	3,273,803
Unavailable Revenue	2,013,048	242,822	6,047,237	0	0	260,206	8,563,313
<i>Total Deferred Inflows of Resources</i>	<u>3,500,194</u>	<u>1,614,462</u>	<u>6,254,746</u>	<u>0</u>	<u>0</u>	<u>467,714</u>	<u>11,837,116</u>
<b>Fund Balances</b>							
Nonspendable	144,218	428	0	0	0	43,703	188,349
Restricted	0	634,108	161,266	2,706,673	0	811,427	4,313,474
Assigned	18,420	0	0	0	0	0	18,420
Unassigned (Deficit)	8,535,480	0	0	0	(306,689)	(194,485)	8,034,306
<i>Total Fund Balances (Deficit)</i>	<u>8,698,118</u>	<u>634,536</u>	<u>161,266</u>	<u>2,706,673</u>	<u>(306,689)</u>	<u>660,645</u>	<u>12,554,549</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$12,423,503</u>	<u>\$2,326,134</u>	<u>\$6,416,012</u>	<u>\$2,863,142</u>	<u>\$0</u>	<u>\$1,592,818</u>	<u>\$25,621,609</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2013*

---

**Total Governmental Fund Balances** \$12,554,549

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

Capital assets used in governmental activities are not financial resources and  
 therefore are not reported in the funds. 20,015,753

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

Delinquent Property Taxes	141,400
Income Taxes	1,721,374
Estate Taxes	92,434
Special Assessments	6,139,131
Intergovernmental	381,989
Charges for Services	<u>86,985</u>

Total 8,563,313

In the statement of activities, interest is accrued on outstanding bonds, whereas  
 in governmental funds, an interest expenditure is reported when due. (24,979)

Vacation benefits payable is not expected to be paid with expendable available  
 financial resources and therefore not reported in the funds. (199,503)

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

General Obligation Bonds	(195,000)
Special Assessment Bonds	(6,960,026)
OPWC Loans	(1,466,394)
Compensated Absences	<u>(187,231)</u>

Total (8,808,651)

*Net Position of Governmental Activities* \$32,100,482

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, 2013*

	General	Fire Levy	Bond Retirement	Capital Improvement	Lander Road	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property Taxes	\$1,517,299	\$1,397,275	\$205,945	\$0	\$0	\$211,716	\$3,332,235
Municipal Income Taxes	5,523,037	0	0	0	0	0	5,523,037
Estate Taxes	1,030,780	0	0	0	0	0	1,030,780
Admissions Taxes	289,302	0	0	0	0	0	289,302
Charges for Services	3,164	159,465	0	0	0	0	162,629
Fees, Licenses and Permits	321,533	0	0	0	0	0	321,533
Fines and Forfeitures	36,190	0	0	0	0	14,871	51,061
Intergovernmental	253,462	214,010	29,229	1,623,173	0	332,479	2,452,353
Special Assessments	0	0	601,502	0	0	29,171	630,673
Interest	11,061	0	0	0	0	288	11,349
Rentals	87,734	0	0	0	0	0	87,734
Contributions and Donations	0	0	0	40,000	0	0	40,000
Franchise Tax	45,896	0	0	0	0	0	45,896
Other	194,856	2,961	0	10,195	0	0	208,012
<i>Total Revenues</i>	<u>9,314,314</u>	<u>1,773,711</u>	<u>836,676</u>	<u>1,673,368</u>	<u>0</u>	<u>588,525</u>	<u>14,186,594</u>
<b>Expenditures</b>							
Current:							
General Government	1,062,149	0	8,620	0	0	0	1,070,769
Security of Persons and Property:							
Police	2,106,912	0	0	0	0	277,176	2,384,088
Fire	0	1,442,120	0	0	0	134,231	1,576,351
Public Health Services	28,595	0	0	0	0	0	28,595
Community Environment	275,843	0	0	0	0	6,725	282,568
Basic Utility Services	1,071,275	0	0	0	0	0	1,071,275
Transportation	997,322	0	0	0	0	211,207	1,208,529
Capital Outlay	0	0	0	766,695	1,375,779	5,216	2,147,690
Debt Service:							
Principal Retirement	0	0	453,408	0	0	0	453,408
Interest and Fiscal Charges	0	0	313,482	0	0	7,138	320,620
<i>Total Expenditures</i>	<u>5,542,096</u>	<u>1,442,120</u>	<u>775,510</u>	<u>766,695</u>	<u>1,375,779</u>	<u>641,693</u>	<u>10,543,893</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,772,218</u>	<u>331,591</u>	<u>61,166</u>	<u>906,673</u>	<u>(1,375,779)</u>	<u>(53,168)</u>	<u>3,642,701</u>
<b>Other Financing Sources (Uses)</b>							
Sale of Capital Assets	32,330	0	0	0	0	0	32,330
OPWC Loans Issued	0	0	0	0	819,090	0	819,090
Transfers In	0	0	0	950,000	250,000	265,000	1,465,000
Transfers Out	(1,465,000)	0	0	0	0	0	(1,465,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,432,670)</u>	<u>0</u>	<u>0</u>	<u>950,000</u>	<u>1,069,090</u>	<u>265,000</u>	<u>851,420</u>
<i>Net Change in Fund Balances</i>	2,339,548	331,591	61,166	1,856,673	(306,689)	211,832	4,494,121
<i>Fund Balances Beginning of Year</i>	6,358,570	302,945	100,100	850,000	0	448,813	8,060,428
<i>Fund Balances (Deficit) End of Year</i>	<u>\$8,698,118</u>	<u>\$634,536</u>	<u>\$161,266</u>	<u>\$2,706,673</u>	<u>(\$306,689)</u>	<u>\$660,645</u>	<u>\$12,554,549</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, 2013*

---

**Net Change in Fund Balances - Total Governmental Funds** \$4,494,121

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

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

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

Capital Asset Additions	1,984,634	
Current Year Depreciation	<u>(1,036,265)</u>	
Total		948,369

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (27,987)

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

Delinquent Property Taxes	15,557	
Income Taxes	445,387	
Estate Taxes	(33,951)	
Special Assessments	(310,449)	
Intergovernmental	22,373	
Charges for Services	<u>(13,093)</u>	
Total		125,824

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 453,408

OPWC loans issued are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net position. (819,090)

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

Accrued Interest on Bonds	(2,087)	
Amortization of Bond Premium	<u>1,564</u>	
Total		(523)

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	25,481	
Vacation Benefits Payable	<u>29,412</u>	
Total		<u>54,893</u>

*Change in Net Position of Governmental Activities* \$5,229,015

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, 2013*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$2,255,342	\$1,530,941	\$1,517,299	(\$13,642)
Municipal Income Taxes	6,942,186	4,712,400	5,372,846	660,446
Estate Taxes	316,732	215,000	769,313	554,313
Admissions Taxes	390,392	265,000	258,819	(6,181)
Charges for Services	2,946	2,000	3,164	1,164
Fees, Licenses and Permits	423,538	287,500	321,533	34,033
Fines and Forfeitures	63,354	43,005	34,317	(8,688)
Intergovernmental	435,030	295,301	263,307	(31,994)
Interest	16,205	11,000	11,061	61
Rentals	88,390	60,000	117,734	57,734
Franchise Tax	103,122	70,000	61,351	(8,649)
Other	73,806	50,100	193,118	143,018
<i>Total Revenues</i>	<u>11,111,043</u>	<u>7,542,247</u>	<u>8,923,862</u>	<u>1,381,615</u>
<b>Expenditures</b>				
Current:				
General Government	1,186,637	1,196,137	1,148,586	47,551
Security of Persons and Property:				
Police	2,146,567	2,152,567	2,138,705	13,862
Public Health Services	33,418	33,418	28,595	4,823
Community Environment	255,720	280,720	262,024	18,696
Basic Utility Services	1,220,605	1,118,105	1,111,863	6,242
Transportation	1,173,930	1,280,530	1,038,187	242,343
<i>Total Expenditures</i>	<u>6,016,877</u>	<u>6,061,477</u>	<u>5,727,960</u>	<u>333,517</u>
<i>Excess of Revenues Over Expenditures</i>	<u>5,094,166</u>	<u>1,480,770</u>	<u>3,195,902</u>	<u>1,715,132</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	32,330	32,330
Transfers Out	(1,465,000)	(1,465,000)	(1,465,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,465,000)</u>	<u>(1,465,000)</u>	<u>(1,432,670)</u>	<u>32,330</u>
<i>Net Change in Fund Balance</i>	3,629,166	15,770	1,763,232	1,747,462
<i>Fund Balance Beginning of Year</i>	5,813,803	5,813,803	5,813,803	0
Prior Year Encumbrances Appropriated	224,197	224,197	224,197	0
<i>Fund Balance End of Year</i>	<u>\$9,667,166</u>	<u>\$6,053,770</u>	<u>\$7,801,232</u>	<u>\$1,747,462</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Levy Fund*  
*For the Year Ended December 31, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,410,712	\$1,410,712	\$1,397,275	(\$13,437)
Charges for Services	0	150,000	164,408	14,408
Intergovernmental	144,233	197,131	214,010	16,879
<i>Total Revenues</i>	1,554,945	1,757,843	1,775,693	17,850
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	1,471,647	1,519,147	1,478,865	40,282
<i>Net Change in Fund Balance</i>	83,298	238,696	296,828	58,132
<i>Fund Balance Beginning of Year</i>	351,544	351,544	351,544	0
Prior Year Encumbrances Appropriated	11,673	11,673	11,673	0
<i>Fund Balance End of Year</i>	<u>\$446,515</u>	<u>\$601,913</u>	<u>\$660,045</u>	<u>\$58,132</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2013*

---

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$308,347</u></u>

<b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$308,347</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, 2013*

---

---

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

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

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

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. There are no component units included as part of this report.

The City participates in the Ohio Municipal League Association Workers’ Compensation Group Rating Program, the Buckeye Ohio Risk Management Agency, the Northeast Ohio Public Energy Council and the Valley Enforcement Regional Council of Governments, which are defined as public entity pools and jointly governed organizations. These organizations are discussed in Notes 17 and 18 to the basic financial statements.

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

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



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

***Basis of Presentation***

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

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

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

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

***Fund Accounting***

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

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

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

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

***Lander Road Fund*** – The lander road fund is used to account for and report restricted loan proceeds to be used for reconstruction improvements to Lander Road.

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

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

#### ***Measurement Focus***

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

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

#### ***Basis of Accounting***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

**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 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**Deferred Outflows/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represent receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, intergovernmental grants and ambulance charges. These amounts are deferred and recognized as an inflow of resources in the period the amounts became available.

**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, 2013*

---

---

***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 2013, the City invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on December 31, 2013.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amounted to \$11,061, which includes \$4,160 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, 2013, 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, 2013*

---

---

***Capital Assets***

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

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

***Interfund Balances***

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

***Compensated Absences***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

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

***Bond Premiums***

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

***Accrued Liabilities and Long-Term Obligations***

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

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

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

**Committed** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State Statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***Net Position***

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

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

***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.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

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

***Estimates***

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

**Note 3 – Change in Accounting Principles and Restatement of Prior Year Net Position**

***Change in Accounting Principles***

For 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB 14 and 34.” This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The implementation of the statement did not result in any change in the City’s financial statements.

***Restatement of Prior Year’s Net Position***

During the year, it was determined that special assessments receivable were understated and capital assets were overstated at December 31, 2012. These restatements had the following effect on governmental net position as previously reported.

	<u>Governmental Activities</u>
Net Position, December 31, 2012	\$21,370,039
Special Assessments Receivable	6,242,409
Capital Assets	<u>(740,981)</u>
Restated Net Position, December 31, 2012	<u><u>\$26,871,467</u></u>



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2013

**Note 4 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Levy	Bond Retirement	Capital Improvement	Lander Road	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>							
Inventory	\$4,744	\$428	\$0	\$0	\$0	\$43,703	\$48,875
Prepays	46,581	0	0	0	0	0	46,581
Interfund Loans	92,893	0	0	0	0	0	92,893
<b><i>Total Nonspendable</i></b>	<b>144,218</b>	<b>428</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43,703</b>	<b>188,349</b>
<b><i>Restricted for</i></b>							
Street Construction, Maintenance and Repair	0	0	0	0	0	664,209	664,209
Recycle Ohio	0	0	0	0	0	25,190	25,190
Fire Department	0	634,108	0	0	0	0	634,108
Police Pension	0	0	0	0	0	5,811	5,811
Fire Pension	0	0	0	0	0	49,484	49,484
Beautification	0	0	0	0	0	10,501	10,501
Law Enforcement	0	0	0	0	0	3,211	3,211
Emergency Assistance	0	0	0	0	0	11,727	11,727
Municipal Emergency	0	0	0	0	0	41,276	41,276
Urban Forestry	0	0	0	0	0	18	18
Debt Service	0	0	161,266	0	0	0	161,266
Capital Improvements	0	0	0	2,706,673	0	0	2,706,673
<b><i>Total Restricted</i></b>	<b>0</b>	<b>634,108</b>	<b>161,266</b>	<b>2,706,673</b>	<b>0</b>	<b>811,427</b>	<b>4,313,474</b>
<b><i>Assigned to</i></b>							
Purchases on Order	18,420	0	0	0	0	0	18,420
<b><i>Unassigned (Deficit)</i></b>	<b>8,535,480</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(306,689)</b>	<b>(194,485)</b>	<b>8,034,306</b>
<b><i>Total Fund Balances (Deficit)</i></b>	<b>\$8,698,118</b>	<b>\$634,536</b>	<b>\$161,266</b>	<b>\$2,706,673</b>	<b>(\$306,689)</b>	<b>\$660,645</b>	<b>\$12,554,549</b>

**Note 5 – Fund Deficits**

Fund balances at December 31, 2013, included the following individual fund deficits:

<b><i>Capital Projects Funds</i></b>	
Lander Road	\$306,689
Nature Works	4,695
Pepper Pike Waste Water Treatment Plant	47,334
Northwest Quadrant	24,000
Thornapple Waterline	2,481
Brainard Road Sewerline	37,802
Lander/Emerson Waterline	24,113
Kersdale Road Waterline	54,060

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

The Lander Road and Nature Works capital project fund deficits were caused by deficit cash balances resulting from expenditures exceeding revenues in 2013. The general fund is liable for any deficit in these funds.

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

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

**Note 6 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).

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

	Net Change in Fund Balance	
	General	Fire Levy
GAAP Basis	\$2,339,548	\$331,591
Net Adjustment for Revenue Accruals	(390,452)	1,982
Net Adjustment for Expenditure Accruals	(140,343)	5,548
Encumbrances	(45,521)	(42,293)
Budget Basis	\$1,763,232	\$296,828

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

**Note 7 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

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

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

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

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$9,561,994 of the City's bank balance of \$12,123,183 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**

At December 31, 2013, the City had \$440,932 invested in STAR Ohio with an average maturity of 53.4 days.

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

**Note 8 - Receivables**

Receivables at December 31, 2013, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.

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

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

Special assessments expected to be collected in more than one year amount to \$5,692,129 in the bond retirement fund. At December 31, 2013 the amount of delinquent special assessments was \$28,146.

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections of 2012 taxes.

2013 real property taxes are levied after October 1, 2013 on the assessed value as of January 1, 2013 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2013 real property taxes are collected in and intended to finance 2014.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2013 public utility property taxes which became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2013, was \$9.50 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2013 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$366,702,570
Other Real Estate	33,364,360
Public Utility Property	<u>6,404,910</u>
Total Assessed Values	<u><u>\$406,471,840</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which are measurable as of December 31, 2013 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2013 operations is offset to deferred inflows of

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

resources – property taxes. On the accrual basis, collective delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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

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

***Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2013 follows:

Estate Tax	\$369,736
Homestead and Rollback	230,553
Gasoline Tax	103,841
Permissive Tax	43,584
Local Government	35,748
Ohio Police and Fire Pension	5,193
Cuyahoga County Library	3,771
Shaker Heights Municipal Court	<u>1,873</u>
Total	<u><u>\$794,299</u></u>

**Note 9 - 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, 2013.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2013

**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Restated Balance 12/31/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2013</u>
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$751,350	\$0	\$0	\$751,350
Construction in Progress	<u>1,297,870</u>	<u>1,385,936</u>	<u>(1,303,332)</u>	<u>1,380,474</u>
<b><i>Total Capital Assets not being Depreciated</i></b>	<u>2,049,220</u>	<u>1,385,936</u>	<u>(1,303,332)</u>	<u>2,131,824</u>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	221,806	107,241	0	329,047
Buildings and Improvements	4,446,918	14,227	(5,605)	4,455,540
Vehicles	3,432,040	30,069	(41,503)	3,420,606
Furniture, Fixtures and Equipment	1,827,836	159,524	(216,792)	1,770,568
Infrastructure				
Streets	29,603,177	287,637	(215,728)	29,675,086
Bridges	258,189	0	0	258,189
Sanitary Sewers	<u>10,826,108</u>	<u>1,303,332</u>	<u>0</u>	<u>12,129,440</u>
<b><i>Total Capital Assets being Depreciated</i></b>	<u>50,616,074</u>	<u>1,902,030</u>	<u>(479,628)</u>	<u>52,038,476</u>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(167,303)	(12,737)	0	(180,040)
Buildings and Improvements	(1,464,517)	(87,598)	5,605	(1,546,510)
Vehicles	(2,586,086)	(226,408)	41,503	(2,770,991)
Furniture, Fixtures and Equipment	(1,546,716)	(71,149)	188,805	(1,429,060)
Infrastructure				
Streets	(25,426,501)	(393,202)	215,728	(25,603,975)
Culverts	(177,305)	(2,582)	0	(179,887)
Sanitary Sewers	<u>(2,201,495)</u>	<u>(242,589)</u>	<u>0</u>	<u>(2,444,084)</u>
<b><i>Total Accumulated Depreciation</i></b>	<u>(33,569,923)</u>	<u>(1,036,265) *</u>	<u>451,641</u>	<u>(34,154,547)</u>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<u>17,046,151</u>	<u>865,765</u>	<u>(27,987)</u>	<u>17,883,929</u>
<b><i>Total Capital Assets, Net</i></b>	<u>\$19,095,371</u>	<u>\$2,251,701</u>	<u>(\$1,331,319)</u>	<u>\$20,015,753</u>

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

General Government	\$96,308
Security of Persons and Property:	
Police	28,334
Fire	126,900
Community Development	4,937
Basic Utility Services	135,247
Transportation	<u>644,539</u>
<b>Total Depreciation Expense</b>	<u><u>\$1,036,265</u></u>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

**Note 11 – Other Employee Benefits**

***Compensated Absences***

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

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

***Insurance***

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

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

**Note 12 - 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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, 2013*

---

---

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. 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, 2013, members in state and local divisions contributed 10 percent of covered payroll. For 2013, member and employer contribution rates were consistent across all three plans.

The City's 2013 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contribution allocated to health care was 1.0 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2.0 percent. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012 and 2011 were \$254,199, \$220,916 and \$248,795, respectively. For 2013, 91.15 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011. Neither the City or plan members made contributions to the Member-Directed Plan for 2013.

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

Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2013, through July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013, through December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent and 24.0 percent, respectively, for police officers and 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. For January 1, 2013, through May 31, 2013, the portion of employer contributions used to fund pension benefits was 14.81 percent of covered payroll for police officers and 19.31 percent of covered payroll for firefighters. For June 1, 2013, through December 31, 2013, the portion of employer contributions used to fund pension benefits was 16.65 percent of covered payroll for police officers and 21.15 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$190,495 and \$127,409 for the year ended December 31, 2013, \$160,520 and \$141,754 for the year ended December 31, 2012, and \$164,936 and \$173,369 for the year ended December 31, 2011, respectively. For 2013, 87.19 percent for police and 87.46 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

---

***Social Security***

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2013, three members of the Architectural Review Board and three part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

**Note 13 – 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 visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the portion of employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1.0 percent. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0 percent for both plans, as recommended by the OPERS Actuary.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

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, 2013, 2012 and 2011 were \$19,554, \$88,367, and \$99,518, respectively. For 2013, 91.15 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

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

***Ohio Police and Fire Pension Fund***

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

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available of OP&F's website at [www.op-f.org](http://www.op-f.org).

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 January 1, 2013, through May 31, 2013, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll. For June 1, 2013, through December 31, 2013, the employer contribution allocated to the health care plan was 2.85 percent of covered payroll. The amount of

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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 also is 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 health care benefits for police and firefighters were \$43,376 and \$22,607 for the year ended December 31, 2013, \$84,981 and \$55,469 for the year ended December 31, 2012, and \$87,319 and \$67,840 for the year ended December 31, 2011. For 2013, 87.19 percent has been contributed for police and 87.46 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

**Note 14 - 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 Brit Insurance Group for following types of insurance:

Type	Deductible	Coverage
Property and Equipment	\$1,000	\$8,503,390
Boiler and Machinery	1,000	8,503,390
Inland Marine	500	483,995
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	75,000
Employee Dishonesty	N/A	100,000
Vehicle Physical Damage	500/1,000	Actual cash value

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

***Workers' Compensation***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

**Note 15 - Interfund Transfers and Balances**

***Interfund Transfers***

The general fund made transfers to the police pension and fire pension special revenue funds and the capital improvement and lander road capital project funds in the amounts of \$165,000, \$100,000, \$950,000 and \$250,000 respectively. The transfers to the police pension and fire pension special revenue funds were to supplement funding for maintaining those programs. The transfers to the capital project funds were to provide funding for capital improvements within the City.

***Interfund Balances***

On the fund financial statements interfund balances at December 31, 2013 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$115,471	\$586,365	\$0	\$0
Lander Road	0	0	0	306,689
Nature Works	0	0	0	4,695
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	37,622	0
Lander/Emerson Waterline	0	0	24,000	0
Kersdale Road Waterline	0	0	53,849	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<i>Totals</i>	<u>\$115,471</u>	<u>\$586,365</u>	<u>\$115,471</u>	<u>\$586,365</u>

The interfund balances in the lander road and nature works capital project funds were the result of deficit cash balances due to the timing of the receipt of grant monies at year end.

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

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

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

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

The remaining interfund balances at December 31, 2013 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.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2013

**Note 16 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2013 follows:

	Principal Outstanding 12/31/2012	Additions	Deletions	Principal Outstanding 12/31/2013	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1997 5.35% Brookwood Water Serial Bonds	\$245,000	\$0	(\$50,000)	\$195,000	\$50,000
<b>Special Assessment Bonds</b>					
2007 4.00 - 5.00 % Various Purpose Serial Bonds	1,115,000	0	(135,000)	980,000	155,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00 % Street Improvement Serial Bonds	450,000	0	(50,000)	400,000	50,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13 % Street Improvement Serial Bonds	3,070,000	0	(140,000)	2,930,000	140,000
Premium on Bonds	26,590	0	(1,564)	25,026	0
2010 Windy Hill Bonds Serial Bonds	138,000	0	(5,000)	133,000	5,000
2010 Thornapple Bonds Serial Bonds	87,000	0	(5,000)	82,000	5,000
<i>Total Special Assessment Bonds</i>	<u>7,296,590</u>	<u>0</u>	<u>(336,564)</u>	<u>6,960,026</u>	<u>355,000</u>
<b>OPWC Loans</b>					
1996 0% Pinetree Water	105,218	0	(26,305)	78,913	26,305
2007 0% Brainard Road	610,494	0	(42,103)	568,391	42,103
2013 0% Lander Road	0	819,090	0	819,090	0
<i>Total OPWC Loans</i>	<u>715,712</u>	<u>819,090</u>	<u>(68,408)</u>	<u>1,466,394</u>	<u>68,408</u>
<b>Other Long-term Obligations</b>					
Compensated Absences	212,712	51,223	(76,704)	187,231	61,361
<i>Total Governmental Activities</i>	<u>\$8,470,014</u>	<u>\$870,313</u>	<u>(\$531,676)</u>	<u>\$8,808,651</u>	<u>\$534,769</u>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

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

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

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

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

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

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

A line of credit has been established with the Ohio Public Works Commission in the amount of \$2,000,000 for the Lander Road reconstruction project. As of December 31, 2013, only \$819,090 in proceeds has been received and a loan payment schedule has not been finalized; therefore, the repayment schedule is not included in the schedule of debt service requirements.

As of December 31, 2013, the City's overall legal debt margin was \$41,179,415. The unvoted legal debt margin was \$20,855,823. Principal and interest requirements to retire the long-term general obligation bonds, special assessment bonds and the OPWC loans as of December 31, 2013 are as follows:

	General Obligation Bonds		OPWC Loan
	Serial		
	Principal	Interest	
2014	\$50,000	\$10,433	\$68,408
2015	50,000	7,757	68,407
2016	50,000	5,083	68,407
2017	45,000	2,407	42,103
2018	0	0	42,103
2019-2023	0	0	210,515
2024-2027	0	0	147,361
Total	\$195,000	\$25,680	\$647,304



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2013

	Special Assessment Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2014	\$355,000	\$171,788	\$0	\$117,525
2015	360,000	159,750	0	117,525
2016	375,000	147,226	0	117,525
2017	385,000	133,563	0	117,525
2018	405,000	119,362	0	117,525
2019-2023	1,240,000	409,482	1,020,000	524,500
2024-2028	1,135,000	195,814	1,390,000	189,000
2029-2030	270,000	11,728	0	0
Total	\$4,525,000	\$1,348,713	\$2,410,000	\$1,301,125

**Note 17 – Public Entity Pool**

*Insurance Purchasing Pool*

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

*Shared Risk Pool*

***Buckeye Ohio Risk Management Agency (BORMA)*** The City participates in the Buckeye Ohio Risk Management Agency (BORMA), a public entity shared risk pool among several cities in Northern Ohio. BORMA was formed as an Ohio not-for-profit corporation and operates a health insurance program. Each member appoints one person to represent the city on the Board of Directors for a term of one year for participation in the health insurance program and three years for participation in the property, crime, and liability insurance program. Each member city’s control over the budgeting and financing of BORMA is limited to its voting authority and any representation it may have on the Board of Directors. Participation in BORMA is by written application subject to approval of the Board of Directors and the payment of premiums. Member cities must remain members for cycles of three years. A member may withdraw from a program by giving a forty day notice prior to the beginning of the next cycle. BORMA did not have any outstanding debt obligations as of December 31, 2013. Financial information may be obtained from Arthur J. Gallagher Risk Management Services, Inc., 1500 West Third Street, Suite 405, Cleveland, Ohio 44113.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

**Note 18 – Jointly Governed Organizations**

*Northeast Ohio Public Energy Council (NOPEC)*

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2013. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

*Valley Enforcement Regional Council of Governments*

The City is a member of Valley Enforcement Regional Council of Governments (“VERCOG”), a jointly governed organization. VERCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. The operation of the VERCOG is controlled by a general policy board which consists of a representative from each participant. Each member’s degree of control is limited to its representation on the board. The City of Pepper Pike did not contribute to VERCOG during 2013.

**Note 19 – Significant Commitments**

*Contractual Commitments*

As of December 31, 2013, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid to Date	Remaining Contract
Trax Construction	\$1,735,928	\$0	\$1,735,928
Ronyak Paving Inc.	417,542	0	417,542
	<u>\$2,153,470</u>	<u>\$0</u>	<u>\$2,153,470</u>

Remaining commitments were encumbered at year end.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

---

***Encumbrances***

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

<i>Governmental Funds:</i>	
General	\$45,521
Fire Levy	42,293
Capital Improvement	2,316,968
Lander Road	417,542
Other Governmental Funds	32,873
Total	\$2,855,197

**Note 20 – Compliance and Accountability**

At December 31, 2013, the following funds had negative cash fund balances indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(I).

<i>Capital Projects Funds</i>	
Funds	Deficit
Lander Road	\$306,689
Nature Works	4,695

Management has indicated that it will closely monitor all projects and funds, especially those involving grants and reimbursements so that those projects and funds will not be negative at year end due to timing differences. These procedures are now in place to prevent future violations.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated December 11, 2014.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the Entity's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

***Entity's Response to Findings***

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



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

December 11, 2014

**CITY OF PEPPER PIKE  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

<b>Finding Number</b>	<b>2013-001</b>
-----------------------	-----------------

**Material Noncompliance Finding – Negative Cash Fund Balances**

Ohio Rev. Code § 5705.10(I) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

As of December 31, 2013, the following funds had negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Capital Projects Funds:	
Lander Road	(\$306,689)
Nature Works	(4,695)

A fund with a negative cash fund balance indicates that money from another fund was used to pay the expenditures of that fund.

We recommend the City monitor fund balances regularly to ensure that expenditures are made within appropriated levels of available funds and if negative fund balances are anticipated, the City should make an approved transfer or advance of funds to cover the necessary expenditures.

**City’s Response**

The Lander Road Capital Project is a project that the City is working with the Ohio Public Works Commission (OPWC) to obtain an 80% interest free 20 year loan. The project was originally estimated at \$2,500,000, with the City’s portion being \$500,000. The project started in 2013 and was completed in 2014. Overall, the project came in well under budget. Unfortunately, the City was required to first spend the money before OPWC reimbursed the City. This created a timing issue of funds and the City spent \$306,689 more in 2013 than it had received reimbursement from the OPWC. These funds will be received in 2014 to correct this situation.

The Nature Works issue is similar in nature. The City received a \$37,599 grant from Nature Works to build a new restroom facility next to Pepper Pike Park. The majority of the work occurred in 2014. The project had to be completed prior to the City receiving the grant funds. \$4,695 was spent in the latter part of 2013 and the City was unable to be reimbursed due to timing.

The City is well aware of the fact that it cannot have negative fund balances at year end. For 2014 and beyond, the City will ensure that these timing issues at year end do not occur again.

**This page intentionally left blank.**





# 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  
DECEMBER 30, 2014**