



**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

REGUALR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Fire Levy Fund	22
Statement of Fiduciary Assets and Liabilities - Agency Funds	23
Notes to the Basic Financial Statements	25
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2005 and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Levy funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the City adopted Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" for the year ended December 31, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

October 27, 2006

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
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 fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ◆ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$22.8 million. Of this amount, \$5.5 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$4.0 million, which represents an increase of approximately 12.2 percent over 2004. The biggest change was an increase in nondepreciable and depreciable capital assets of \$2.8 million and \$1.6 million respectively combined with an increase in intergovernmental receivables of \$0.2 million and \$0.4 million in income taxes receivable. These increases were offset by a decline in cash and cash equivalents of \$0.9 million.
- ◆ Total liabilities increased by \$3.3 million which represents an increase of 30.8 percent compared to 2004. The main factor contributing to this increase was the issuance of a one-year note in the amount of \$5.5 million to fund various special assessment projects and also the retirement of a \$2.0 million note issued in 2004. Contracts payable increased by \$0.3 million, long-term liabilities due in more than one year and accounts payable decreased by \$0.6 million and \$0.1 million. The categories of intergovernmental payable, deferred revenues, vacation benefits payable, and accrued wages increased overall by \$0.2 million.
- ◆ In total, net assets in governmental activities increased by \$0.7 million during 2005. This represents a 3.2 percent increase over 2004.

Using this Annual Financial Report

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

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

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Fund Financial Statements

The analysis of the City's major funds begins on page 11. Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds for the 2005 fiscal year are the General fund, Fire Levy fund, and the Bond Retirement fund and Brainard Road Relocation fund.

Governmental Funds

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

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

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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Table 1 provides a summary of the City's net assets for 2005 as compared to 2004.

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	\$16.1	\$16.5
Capital Assets, Net	20.7	16.3
<i>Total Assets</i>	<u>36.8</u>	<u>32.8</u>
Liabilities		
Current Liabilities and Other Liabilities	4.6	4.2
Long-term Liabilities		
Due Within One Year	0.7	0.7
Due In More Than One Year	8.7	5.8
<i>Total Liabilities</i>	<u>14.0</u>	<u>10.7</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	15.6	12.0
Restricted for:		
Capital Projects	1.0	0.8
Debt Service	0.6	0.9
Other Purpose	0.1	0.9
Unrestricted	5.5	7.5
<i>Total Net Assets</i>	<u>\$22.8</u>	<u>\$22.1</u>

Total assets increased by \$4.0 during 2005 to end at \$36.8 million as compared to \$32.8 million at the end of 2004. The main contributing factors were an increase in non-depreciable assets due to an increase in Construction in Progress of about \$2.8 million towards the various infrastructure improvements and additions in the City such as Brainard Road relocation, Brainard Road water and sewer and the Brainard Road pump station. There was also an increase of \$1.6 million in depreciable capital assets due to the addition of \$1.2 million in the City's vehicle fleet including a platform fire truck valued at \$0.7 million, two snow dump trucks and a street sweeper totalling \$0.3 million. Intergovernmental receivables

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

increased by \$0.2 million and income taxes receivable by \$0.4 million. However, cash and cash equivalents decreased by \$0.9 million.

The total net assets of the City increased by \$0.7 million.

The City continues to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. The interest rates did start an upward trend at the end of 2005 and continue to do so in 2006. Interest rate revenue increased by approximately \$177,000 during 2005 compared to 2004. Due to the interest rates in the past two years, the investments have shifted from short term CD's and government notes and bills to longer term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has generally refrained from locking in investments with maturities that are beyond two and a half years due to the volatility in the market. However, as the Federal Reserve started inching the interest rates upwards the market rates seemed to stabilize at the end of the year. For 2006 the interest revenue is projected to increase based upon the Federal Reserve rate increasing.

Also, the City continues to work in the direction of reducing its current liabilities and expenditures by stabilizing short and long-term liabilities. As an example, the City continued to use the consortium formed during 2000 by joining hands with nine surrounding communities for the purchase of road salt and other supplies during 2005. As a result of joining the consortium the City has saved approximately \$350,000 since inception, due to the power of volume purchasing afforded by the nine communities jointly bidding. To further reduce expenditures on salt the City implemented a salt brine program which effectively reduces the usage of salt by mixing it with a pre-wetting solution. The City is also in the process of purchasing a revolutionary salt-brine spreading system which is anticipated to save an additional thirty to forty percent in salt expenses by spreading salt diagonally away from the curb and only onto the street. The City has taken the lead in utilizing the power of pooling resources within the Chagrin Valley communities by promoting sharing of heavy equipment and machinery. For example, if one of the communities in the Chagrin Valley needs a front end loader for a specific project it would borrow that piece of equipment from a neighboring community and reciprocate by allowing the lending community to borrow its equipment when needed.

Another tool used by the City to reduce its long term liability is to pay off accumulated sick leave for employees who have a balance in excess of 960 hours of sick time remaining in their account at the end of each year. This excess is paid off at the rate of 1 hour for every two hours in excess of the 960 hours. This allows the City to buy back accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement of the employee. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to a future date. The total amount paid out for accumulated sick leave at the end of 2005 was \$41,007 as compared to \$33,457 for 2004.

The City is also part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which helped save \$105,549 in premiums for the 2005 year as compared to being strictly a State funded employer. The various departments within the City have established safety committees to meet the Bureau's guidelines and provide the employees with safety equipment to enable them to perform their tasks efficiently and also, as much as possible, to help keep the City premises an injury

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

free work place. Random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The City's service department continued to adopt cost saving measures during the year. With the help of an aggressive recycling campaign approximately 379 tons of recycled material and 247 tons of donated material were diverted from the landfill thus saving about \$20,551 in disposal costs. The City was among one of the Top Recyclers in the County during 2005. The City also received a Recycle Ohio Grant for the third consecutive year in the amount of \$10,909 for the purchase of recycled materials and also for subsidizing public awareness for recycling through distribution of educational materials and newsletters. The service department was also the recipient of a grant in the amount of \$2,640 funded by the Department of Homeland Security for Weapons of Mass Destruction Awareness Training and was named a Tree City USA for the sixth consecutive year. The service department also continued its residential mixed recycling program which entails picking up recyclable material at the residences as opposed to having the residents drop off the material at the service garage. This was a big success and will be continued during 2006 which will ensure additional savings by having even more material being diverted from the landfill. The purchasing of chemical and janitorial supplies was centralized in 2003 and contracts are awarded through an informal bid process which has resulted in savings of approximately \$4,000 as compared to each department buying in smaller quantities. Also, instead of contracting out the street sweeping of City streets to private contractors at an annual cost of \$6,000, the service department purchased a used street sweeper for \$5,000 during 2001 and has been using this equipment for the past five years resulting in additional savings. The department also has purchased three swap loaders which can convert from a salt bed to a dump bed in minutes. This affords efficiencies in capital and maintenance costs since instead of two truck chassis the City only needs to purchase one. The service department also continues to do repairs and renovations by using the in-house crew as opposed to hiring contractors which ensures maximizing use of available resources.

Table 2 shows the changes in net assets for fiscal year 2005 and corresponds to the Statement of Activities on page 16.

Table 2
 Changes in Net Assets
 (In Millions)

	Governmental Activities	
	2005	2004
Program Revenues		
Charges for Services	\$0.3	\$0.1
Operating Grants, Contributions and Interest	0.3	0.3
Capital Grants and Contributions	1.5	0.1
<i>Total Program Revenues</i>	\$2.1	\$0.5

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

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

	Governmental Activities	
	2005	2004
General Revenues		
Property Taxes	\$3.3	\$3.1
Income Taxes	4.5	4.0
Grants and Entitlements	1.2	0.9
Investment Earnings	0.3	0.1
Other	0.1	0.1
<i>Total General Revenues</i>	<u>9.4</u>	<u>8.2</u>
<i>Total Revenues</i>	<u>11.5</u>	<u>8.7</u>
Program Expenses		
General Government	1.3	1.5
Security of Persons and Property	5.1	5.0
Transportation	3.0	3.0
Community Environment	0.3	0.2
Basic Utility Services	0.8	1.5
Interest and Fiscal Charges	0.3	0.2
<i>Total Program Expenses</i>	<u>10.8</u>	<u>11.4</u>
<i>Change in Net Assets</i>	0.7	(2.2)
Net Assets Beginning of Year	<u>22.1</u>	<u>24.3</u>
Net Assets End of Year	<u>\$22.8</u>	<u>\$22.1</u>

Governmental Activities

Several revenue sources fund the governmental activities with the City's income tax being the largest contributor. The City's income tax rate is one percent on gross income and has not changed since 1971 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community receive a fifty percent tax credit on their City tax for Pepper Pike, the credit limit being one percent. For 2005 the revenues generated from this tax amounted to \$4.5 million as compared to \$4.0 million for 2004. The increase in revenues from this source seemed to be nominal and appeared to be a nationwide occurrence due to the general state of the economy. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. The City also conducts joint efforts with the Regional Income Tax Agency (RITA), the City's income tax collection agency, in tracking new taxpayers, especially contractors performing short term projects within the City. Property tax revenues come in a close second generating

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

\$3.3 million in revenues for the year 2005. The median home value in the City in 2005 per census reports is \$385,000. During 2005 the City received \$594,000 from estate taxes. Recent changes in State law now provides a higher percentage of revenue to the individual communities at the same time lowering the State's share. The State also changed the amount of estates exempt from the tax to \$338,333 effective January 1, 2002.

Security of persons and property and transportation are the major activities of the City generating seventy-five percent of the governmental expenses. Currently, there are twenty full-time sworn officers in the police department. During 2004, the City was rated amongst the top five communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. The department continued to place strong emphasis on the training of its personnel to maintain their proficiency and to keep up with the rapidly changing laws, practices and technology. During 2005 an in-car video camera system was purchased for each of the marked cruisers which can record video and audio of traffic stops, prisoner transports and crime scene information. This could help the City in defending frivolous law suits that may arise from these situations. The department purchased an inexpensive video conferencing system that allows a prisoner to be arraigned remotely by the Municipal Court Judge in lieu of being transported to court by an officer thus saving valuable time and money. The police department in conjunction with the local school board started a School Resource Officer Program allowing a permanently placed officer to interdict problems or issues involving students before they become criminal matters. In 2000, the jail was converted to a three-day holding facility to reduce the costs of operations of a full-fledged jail and the liabilities associated with running such a facility. Also, the Reverse911 system installed at a total cost of \$41,767 during 2002 was used to make routine and emergency telephone calls to all residences within the City and will also be able to provide daily check-up phone calls to homebound seniors to ensure their safety and well being. The court-sanctioned self-supporting juvenile diversion program which was put in effect in June 1999 continues to be a success.

The fire department consists of twelve full-time and seventeen part-time fire fighters. All but one of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day to day operation of the fire department. Techniques such as driving rodeos, live practice burn-downs, continuing education classes, practice drills and watching training videos help keep the men updated to perform their jobs most efficiently. The department handled 822 calls for assistance of which 410 were for EMS and 412 for fire and fire related incidents. The total overtime expense during 2005 was \$294,084, as compared to \$255,416 in 2004 and \$257,814 during 2003. During the 2004 general elections the City had placed a 4 mill replacement levy on the ballot and this levy was overwhelmingly approved by the residents for the operation and upkeep of the fire and EMS department. The levy is generating approximately \$1.3 million in property taxes. The total cost of operating the Fire and EMS department during 2005 was \$1.9 million with the general fund subsidizing the difference of \$0.8 million between the revenues generated by the property taxes and the actual expenses.

The City also has an annual road program which entails major and minor resurfacing of the various streets in the City. It also has a crack sealing and concrete repairs program all of which account for approximately \$700,000 in governmental expenses for the upkeep and maintenance of the roadways within the City limits. For the major resurfacing projects, the City has actively pursued and has been successful in obtaining grants, and financial assistance from the Ohio Public Works Commission (OPWC). Since 1998 the City has been successful in obtaining in excess of \$1.8 million in grants or loans from the OPWC. These grants and loan assistance programs account for twenty to thirty percent

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

of the actual costs of the project, the balance being borrowed from the open market by way of bond issues, which reduces the amount of borrowing the City has to undertake. During 2005 the major funds depicted in the Governmental Funds Balance Sheet (page 17) and Statement of Revenues, Expenditures and Changes in Fund Balances (page 19) are the general fund, the fire levy fund, the bond retirement fund and the brainard road relocation fund.

The City's Funds

Information about the City's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11.0 million and expenditures of \$17.7 million. The net change in fund balance for the year was most significant in the general fund showing a decrease of more than \$1.4 million. The total year end fund balance of \$7.5 million is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted at an object level by City Council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of fiscal 2005, the City amended its general fund budget several times during the year. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, budget basis revenue was \$2.5 million above original budget estimates of \$4.3 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$8.8 million was sufficient to meet the expenditures for the year, which ended up at \$8.1 million or \$0.7 million less than anticipated due to a savings experienced in various contracts for the annual road maintenance program and other areas like health insurance costs. The City's ending unobligated budgetary fund balance was \$3.9 million higher than the final projected budgetary fund balance amount of \$0.5 million.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of 2005, the City had \$20.7 million invested in land, buildings, equipment and infrastructure. Table 3 shows 2005 balances of Capital Assets as compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$0.3	\$0.3
Construction in Progress	3.8	1.0
Improvements to Land	0.1	0.1
Buildings and Improvements	3.2	3.3
Vehicles	1.5	0.4
Furniture, Fixtures and Equipment	0.4	0.3
Infrastructure		
Streets	9.4	9.7
Bridges	0.2	0.1
Sanitary Sewer System	1.8	1.1
Total Capital Assets	\$20.7	\$16.3

Net of depreciation, the balances for the above capital assets increased by \$4.4 million. The streets valuation was lower by \$0.3 million as a net result of annual depreciation expense of \$1.3 million offset by an increase in the street valuation of approximately \$1.0 million. There was an increase in the construction in progress category of \$2.8 million. There was also an additional \$0.7 million added to the sanitary sewer category to account for installation of new sewer lines and pump stations after depreciation. There was no significant change in land, improvements to land, buildings and improvements and furniture and fixtures. The City continued its aggressive policy on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks, ambulances, rubbish trucks etc. are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the line of the asset. Police cars are replaced every eighteen months or when they have been driven approximately 65,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or cracksealed and in the case of concrete roads, either replaced

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

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 before, the City has effectively pursued external sources of funding twenty to thirty percent of the project in the form of grants and loan assistance programs from State Issue II funds thereby reducing the total amount to be borrowed to provide the matching funds. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

Debt

At December 31, 2005, the City had \$9.3 million in outstanding debt and long-term liabilities, of which \$3.3 million was in general obligation bonds, and \$5.5 million in one-year notes payable and due in June 2006. Table 4 summarizes the long-term obligations outstanding.

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

	Governmental Activities	
	2005	2004
General Obligation Bonds	\$3.3	\$4.0
OPWC Loans	0.3	0.3
Notes Payable	5.5	2.0
Compensated Absences	0.3	0.2
Total	\$9.4	\$6.5

At December 31, 2005, the City's overall legal debt margin was \$29,856,439 with an unvoted debt margin of \$11,681,082. The City has an aggressive debt reduction strategy whereby most long term bonds are paid off within ten years as opposed to fifteen or twenty years. Also, the manuscript bonds represent five separate water and sewer improvement issues in the form of manuscript bonds issued by the City. At year end, the outstanding general obligation debt was \$3,290,000. In addition, the City had an outstanding balance of \$289,346 on a twenty-year interest free loan obtained from the Ohio Water Pollution Loan Control Fund and 2005 was the ninth year in the repayment cycle. There was also an amount of \$292,330 booked as compensated absences in the long-term debt obligations for items such as accrued sick leave and accrued vacation payable to the employees.

Manuscript debt are bonds issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the general fund from the debt service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. This debt is reflected as an interfund activity between the general fund and the debt service fund.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

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

Current Related Financial Activities

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

Contacting the City of Pepper Pike's Financial Management

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

This Page Intentionally Left Blank.

City of Pepper Pike, Ohio

Cuyahoga County

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,305,579
Accounts Receivable	79,654
Due from Other Governments	656,809
Prepaid Items	94,454
Materials and Supplies Inventory	75,031
Income Taxes Receivable	1,362,454
Property Taxes Receivable	3,199,585
Special Assessments Receivable	356,100
Nondepreciable Capital Assets	4,092,911
Depreciable Capital Assets, Net	<u>16,584,137</u>
<i>Total Assets</i>	<u>36,806,714</u>
Liabilities	
Accounts Payable	138,234
Contracts Payable	448,916
Accrued Wages	168,019
Due to Other Governments	405,185
Deferred Revenue	3,051,849
Accrued Interest Payable	99,441
Vacation Benefits Payable	291,861
Long-Term Liabilities:	
Due Within One Year	677,001
Due In More Than One Year	<u>8,686,675</u>
<i>Total Liabilities</i>	<u>13,967,181</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,577,481
Restricted for:	
Capital Projects	1,027,938
Debt Service	589,261
Other Purposes	148,905
Unrestricted	<u>5,495,948</u>
<i>Total Net Assets</i>	<u><u>\$22,839,533</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike
Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$1,322,322	\$55,477	\$0	\$14,289	(\$1,252,556)
Security of Persons and Property:					
Police	3,201,061	127,023	0	0	(3,074,038)
Fire	1,914,337	84,902	0	0	(1,829,435)
Public Health Services	28,859	0	0	0	(28,859)
Transportation	2,996,305	80,469	266,165	1,458,569	(1,191,102)
Community Environment	246,330	10,132	52,913	0	(183,285)
Basic Utility Services	780,678	0	16,594	0	(764,084)
Interest and Fiscal Charges	284,140	0	0	0	(284,140)
<i>Total Governmental Activities</i>	<u>\$10,774,032</u>	<u>\$358,003</u>	<u>\$335,672</u>	<u>\$1,472,858</u>	<u>(8,607,499)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,303,508
Debt Service	508,338
Fire	1,262,750
Other Purposes	190,627
Municipal Income Taxes	4,505,525
Estate Taxes	594,579
Grants and Entitlements not Restricted to Specific Programs	616,150
Investment Earnings	320,906
Miscellaneous	72,562

Total General Revenues 9,374,945

Change in Net Assets 767,446

Net Assets Beginning of Year - Restated (See Note 3) 22,072,087

Net Assets End of Year \$22,839,533

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Balance Sheet
Governmental Funds
December 31, 2005

	General	Fire Levy	Bond Retirement	Brainard Road Relocation	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$4,185,254	\$8,575	\$470,189	\$1,954,919	\$3,686,642	\$10,305,579
Property Taxes Receivable	1,113,835	1,344,046	539,422	0	202,282	3,199,585
Income Taxes Receivable	1,362,454	0	0	0	0	1,362,454
Accounts Receivable	37,818	41,836	0	0	0	79,654
Intergovernmental Receivable	395,907	83,696	33,482	0	143,724	656,809
Interfund Receivable	2,685,400	0	0	0	0	2,685,400
Materials and Supplies Inventory	75,031	0	0	0	0	75,031
Prepaid Items	94,454	0	0	0	0	94,454
Advances To Other Funds	283,681	0	0	0	0	283,681
Special Assessments Receivable	0	0	72,419	0	283,681	356,100
<i>Total Assets</i>	<u>\$10,233,834</u>	<u>\$1,478,153</u>	<u>\$1,115,512</u>	<u>\$1,954,919</u>	<u>\$4,316,329</u>	<u>\$19,098,747</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$55,759	\$2,741	\$0	\$1,726	\$78,008	\$138,234
Contracts Payable	17,572	0	0	0	431,344	448,916
Accrued Wages and Benefits	116,429	51,590	0	0	0	168,019
Intergovernmental Payable	231,005	184	0	0	173,996	405,185
Interfund Payable	0	0	0	1,900,000	785,400	2,685,400
Deferred Revenue	2,319,252	1,457,118	645,323	0	606,778	5,028,471
Accrued Interest Payable	0	0	0	0	1,243	1,243
Advances From Other Funds	0	0	0	0	283,681	283,681
<i>Total Liabilities</i>	<u>2,740,017</u>	<u>1,511,633</u>	<u>645,323</u>	<u>1,901,726</u>	<u>2,360,450</u>	<u>9,159,149</u>
Fund Balances						
Reserved for Encumbrances	209,100	4,849	0	514,859	1,077,120	1,805,928
Reserved for Advances	283,681	0	0	0	0	283,681
Unreserved						
Undesignated, Reported in:						
General Fund	7,001,036	0	0	0	0	7,001,036
Special Revenue Funds (Deficit)	0	(38,329)	0	0	77,436	39,107
Debt Service Funds	0	0	470,189	0	0	470,189
Capital Projects Funds (Deficit)	0	0	0	(461,666)	801,323	339,657
<i>Total Fund Balances (Deficit)</i>	<u>7,493,817</u>	<u>(33,480)</u>	<u>470,189</u>	<u>53,193</u>	<u>1,955,879</u>	<u>9,939,598</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,233,834</u>	<u>\$1,478,153</u>	<u>\$1,115,512</u>	<u>\$1,954,919</u>	<u>\$4,316,329</u>	<u>\$19,098,747</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005

Total Governmental Fund Balances	\$9,939,598
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,677,048
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	146,457
Income Taxes	1,010,799
Estate Taxes	62,573
Special Assessments	356,100
Intergovernmental	371,317
Charges for Services	29,376
Total	1,976,622
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(98,198)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(291,861)
Long-term liabilities, such as bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(3,290,000)
Notes Payable	(5,492,000)
OPWC Loans	(289,346)
Compensated Absences	(292,330)
Total	(9,363,676)
<i>Net Assets of Governmental Activities</i>	\$22,839,533

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Fire Levy	Bond Retirement	Brainard Road Relocation	Other Governmental Funds	Total Governmental Funds
Revenues						
Property and Other Taxes	\$1,319,851	\$1,282,759	\$516,262	\$0	\$193,597	\$3,312,469
Municipal Income Taxes	4,008,614	0	0	0	0	4,008,614
Estate Taxes	547,957	0	0	0	0	547,957
Charges for Services	166,599	55,494	0	0	0	222,093
Fines and Forfeitures	64,774	0	0	0	0	64,774
Intergovernmental	276,479	174,309	130,126	1,458,569	354,680	2,394,163
Special Assessments	0	0	18,493	0	25,564	44,057
Interest	320,906	0	0	0	0	320,906
Rentals	41,760	0	0	0	0	41,760
Contributions and Donations	0	0	0	0	350	350
Other	69,562	0	0	0	3,000	72,562
<i>Total Revenues</i>	<u>6,816,502</u>	<u>1,512,562</u>	<u>664,881</u>	<u>1,458,569</u>	<u>577,191</u>	<u>11,029,705</u>
Expenditures						
Current:						
General Government	1,287,469	0	773	0	0	1,288,242
Security of Persons and Property:						
Police	2,875,490	0	0	0	286,955	3,162,445
Fire	756	2,344,323	0	0	274,679	2,619,758
Public Health Services	28,859	0	0	0	0	28,859
Community Environment	229,185	0	0	0	14,327	243,512
Basic Utility Services	1,498,007	0	0	0	0	1,498,007
Transportation	1,872,323	0	0	0	273,175	2,145,498
Capital Outlay	0	0	0	2,056,339	1,746,927	3,803,266
Debt Service:						
Principal Retirement	0	0	2,722,304	0	0	2,722,304
Interest and Fiscal Charges	0	0	204,303	0	16,106	220,409
<i>Total Expenditures</i>	<u>7,792,089</u>	<u>2,344,323</u>	<u>2,927,380</u>	<u>2,056,339</u>	<u>2,612,169</u>	<u>17,732,300</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(975,587)</u>	<u>(831,761)</u>	<u>(2,262,499)</u>	<u>(597,770)</u>	<u>(2,034,978)</u>	<u>(6,702,595)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	16,827	0	0	0	0	16,827
General Obligation Notes Issued	0	0	2,087,000	0	3,405,000	5,492,000
Transfers In	0	130,000	0	0	345,500	475,500
Transfers Out	(475,500)	0	0	0	0	(475,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(458,673)</u>	<u>130,000</u>	<u>2,087,000</u>	<u>0</u>	<u>3,750,500</u>	<u>5,508,827</u>
<i>Net Change in Fund Balances</i>	<u>(1,434,260)</u>	<u>(701,761)</u>	<u>(175,499)</u>	<u>(597,770)</u>	<u>1,715,522</u>	<u>(1,193,768)</u>
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>8,928,077</u>	<u>668,281</u>	<u>645,688</u>	<u>650,963</u>	<u>240,357</u>	<u>11,133,366</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$7,493,817</u>	<u>(\$33,480)</u>	<u>\$470,189</u>	<u>\$53,193</u>	<u>\$1,955,879</u>	<u>\$9,939,598</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds (\$1,193,768)

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

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

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

Capital Outlay	5,976,753
Depreciation	<u>(1,576,745)</u>

Total 4,400,008

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. (2,133)

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

Property Taxes	(47,246)
Income Taxes	496,911
Estate Taxes	46,622
Special Assessments	(29,768)
Intergovernmental	15,878
Charges for Services	<u>29,376</u>

Total 511,773

Other financing sources, such as proceeds of notes, in the governmental funds increase long-term liabilities in the statement of net assets. (5,492,000)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,722,304

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. (63,731)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable (which represent contractually required pension contributions) do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(85,396)
Vacation Benefits Payable	<u>(29,611)</u>

Total (115,007)

Change in Net Assets of Governmental Activities \$767,446

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property and Other Taxes	\$834,590	\$834,320	\$1,325,786	\$491,466
Municipal Income Taxes	2,603,678	2,602,838	4,136,067	1,533,229
Estate Taxes	256,896	256,814	408,092	151,278
Charges for Services	104,649	104,615	166,240	61,625
Fines and Forfeitures	42,022	42,008	66,754	24,746
Intergovernmental	174,047	173,991	276,482	102,491
Interest	211,187	211,118	335,480	124,362
Rentals	26,288	26,280	41,760	15,480
Other	45,479	45,464	72,246	26,782
<i>Total Revenues</i>	<u>4,298,836</u>	<u>4,297,448</u>	<u>6,828,907</u>	<u>2,531,459</u>
Expenditures				
Current:				
General Government	1,593,323	1,408,500	1,264,835	143,665
Security of Persons and Property:				
Police	3,047,860	3,007,425	2,927,553	79,872
Public Health Services	35,484	35,484	30,097	5,387
Community Environment	232,462	245,212	239,331	5,881
Basic Utility Services	1,578,427	1,585,027	1,547,547	37,480
Transportation	2,279,027	2,174,227	2,079,767	94,460
Leisure Time Activities	5,000	5,000	0	5,000
<i>Total Expenditures</i>	<u>8,771,583</u>	<u>8,460,875</u>	<u>8,089,130</u>	<u>371,745</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	<u>(4,472,747)</u>	<u>(4,163,427)</u>	<u>(1,260,223)</u>	<u>2,903,204</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	10,593	10,589	16,827	6,238
Advances In	1,595,168	1,594,653	2,534,000	939,347
Advances Out	(145,818)	(2,695,818)	(2,685,400)	10,418
Transfers Out	(475,500)	(475,500)	(475,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>984,443</u>	<u>(1,566,076)</u>	<u>(610,073)</u>	<u>956,003</u>
<i>Net Change in Fund Balance</i>	<u>(3,488,304)</u>	<u>(5,729,503)</u>	<u>(1,870,296)</u>	<u>3,859,207</u>
<i>Fund Balance Beginning of Year</i>	5,732,428	5,732,428	5,732,428	0
Prior Year Encumbrances Appropriated	466,094	466,094	466,094	0
<i>Fund Balance End of Year</i>	<u>\$2,710,218</u>	<u>\$469,019</u>	<u>\$4,328,226</u>	<u>\$3,859,207</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$1,538,770	\$1,538,770	\$1,282,759	(\$256,011)
Charges for Services	51,623	51,623	43,034	(8,589)
Intergovernmental	209,097	209,097	174,309	(34,788)
<i>Total Revenues</i>	1,799,490	1,799,490	1,500,102	(299,388)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	2,529,492	2,358,492	2,355,969	2,523
<i>Excess of Revenues Under Expenditures</i>	(730,002)	(559,002)	(855,867)	(296,865)
Other Financing Sources				
Transfers In	155,945	155,945	130,000	(25,945)
<i>Net Change in Fund Balance</i>	(574,057)	(403,057)	(725,867)	(322,810)
<i>Fund Balance Beginning of Year</i>	2,083	2,083	2,083	0
Prior Year Encumbrances Appropriated	726,692	726,692	726,692	0
<i>Fund Balance End of Year</i>	<u>\$154,718</u>	<u>\$325,718</u>	<u>\$2,908</u>	<u>(\$322,810)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$188,395</u>
Liabilities	
Deposits Held and Due to Others	<u>\$188,395</u>

See accompanying notes to the basic financial statements

This Page Intentionally Left Blank.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 1 – Description of the City and Reporting Entity

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

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

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

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

The City participates in the Northeast Ohio Public Energy Council and the Ohio Municipal League Group Rating Program, which are defined as a jointly governed organization and an insurance purchasing pool. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest nor responsibility on the part of the participating governments. These organizations are discussed in Note 12 and Note 15 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

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

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

B. Fund Accounting

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

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

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

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Brainard Road Relocation Fund – The Brainard road relocation capital projects fund receives note proceeds for the relocation of Brainard road.

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

F. Cash and Cash Equivalents

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

During 2005, investments were limited to federal home loan bank bonds, federal national mortgage association notes, federal farm credit bank bonds, and STAROhio. Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer’s Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$320,906, which includes \$190,581 assigned from other City funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

I. Capital Assets

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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:

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

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

J. Interfund Balances

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$1,766,104, of which \$1,355,355 is restricted by enabling legislation. Net assets restricted for other purposes include street construction, maintenance and repair and the operation of the fire department.

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration that are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

Note 3 – Change in Accounting Principle and Restatement of Prior Year’s Balances

A. Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” and GASB Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

B. Restatement of Prior Year's Balances

During 2005, it was determined that accrued interest payable, interfund payable, and notes payable were misstated. These restatements had the following effect on fund balances as they were previously reported.

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>
Fund Balance,			
December 31, 2004	\$8,928,077	\$668,281	\$645,688
Adjustment due to:			
Accrued Interest Payable	0	0	0
Interfund payable	<u>0</u>	<u>0</u>	<u>0</u>
Adjusted Fund Balance			
December 31, 2004	<u>\$8,928,077</u>	<u>\$668,281</u>	<u>\$645,688</u>
			(continued)
	<u>Brainard Road Relocation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance,			
December 31, 2004	\$650,963	\$550,953	\$11,443,962
Adjustment due to:			
Accrued Interest Payable	0	(1,351)	(1,351)
Interfund Payable	<u>0</u>	<u>(309,245)</u>	<u>(309,245)</u>
Adjusted Fund Balance			
December 31, 2004	<u>\$650,963</u>	<u>\$240,357</u>	<u>\$11,133,366</u>

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

During 2005, it was determined that capital assets and special assessments were misstated. These restatements had the following effect on net assets as they were previously reported

	Total Governmental Funds
Net Assets, December 31, 2004	\$21,795,726
Capital Assets	443,221
Special Assessments	(166,860)
Adjusted Net Assets, December 31, 2004	\$22,072,087

Note 4 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general and major special revenue 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 a reservation of fund balance (GAAP).
4. Investments are reported at cost (budget) rather than fair value (GAAP).
5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transaction (GAAP).

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	(\$1,434,260)	(\$701,761)
Net Adjustment for Revenue Accruals	(20,769)	(12,460)
Beginning Fair Value Adjustments for Investments	99,300	0
Ending Fair Value Adjustment for Investments	113,874	0
Advances In	2,354,000	0
Advances Out	(2,685,400)	0
Net Adjustment for Expenditure Accruals	(42,458)	(5,979)
Encumbrances	(254,583)	(5,667)
Budget Basis	(\$1,870,296)	(\$725,867)

Note 5 – Fund Deficits

Fund balances at December 31, 2005, included the following individual fund deficits:

Special Revenue Funds

Fire Levy	\$33,480
Police Pension	84,980
Fire Pension	85,432

Capital Projects Funds

PPWWT East Road	27,706
Brainard Road Sewerline	157,800
Lander/Emerson Waterline	56,251
Kersdale Road Waterline	108,127
Lander Road Pump Station	199,905
SOM Center Road Sanitary Sewer	34,638
Meadowlark Sanitary Sewer	277,579

The special revenue and 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.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 6 - Deposits and Investments

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

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

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

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

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

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$158,126 of the City's bank balance of \$415,840 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

Investments

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	Maturity			Total
	Less Than Six Months	More Than Six Months But Less Than One Year	More Than One Year But Less Than Three Years	
Federal Home Loan Bank Bonds	\$2,482,946	\$6,422,205	\$488,950	\$9,394,101
Federal Farm Credit Bank Bonds	0	498,830	0	498,830
Federal National Mortgage Association Notes	0	493,195	0	493,195
STAROhio	3,762	0	0	3,762
Total Portfolio	\$2,486,708	\$7,414,230	\$488,950	\$10,389,888

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds and the Federal National Mortgage Association Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk The Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds and the Federal National Mortgage Association Notes carry a rating of AAA by Standard & Poor's and STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The City places no limit on the amount it may invest in any one issuer. The City's investment in Federal Home Loan Bank Bonds represent 90.42 percent of total investments.

Note 7 - Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts.

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

Special assessments expected to be collected in more than one year amount to \$311,058 in the special assessment bond retirement fund. At December 31, 2005 the amount of delinquent special assessments was \$5,587.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of the true value of inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$326,256,360
Other Real Estate	28,993,660
Tangible Personal Property	
Public Utility	6,518,230
General Tangible Personal Property	1,738,896
Total Assessed Values	\$363,507,146

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the general, fire levy, fire pension and police pension special revenue and bond retirement debt service funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2005 follows:

Estate Tax	\$250,292
Homestead and Rollback	198,790
Gasoline Tax	131,168
Local Government	73,904
Court Fines	<u>2,655</u>
Total	<u><u>\$656,809</u></u>

C. Income Taxes

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

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

Note 8- Contingencies

A. Litigation

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

B. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2005.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 9 – Other Employee Benefits

A. Compensated Absences

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

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation. Unused sick leave can be accumulated up to 120 work days, unless more than 120 work days are approved by the Mayor. Upon retirement, employees with 20 or more years of service shall be paid at the rate of one day for every two days accumulated.

B. Health Insurance

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

Note 10 - Interfund Transfers and Balances

A. Interfund Transfers

Transfers made during the year ended December 31, 2005 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>
	<u>General</u>
Fire Levy	\$130,000
Other Governmental Funds:	
Municipal Emergency	500
Police Pension	175,000
Fire Pension	<u>170,000</u>
Total All Funds	<u><u>\$475,500</u></u>

The general fund transfer to the fire levy special revenue fund was to subsidize the revenue from the 4 mill fire levy which was not sufficient to cover the expenditures in the fire levy fund for 2005. The general fund transfer to the Municipal Emergency Response Corp. (MERC) fund was to subsidize expenses and the purchase of supplies to mobilize the City's MERC team. The balance of the funds were received through various grant resources. The general fund transfer to the police pension special revenue fund was to subsidize the .3 mill police pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund. The general fund transfer to the fire pension special revenue fund was to subsidize the .3 mill fire pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

B. Interfund Balances

On the fund financial statements interfund balances at December 31, 2005 were:

	Receivable		Payable	
	Interfund	Advances To Other Funds	Interfund	Advances From Other Funds
Major Funds				
General	\$2,685,400	\$283,681	\$0	\$0
Brainard Road Relocation	0	0	1,900,000	0
Nonmajor Capital Project Funds				
Pepper Pike Wastewater Treatment Plant and East Road	0	0	34,000	0
Fairmont Brainard Pump Station	0	0	42,000	0
SOM Center Road Sanitary Improvement	0	0	42,000	0
Brainard Road Water	0	0	0	8,058
Brainard Road Sewer	0	0	115,600	111,918
Lander/Emerson Waterline	0	0	0	56,000
Kersdale Road Waterline	0	0	0	107,705
Brainard Road Pump Station	0	0	1,800	0
Lander Road Pump Station	0	0	254,000	0
Meadowlark Sanitary Sewer	0	0	296,000	0
<i>Totals</i>	<u>\$2,685,400</u>	<u>\$283,681</u>	<u>\$2,685,400</u>	<u>\$283,681</u>

The interfund payables were advances for grant monies that the funds will receive at a later date. The following interfund transactions between the general fund and various capital projects funds are manuscript notes with the noted repayment date:

Fund	Year of Repayment
Brainard Road Water	2006
Brainard Road Sewer	2016
Lander/Emerson Waterline	2019
Kersdale Road Waterline	2021

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/2004	Additions	Deductions	Balance 12/31/2005
<i>Capital Assets not being Depreciated</i>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	985,726	2,835,835	0	3,821,561
<i>Total Capital Assets not being Depreciated</i>	1,257,076	2,835,835	0	4,092,911
<i>Capital Assets being Depreciated</i>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,079,803	2,950	0	4,082,753
Vehicles	2,173,545	1,152,556	(168,328)	3,157,773
Furniture, Fixtures and Equipment	1,551,702	218,377	(7,139)	1,762,940
Infrastructure				
Streets	25,639,927	1,010,225	0	26,650,152
Bridges	198,795	50,810	0	249,605
Sanitary Sewers	2,068,073	706,000	0	2,774,073
<i>Total Capital Assets being Depreciated</i>	35,933,651	3,140,918	(175,467)	38,899,102
<i>Less: Accumulated Depreciation</i>				
Improvements to Land	(100,009)	(9,200)	0	(109,209)
Buildings and Improvements	(792,934)	(70,154)	0	(863,088)
Vehicles	(1,738,907)	(92,941)	166,195	(1,665,653)
Furniture, Fixtures and Equipment	(1,261,289)	(79,104)	7,139	(1,333,254)
Infrastructure				
Streets	(15,933,198)	(1,281,996)	0	(17,215,194)
Bridges	(106,159)	(1,988)	0	(108,147)
Sanitary Sewers	(979,058)	(41,362)	0	(1,020,420)
<i>Total Accumulated Depreciation</i>	(20,911,554)	(1,576,745)	173,334	(22,314,965)
<i>Total Capital Assets being Depreciated, Net</i>	15,022,097	1,564,173	(2,133)	16,584,137
<i>Total Capital Assets, Net</i>	\$16,279,173	\$4,400,008	(\$2,133)	\$20,677,048

*Depreciation expense was charged to governmental activities as follows:

General Government	\$63,062
Security of Persons and Property:	
Police	39,121
Fire	35,377
Basic Utility Services	111,057
Transportation	1,328,128
Total Depreciation Expense	\$1,576,745

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 12 – Jointly Governed Organization

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2005. Financial information can be obtained by contacting the Joseph Migliorini, Chairman, 175 South Main Street, Akron, Ohio 44308.

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 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 that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$257,802, \$240,508, and \$198,508 respectively; 86.48 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$2,894 made by the City and \$1,816 made by the plan members.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters for December 31, 2005, 2004, and 2003 were \$352,246, \$330,426, and \$320,196 respectively equal to the required contributions for each year. The full amount has been contributed for 2004 and 2003. 68.47 percent has been contributed for 2005.

Note 14 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$107,980. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$108,646 for police and \$89,435 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 15 - Insurance Purchasing Pool

Ohio Municipal League Group Rating Program The City is a participant in the Ohio Municipal League Group Rating Program (OML), an insurance purchasing pool for workers' compensation. The OML's business and affairs are conducted by a twenty-six member Board of Trustees consisting of fifteen mayors, two council members, three administrators, three finance officers, and three law directors which are voted on by the members for staggered two-year terms. The Executive Director of the Ohio Municipal League serves as coordinator of the Program. Each year, the participants pay an enrollment fee to the Program to cover the costs of administering the Program.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

Note 16 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2005 follows:

	Principal Outstanding 12/31/2004	Additions	Deletions	Principal Outstanding 12/31/2005	Amounts Due In One Year
<i>Governmental Activities</i>					
General Obligation Bonds					
1997 5.35%					
Brookwood Water	\$645,000	\$0	(\$50,000)	\$595,000	\$50,000
1998 3.90% - 4.60%					
Street Improvement	1,200,000	0	(300,000)	900,000	300,000
2001 2.50% - 4.00%					
Road Improvement	2,095,000	0	(300,000)	1,795,000	300,000
<i>Total General Obligation Bonds</i>	<u>3,940,000</u>	<u>0</u>	<u>(650,000)</u>	<u>3,290,000</u>	<u>650,000</u>
Other Long-Term Debt					
1995 0% OPWC Loan	315,650	0	(26,304)	289,346	26,304
Notes Payable	2,046,000	5,492,000	(2,046,000)	5,492,000	0
Compensated Absences	206,934	210,478	(125,082)	292,330	697
<i>Total Governmental Activities</i>	<u>\$6,508,584</u>	<u>\$5,702,478</u>	<u>(\$2,847,386)</u>	<u>\$9,363,676</u>	<u>\$677,001</u>

General obligation bonds are the direct obligation of the City and will be paid from the debt service fund using property tax revenues. The Ohio Public Works Commission (OPWC) project is 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 obligations bonds for the purpose of constructing a water line on Brookwood Road. The bonds were issued for a twenty year period with a final maturity on December 19, 2017.

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

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

On July 1, 1996, the City issued \$526,579 in OPWC Loans 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.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

The \$5,492,000 various capital projects funds' various purpose improvement notes, issued June 23, 2005 at 3.00 percent matures June 22, 2006. The notes will be paid from various capital projects funds. The notes are backed by the full faith and credit of the City. Notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

As of December 31, 2005, the City's overall legal debt margin was \$29,856,439. The unvoted legal debt margin was \$11,681,082. Principal and interest requirements to retire the long-term general obligation bonds and the OPWC loan as of December 31, 2005 are as follows:

	General Obligation Bonds		OPWC	Totals
	Principal	Interest	Loan	
2006	650,000	138,358	26,304	814,662
2007	650,000	112,582	26,304	788,886
2008	650,000	86,057	26,304	762,361
2009	350,000	58,708	26,304	435,012
2010-2014	845,000	114,213	131,520	1,090,733
2015-2019	145,000	15,248	52,610	212,858
Total	\$3,290,000	\$525,166	\$289,346	\$4,104,512

Note 17 - Risk Management

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

Type	Deductible	Coverage
Property	\$1,000	\$9,804,276
Boiler and Machinery	1,000	9,804,276
Inland Marine	500	351,094
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement	5,000	1,000,000
Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	50,000
Employee Dishonesty	N/A	10,000

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2005

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

Note 18 - Outstanding Contractual Commitments

The City entered into various contracts with construction contractors during the year. Of the total amounts authorized by Council ordinance, the following amounts remain unspent as of December 31, 2005:

Project	Amount Remaining
Pepper Pike Wastewater Treatment Plant/Creekside	\$868
Brainard Road Relocation	514,859
Brainard Road Pump Station	42,407
Pepper Hills Wastewater Treatment Plant	842,367
Meadowlark Sanitary Sewer	23,708
Fairmont Brainard Pump Station	579,967
Totals	\$2,004,176

Note 19 – Subsequent Event

On June 1, 2006, the City issued 4 percent general obligation various purpose improvement notes in the amount of \$9,227,000. The notes will mature May 31, 2007.



**Auditor of State
Betty Montgomery**

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

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

To the Members of City Council

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 27, 2006, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated October 27, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

City of Pepper Pike
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required
by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and City Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 27, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF PEPPER PIKE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 5, 2006**