



Dave Yost • Auditor of State



**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Fire Levy Fund	20
Statement of Fund Net Assets – Internal Service Fund	21
Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Fund	22
Statement of Cash Flows – Internal Service Fund	23
Statement of Fiduciary Assets and Liabilities - Agency Funds	24
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>	53

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Member of Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, 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, during the year ended December 31, 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Dave Yost**  
Auditor of State

November 1, 2013

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

---

The discussion and analysis of the City of Pepper Pike's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the notes thereof.

### **Financial Highlights**

Key financial highlights for 2011 are as follows:

- The City previously implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. Due to unsuccessful attempt for a .5 percent tax increase in August of 2010, the majority of these measures are still in place.
- Due to cost-cutting measures, the City's capital improvement program was halted during 2011, with only the Pepper Pike waste water treatment plant project moving forward towards completion.

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

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

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

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

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

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

##### *Fund Financial Statements*

The analysis of the City's major funds begins on page 9. 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 2011 fiscal year are the general fund, fire levy fund and the bond retirement fund.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

---

*Governmental Funds*

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

*Proprietary Funds*

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

*Fiduciary Funds*

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

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

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net assets for 2011 as compared to 2010.



**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

Table 1  
 Net Assets

	Governmental Activities		
	2011	2010	Change
<b>Assets</b>			
Current and Other Assets	\$10,083,601	\$9,215,674	\$867,927
Capital Assets, Net	19,601,619	19,999,471	(397,852)
<i>Total Assets</i>	<u>29,685,220</u>	<u>29,215,145</u>	<u>470,075</u>
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	4,410,363	4,165,155	245,208
Long-term Liabilities			
Due Within One Year	546,884	823,404	(276,520)
Due In More Than One Year	8,404,901	8,871,762	(466,861)
<i>Total Liabilities</i>	<u>13,362,148</u>	<u>13,860,321</u>	<u>(498,173)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	11,368,670	11,094,683	273,987
Restricted for:			
Capital Projects	557,322	483,682	73,640
Debt Service	136,810	242,761	(105,951)
Other Purpose	892,935	844,873	48,062
Unrestricted	3,387,335	2,688,825	698,510
<i>Total Net Assets</i>	<u><u>16,343,072</u></u>	<u><u>15,354,824</u></u>	<u><u>988,248</u></u>

Net assets of the City increased during 2011. The increase is primarily due to a larger decrease in liabilities as the result of the repayment of the City's long-term debt. The decrease in liabilities was offset by increases in cash, income taxes receivable and accounts receivable.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

Table 2 shows the changes in net assets for the years ended December 31, 2011 and December 31, 2010 and corresponds to the Statement of Activities on page 15.

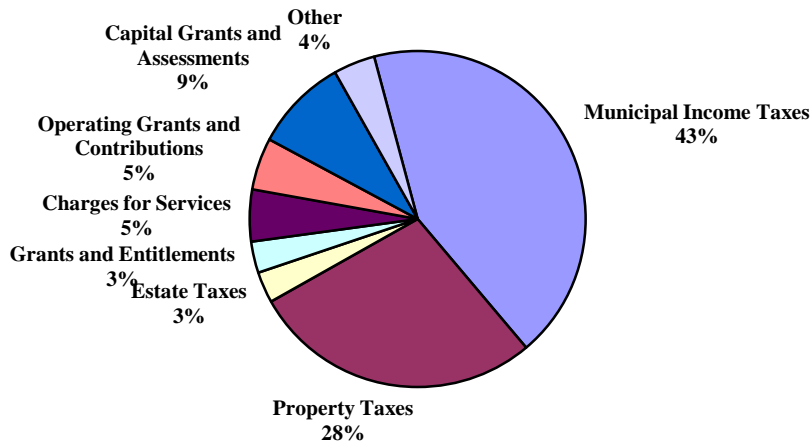
Table 2  
Changes in Net Assets

	Governmental Activities		
	2011	2010	Change
<b>Program Revenues</b>			
Charges for Services	\$562,636	\$558,173	\$4,463
Operating Grants and Contributions	518,624	563,748	(45,124)
Capital Grants and Assessments	1,038,737	1,329,578	(290,841)
<i>Total Program Revenues</i>	<u>2,119,997</u>	<u>2,451,499</u>	<u>(331,502)</u>
<b>General Revenues</b>			
Property Taxes	3,248,425	3,296,719	(48,294)
Income Taxes	4,894,169	3,915,429	978,740
Estate Taxes	370,059	1,217,843	(847,784)
Admissions Tax	257,036	262,349	(5,313)
Franchise Tax	84,551	0	84,551
Grants and Entitlements	368,773	419,539	(50,766)
Investment Earnings	17,432	7,400	10,032
Other	118,562	108,745	9,817
<i>Total General Revenues</i>	<u>9,359,007</u>	<u>9,228,024</u>	<u>130,983</u>
<i>Total Revenues</i>	<u>11,479,004</u>	<u>11,679,523</u>	<u>(200,519)</u>
<b>Program Expenses</b>			
General Government	1,420,042	1,331,746	88,296
Security of Persons and Property	4,810,293	4,853,420	(43,127)
Public Health Services	29,569	27,983	1,586
Leisure Time Activities	2,000	0	2,000
Community Environment	300,723	266,681	34,042
Basic Utility Services	1,359,351	1,210,599	148,752
Transportation	2,214,012	3,021,477	(807,465)
Interest and Fiscal Charges	354,766	374,963	(20,197)
<i>Total Program Expenses</i>	<u>10,490,756</u>	<u>11,086,869</u>	<u>(596,113)</u>
<i>Change in Net Assets</i>	988,248	592,654	395,594
Net Assets Beginning of Year	<u>15,354,824</u>	<u>14,762,170</u>	<u>592,654</u>
Net Assets End of Year	<u>\$16,343,072</u>	<u>\$15,354,824</u>	<u>\$988,248</u>

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

*Governmental Activities*

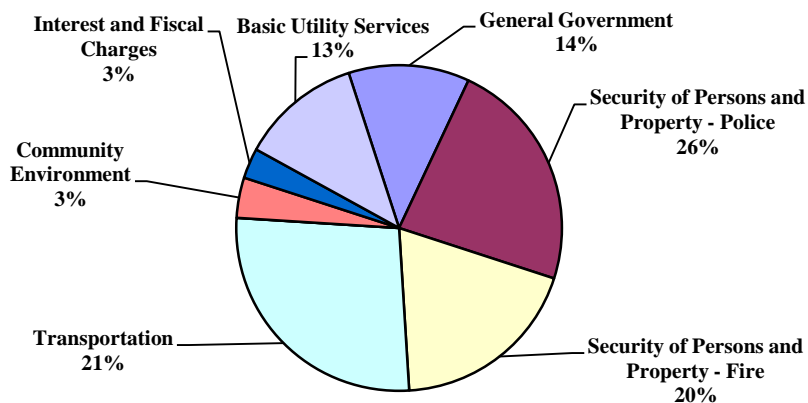
**2011 Revenues**



Governmental activities increased the City's net assets by \$988,248.

In 2011, the City's total revenue decreased from 2010 levels. During 2011, the largest revenue source, income taxes, increased due to a slight turnaround in the overall economy. Estate taxes decreased from 2010, due to a large settlement in 2010.

**2011 Expenses**



Expenses decreased from 2010 levels. City management continues to implement cost-cutting measures in order to stabilize operations for service delivery. Security of persons and property is the major activity of the City expenses. All City programs experienced increases, with the exception of security of persons and property, transportation and interest and fiscal charges.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

---

**The City's Funds**

Information about the City's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. The City had several capital projects funds with deficit fund balances. These are caused by the recognition of expenditures on the modified accrual basis of accounting and the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

All governmental funds had total revenues of \$11,119,282 and expenditures of \$10,820,517. The fund balance in the general fund had an increase of \$1,660 from 2010. The total year end fund balance was \$3,814,902 for all governmental funds.

*General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted at an object level by City Council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of fiscal 2011, the City amended its general fund budget several times. The Finance Department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, budget basis revenue was \$7,564,894, which was above final budget estimates by \$327,909 due to the City receiving more income tax monies than was expected. The final appropriations of \$6,984,459 was sufficient to meet the expenditures for the year, which ended up at \$6,624,221 or \$360,238 less than anticipated due to a savings experienced in various contracts for the annual road maintenance program.

The City's ending unobligated budgetary fund balance was \$688,147 higher than the final projected budgetary fund balance amount of \$1,366,223.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

**Debt Administration and Capital Assets**

***Debt***

Table 4 summarizes the obligations outstanding.

Table 4  
 Outstanding Long-term Liabilities at Year End

	Governmental Activities	
	2011	2010
General Obligation Bonds	\$7,928,154	\$8,589,718
OPWC Loans	784,119	852,526
Compensated Absences	239,512	252,922
Total	\$8,951,785	\$9,695,166

At December 31, 2011, the City's overall legal debt margin was \$33,969,481 with an unvoted debt margin of \$14,078,033. The City has an aggressive debt reduction strategy whereby most long term bonds are paid off within ten years as opposed to fifteen or twenty years. At year end, the outstanding general obligation bonded debt was \$7,900,000. In addition, the City had an outstanding balance of \$784,119 on two twenty-year interest free loans obtained from the Ohio Public Works Commission. There was also an amount of \$239,512 booked as compensated absences in the long-term debt obligations for accrued sick leave payable to the employees.

Also, the City has manuscript bonds which represent three separate water and sewer improvement issues in the form of manuscript bonds issued by the City. Manuscript bonds are bonds issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the General Fund from the Debt Service Fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. These bonds are shown on the balance sheet as interfund receivables/payables between the General Fund and the Capital Projects Fund. At year end, the outstanding Special Assessment Manuscript bonds were \$158,730. Additional information concerning the City's manuscript debt can be found in Note 16 to the basic financial statements.

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

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

**Capital Assets**

Table 3 shows fiscal 2011 balances of Capital Assets as compared to 2010:

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

	Governmental Activities		
	2011	2010	Change
Land	\$271,350	\$271,350	\$0
Construction in Progress	797,176	3,120,685	(2,323,509)
Improvements to Land	63,393	71,358	(7,965)
Buildings and Improvements	3,102,830	3,187,471	(84,641)
Vehicles	878,209	1,117,916	(239,707)
Furniture, Fixtures and Equipment	467,976	507,647	(39,671)
Infrastructure			
Streets	4,905,650	5,283,104	(377,454)
Bridges	77,378	126,482	(49,104)
Sanitary Sewer System	9,057,657	6,313,458	2,744,199
Total Capital Assets	<u>\$19,621,619</u>	<u>\$19,999,471</u>	<u>(\$377,852)</u>

The decrease in capital assets from 2010 to 2011 is primarily due to the annual depreciation. The decrease in construction in progress was due to the completion of three projects. The City placed on hold its aggressive stance on maintaining its assets, including infrastructure, in excellent condition, due to the lack of available funding. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced every eighteen months or when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

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

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

---

**Current Related Financial Activities**

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

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

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

## Basic Financial Statements



**City of Pepper Pike, Ohio**

*Statement of Net Assets*

*December 31, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,068,101
Accounts Receivable	184,963
Intergovernmental Receivable	761,037
Prepaid Items	50,542
Materials and Supplies Inventory	96,396
Income Taxes Receivable	1,309,061
Property Taxes Receivable	3,364,710
Special Assessments Receivable	244,143
Deferred Charges	4,648
Nondepreciable Capital Assets	1,068,526
Depreciable Capital Assets, Net	<u>18,553,093</u>
<i>Total Assets</i>	<u>29,705,220</u>
<b>Liabilities</b>	
Accounts Payable	76,149
Contracts Payable	372,612
Claims Payable	58,070
Accrued Wages	47,273
Intergovernmental Payable	344,358
Deferred Revenue	3,204,538
Accrued Interest Payable	24,586
Vacation Benefits Payable	282,777
Long-Term Liabilities:	
Due Within One Year	546,884
Due In More Than One Year	<u>8,404,901</u>
<i>Total Liabilities</i>	<u>13,362,148</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	11,368,670
Restricted for:	
Capital Projects	557,322
Debt Service	136,810
Other Purposes	892,935
Unrestricted	<u>3,387,335</u>
<i>Total Net Assets</i>	<u><u>\$16,343,072</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2011

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
General Government	\$1,420,042	\$91,277	\$0	\$628,972	(\$699,793)
Security of Persons and Property:					
Police	2,677,021	158,996	14,366	0	(2,503,659)
Fire	2,133,272	148,820	205,911	0	(1,778,541)
Public Health Services	29,569	1,897	0	0	(27,672)
Leisure Time Activities	2,000	0	0	0	(2,000)
Community Environment	300,723	19,072	29,113	0	(252,538)
Basic Utility Services	1,359,351	81,577	0	409,765	(868,009)
Transportation	2,214,012	60,997	269,234	0	(1,883,781)
Interest and Fiscal Charges	354,766	0	0	0	(354,766)
<i>Total Governmental Activities</i>	<u>\$10,490,756</u>	<u>\$562,636</u>	<u>\$518,624</u>	<u>\$1,038,737</u>	<u>(8,370,759)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	1,341,547
Debt Service	333,979
Fire	1,470,316
Police	102,583
Municipal Income Taxes Levied for General Purposes	4,894,169
Estate Taxes	370,059
Admissions Taxes	257,036
Franchise Taxes	84,551
Grants and Entitlements not Restricted to Specific Programs	368,773
Interest	17,432
Miscellaneous	118,562

*Total General Revenues* 9,359,007

Change in Net Assets 988,248

*Net Assets Beginning of Year* 15,354,824

*Net Assets End of Year* \$16,343,072

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2011*

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$2,182,762	\$175,803	\$69,339	\$1,349,654	\$3,777,558
Property Taxes Receivable	1,523,063	1,416,607	212,520	212,520	3,364,710
Income Taxes Receivable	1,309,061	0	0	0	1,309,061
Accounts Receivable	74,972	109,991	0	0	184,963
Intergovernmental Receivable	150,890	95,924	23,981	490,242	761,037
Interfund Receivable	433,711	0	0	0	433,711
Materials and Supplies Inventory	21,615	3,037	0	71,744	96,396
Prepaid Items	50,542	0	0	0	50,542
Special Assessments Receivable	0	0	85,413	158,730	244,143
<i>Total Assets</i>	<u>\$5,746,616</u>	<u>\$1,801,362</u>	<u>\$391,253</u>	<u>\$2,282,890</u>	<u>\$10,222,121</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$69,959	\$5,240	\$0	\$950	\$76,149
Contracts Payable	82,454	0	0	290,158	372,612
Accrued Wages	29,808	17,465	0	0	47,273
Intergovernmental Payable	118,264	47,816	0	178,278	344,358
Accrued Interest Payable	0	0	0	700	700
Interfund Payable	0	0	0	433,711	433,711
Deferred Revenue	2,698,512	1,611,932	321,914	500,058	5,132,416
<i>Total Liabilities</i>	<u>2,998,997</u>	<u>1,682,453</u>	<u>321,914</u>	<u>1,403,855</u>	<u>6,407,219</u>
<b>Fund Balances</b>					
Nonspendable	230,887	3,037	0	71,744	305,668
Restricted	0	115,872	69,339	1,052,206	1,237,417
Assigned	182,940	0	0	0	182,940
Unassigned (Deficit)	2,333,792	0	0	(244,915)	2,088,877
<i>Total Fund Balances</i>	<u>2,747,619</u>	<u>118,909</u>	<u>69,339</u>	<u>879,035</u>	<u>3,814,902</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,746,616</u>	<u>\$1,801,362</u>	<u>\$391,253</u>	<u>\$2,282,890</u>	<u>\$10,222,121</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2011*

---

**Total Governmental Fund Balances** \$3,814,902

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 19,621,619

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

Property Taxes	160,172
Income Taxes	1,035,035
Special Assessments	244,143
Intergovernmental	389,127
Charges for Services	<u>99,401</u>

Total 1,927,878

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included as part of governmental activities in the statement of net assets. 232,473

Bond issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets. 4,648

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (23,886)

Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds. (282,777)

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

General Obligation Bonds	(7,928,154)
OPWC Loans	(784,119)
Compensated Absences	<u>(239,512)</u>

Total (8,951,785)

*Net Assets of Governmental Activities* \$16,343,072

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2011*

	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$1,355,263	\$1,388,727	\$345,969	\$208,314	\$3,298,273
Municipal Income Taxes	4,451,604	0	0	0	4,451,604
Estate Taxes	400,071	0	0	0	400,071
Admissions Taxes	257,036	0	0	0	257,036
Charges for Services	3,900	124,524	0	0	128,424
Fees, Licenses and Permits	295,882	0	0	0	295,882
Fines and Forfeitures	44,404	0	0	0	44,404
Intergovernmental	329,802	191,847	47,962	734,014	1,303,625
Special Assessments	0	0	593,432	56,256	649,688
Interest	16,300	0	0	1,132	17,432
Rentals	69,630	0	0	0	69,630
Contributions and Donations	0	0	0	100	100
Franchise Tax	84,551	0	0	0	84,551
Other	118,562	0	0	0	118,562
<i>Total Revenues</i>	<u>7,427,005</u>	<u>1,705,098</u>	<u>987,363</u>	<u>999,816</u>	<u>11,119,282</u>
<b>Expenditures</b>					
Current:					
General Government	1,405,452	0	8,685	0	1,414,137
Security of Persons and Property:					
Police	2,464,379	0	0	277,724	2,742,103
Fire	0	1,893,570	0	260,277	2,153,847
Public Health Services	29,471	0	0	0	29,471
Leisure Time Activities	2,000	0	0	0	2,000
Community Environment	295,755	0	0	18,908	314,663
Basic Utility Services	1,259,663	0	0	0	1,259,663
Transportation	960,625	0	0	399,201	1,359,826
Capital Outlay	0	0	0	444,505	444,505
Debt Service:					
Principal Retirement	0	0	728,407	0	728,407
Interest and Fiscal Charges	0	0	356,771	15,124	371,895
<i>Total Expenditures</i>	<u>6,417,345</u>	<u>1,893,570</u>	<u>1,093,863</u>	<u>1,415,739</u>	<u>10,820,517</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,009,660</u>	<u>(188,472)</u>	<u>(106,500)</u>	<u>(415,923)</u>	<u>298,765</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	273,000	0	735,000	1,008,000
Transfers Out	(1,008,000)	0	0	0	(1,008,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,008,000)</u>	<u>273,000</u>	<u>0</u>	<u>735,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,660	84,528	(106,500)	319,077	298,765
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>2,745,959</u>	<u>34,381</u>	<u>175,839</u>	<u>559,958</u>	<u>3,516,137</u>
<i>Fund Balances End of Year</i>	<u><u>\$2,747,619</u></u>	<u><u>\$118,909</u></u>	<u><u>\$69,339</u></u>	<u><u>\$879,035</u></u>	<u><u>\$3,814,902</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011*

---

**Net Change in Fund Balances - Total Governmental Funds** \$298,765

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

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

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

Capital Outlay	747,446	
Depreciation	(1,125,298)	
Total	(377,852)	(377,852)

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

Property Taxes	(49,848)	
Income Taxes	442,565	
Estate Taxes	(30,012)	
Special Assessments	(20,716)	
Intergovernmental	(6,563)	
Charges for Services	24,296	
Total	359,722	359,722

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. 728,407

The internal service funds used by management are not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities. (30,742)

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

Accrued Interest	15,829	
Deferred Charges	(264)	
Amortization of Premium	1,564	
Total	17,129	17,129

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

Compensated Absences	13,410	
Vacation Benefits Payable	(20,591)	
Total	(7,181)	(7,181)

*Change in Net Assets of Governmental Activities* \$988,248

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,287,058	\$1,400,270	\$1,355,263	(\$45,007)
Municipal Income Taxes	4,055,249	4,275,000	4,508,848	233,848
Estate Taxes	430,000	490,000	490,106	106
Admissions Taxes	240,000	240,000	255,715	15,715
Charges for Services	1,500	3,500	3,900	400
Fees, Licenses and Permits	177,500	266,500	295,882	29,382
Fines and Forfeitures	55,855	56,455	44,203	(12,252)
Intergovernmental	348,554	335,160	333,509	(1,651)
Interest	3,000	13,000	16,300	3,300
Rentals	29,600	47,000	69,630	22,630
Franchise Tax	60,000	60,000	69,226	9,226
Other	50,100	50,100	122,312	72,212
<i>Total Revenues</i>	6,738,416	7,236,985	7,564,894	327,909
<b>Expenditures</b>				
Current:				
General Government	2,629,297	1,538,848	1,432,465	106,383
Security of Persons and Property:				
Police	2,063,198	2,523,143	2,453,135	70,008
Public Health Services	33,018	33,018	29,671	3,347
Community Environment	233,102	306,291	297,118	9,173
Basic Utility Services	1,056,097	1,323,337	1,286,063	37,274
Transportation	888,437	1,259,822	1,125,769	134,053
<i>Total Expenditures</i>	6,903,149	6,984,459	6,624,221	360,238
<i>Excess of Revenues Over (Under) Expenditures</i>	(164,733)	252,526	940,673	688,147
<b>Other Financing Uses</b>				
Transfers Out	(705,000)	(1,008,000)	(1,008,000)	0
<i>Net Change in Fund Balance</i>	(869,733)	(755,474)	(67,327)	688,147
<i>Fund Balance Beginning of Year</i>	1,844,822	1,844,822	1,844,822	0
Prior Year Encumbrances Appropriated	276,875	276,875	276,875	0
<i>Fund Balance End of Year</i>	\$1,251,964	\$1,366,223	\$2,054,370	\$688,147

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Levy Fund*  
*For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$1,591,555	\$1,400,000	\$1,388,727	(\$11,273)
Charges for Services	105,000	105,000	121,835	16,835
Intergovernmental	187,632	187,632	191,847	4,215
<i>Total Revenues</i>	1,884,187	1,692,632	1,702,409	9,777
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	1,886,325	1,847,325	1,905,550	(58,225)
<i>Excess of Revenues Under Expenditures</i>	(2,138)	(154,693)	(203,141)	(48,448)
<b>Other Financing Sources</b>				
Transfers In	220,000	273,000	273,000	0
<i>Net Change in Fund Balance</i>	217,862	118,307	69,859	(48,448)
<i>Fund Balance Beginning of Year</i>	97,373	97,373	97,373	0
Prior Year Encumbrances Appropriated	2,775	2,775	2,775	0
<i>Fund Balance End of Year</i>	<u>\$318,010</u>	<u>\$218,455</u>	<u>\$170,007</u>	<u>(\$48,448)</u>

See accompanying notes to the basic financial statements



**City of Pepper Pike, Ohio**  
*Statement of Fund Net Assets*  
*Internal Service Fund*  
*December 31, 2011*

---

---

	<u>Self Insurance</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$290,543
<b>Liabilities</b>	
Claims Payable	<u>58,070</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$232,473</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Internal Service Fund  
For the Year Ended December 31, 2011*

	Self Insurance
<b>Operating Revenues</b>	
Charges for Services	\$902,780
<b>Operating Expenses</b>	
Contractual Services	258,433
Claims	683,711
<i>Total Operating Expenses</i>	942,144
<i>Operating Loss</i>	(39,364)
<b>Non Operating Revenues</b>	
Interest	8,622
<i>Change in Net Assets</i>	(30,742)
<i>Net Assets Beginning of Year</i>	263,215
<i>Net Assets End of Year</i>	\$232,473

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Year Ended December 31, 2011

	<u>Self Insurance</u>
<b><i>Increases/(Decreases) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$902,780
Cash Payments to Suppliers for Goods and Services	(258,433)
Cash Payments for Claims	(714,796)
<i>Net Cash Used for Operating Activities</i>	(70,449)
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	8,622
<i>Net Decrease in Cash and Cash Equivalents</i>	(61,827)
<i>Cash and Cash Equivalents Beginning of Year</i>	352,370
<i>Cash and Cash Equivalents End of Year</i>	\$290,543
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$39,364)
Adjustments:	
Decrease in Claims Payable	(31,085)
<i>Net Cash Used for Operating Activities</i>	(\$70,449)
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, 2011*

---

---

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$299,745</u></u>
 <b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$299,745</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

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

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

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

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

The City participates in the Ohio Association of Public Treasurers Rating Pool, the Northeast Ohio Public Energy Council, and the Valley Enforcement Regional Council of Governments, which are defined as an insurance purchasing pool and jointly governed organizations. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are discussed in Notes 15 and 18 to the basic financial statements.

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

***Fund Accounting***

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

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

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

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

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

***Measurement Focus***

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

***Basis of Accounting***

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred 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, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

***Budgetary Process***

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

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

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

***Cash and Cash Equivalents***

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

During 2011, the City invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$16,300, which includes \$7,593 assigned from other City funds.

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

***Inventory***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

***Capital Assets***

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

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

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

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

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

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund balance amounts are eliminated in the statement of net assets.

***Compensated Absences***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

***Bond Issuance Costs***

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

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

***Bond Premiums***

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

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

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

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

***Fund Balance***

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

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

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

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

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

***Net Assets***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

***Interfund Activity***

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

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

***Extraordinary and Special Items***

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

***Estimates***

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

**Note 3 – Changes in Accounting Principles and Restatement of Prior Year Fund Balance**

***Changes in Accounting Principles***

For fiscal year 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and GASB Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance but only the reclassification of fund balance on the City’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City’s financial statements.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2011

**Restatement of Prior Year Fund Balance**

During 2011, it was determined that material and supplies inventory was overstated in the general fund by \$48,899, while the street construction and fire levy funds were understated by \$47,883 and 1,016 respectively.

	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Fund Balance					
December 31, 2010	\$2,794,858	\$33,365	\$175,839	\$512,075	\$3,516,137
Materials and Supplies Inventory	(48,899)	1,016	0	47,883	0
Adjusted Fund Balance					
December 31, 2010	<u>\$2,745,959</u>	<u>\$34,381</u>	<u>\$175,839</u>	<u>\$559,958</u>	<u>\$3,516,137</u>

**Note 4 - Fund Balances**

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

Fund Balances	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>					
Materials and Supplies	\$21,615	\$3,037	\$0	\$71,744	\$96,396
Prepays	50,542	0	0	0	50,542
Interfund Loans	158,730	0	0	0	158,730
<b><i>Total Nonspendable</i></b>	<u>230,887</u>	<u>3,037</u>	<u>0</u>	<u>71,744</u>	<u>305,668</u>
<b><i>Restricted for</i></b>					
Road Improvements	0	0	0	395,285	395,285
Recycle Ohio	0	0	0	21,991	21,991
Fire Department	0	115,872	0	0	115,872
Beautification	0	0	0	10,715	10,715
Law Enforcement	0	0	0	690	690
Emergency Assistance	0	0	0	11,727	11,727
Municipal Energy Program	0	0	0	13,165	13,165
Municipal Emergency	0	0	0	41,293	41,293
Urban Forestry	0	0	0	18	18
Wastewater Treatment	0	0	0	207,322	207,322
Capital Improvements	0	0	0	350,000	350,000
Debt Service Payments	0	0	69,339	0	69,339
<b><i>Total Restricted</i></b>	<u>0</u>	<u>115,872</u>	<u>69,339</u>	<u>1,052,206</u>	<u>1,237,417</u>
<b><i>Assigned to</i></b>					
Other Purposes	182,940	0	0	0	182,940
<b><i>Unassigned (Deficit)</i></b>	<u>2,333,792</u>	<u>0</u>	<u>0</u>	<u>(244,915)</u>	<u>2,088,877</u>
<b><i>Total Fund Balances</i></b>	<u>\$2,747,619</u>	<u>\$118,909</u>	<u>\$69,339</u>	<u>\$879,035</u>	<u>\$3,814,902</u>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2011

**Note 5 - Budgetary Basis of Accounting**

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

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

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

	Net Change in Fund Balance	
	General	Fire Levy
GAAP Basis	\$1,660	\$84,528
Net Adjustment for Revenue Accruals	137,889	(2,689)
Net Adjustment for Expenditure Accruals	81,846	(6,184)
Encumbrances	(288,722)	(5,796)
Budget Basis	(\$67,327)	\$69,859

**Note 6 – Fund Deficits**

Fund balances at December 31, 2011, included the following individual fund deficits:

<b><i>Special Revenue Funds</i></b>	
Police Pension	\$31,854
Fire Pension	27,150
<b><i>Capital Projects Funds</i></b>	
Northwest Quadrant	24,000
Brainard Road Sewerline	59,702
Lander/Emerson Waterline	32,151
Kersdale Road Waterline	67,577
Thornapple Waterline	2,481

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

### **Note 7 - Deposits and Investments**

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

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

**Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$3,027,875 of the City's bank balance of \$4,011,225 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

**Investments**

Investments are reported at fair value. As of December 31, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	\$308,760	57 Days Average

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

## **Note 8 - Receivables**

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.

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

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

Special assessments expected to be collected in more than one year amount to \$85,412 in the special assessment bond retirement fund. At December 31, 2011 the amount of delinquent special assessments was \$39,685.

### ***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

Real Property	\$391,872,200
Public Utility Personal Property	<u>5,956,750</u>
Total	<u><u>\$397,828,950</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

***Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2011 follows:

Northeast Ohio Regional Sewer District	\$335,456
Homestead and Rollback	227,818
Gasoline Tax	101,374
Local Government	55,578
Permissive Tax	39,024
Court Fines	<u>1,787</u>
Total	<u><u>\$761,037</u></u>

***Income Taxes***

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

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

**Note 9 - Contingencies**

***Litigation***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

***Grants***

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

**Note 10 – Other Employee Benefits**

***Compensated Absences***

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2011

**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	3,120,685	686,998	(3,010,507)	797,176
<b><i>Total Capital Assets not being Depreciated</i></b>	<b>3,392,035</b>	<b>686,998</b>	<b>(3,010,507)</b>	<b>1,068,526</b>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,402,955	0	0	4,402,955
Vehicles	3,380,986	0	0	3,380,986
Furniture, Fixtures and Equipment	1,862,273	60,448	(34,331)	1,888,390
Infrastructure				
Streets	29,575,874	0	0	29,575,874
Bridges	249,605	0	0	249,605
Sanitary Sewers	7,815,601	3,010,507	0	10,826,108
<b><i>Total Capital Assets being Depreciated</i></b>	<b>47,509,100</b>	<b>3,070,955</b>	<b>(34,331)</b>	<b>50,545,724</b>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(150,448)	(7,965)	0	(158,413)
Buildings and Improvements	(1,215,484)	(84,641)	0	(1,300,125)
Vehicles	(2,263,070)	(239,707)	0	(2,502,777)
Furniture, Fixtures and Equipment	(1,354,626)	(100,119)	34,331	(1,420,414)
Infrastructure				
Streets	(24,292,770)	(377,454)	0	(24,670,224)
Culverts	(123,123)	(49,104)	0	(172,227)
Sanitary Sewers	(1,502,143)	(266,308)	0	(1,768,451)
<b><i>Total Accumulated Depreciation</i></b>	<b>(30,901,664)</b>	<b>(1,125,298)</b>	<b>34,331</b>	<b>(31,992,631)</b>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<b>16,607,436</b>	<b>1,945,657</b>	<b>0</b>	<b>18,553,093</b>
<b><i>Total Capital Assets, Net</i></b>	<b>\$19,999,471</b>	<b>\$2,632,655</b>	<b>(\$3,010,507)</b>	<b>\$19,621,619</b>

Depreciation expense was charged to governmental activities as follows:

General Government	\$85,465
Security of Persons and Property:	
Police	63,701
Fire	109,297
Community Development	375
Basic Utility Services	170,143
Transportation	696,317
<b>Total Depreciation Expense</b>	<b>\$1,125,298</b>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

**Note 12 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$248,795, \$222,053, and \$250,337, respectively. For 2011, 85.19 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Neither the City or plan members made contributions to the Member-Directed Plan for 2011.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$164,936 and \$173,369 for the year ended December 31, 2011, \$170,628 and \$161,782 for the year ended December 31, 2010, and \$197,950 and \$216,334 for the year ended December 31, 2009, respectively. For 2011, 68.49 percent for police and 69 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

***Social Security***

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2011, three members of the Architectural Review Board and three part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

**Note 13 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$126,388, \$126,461, and \$181,013, respectively. For 2011, 85.19 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$87,319 and \$67,840 for the year ended December 31, 2011, \$90,333 and \$63,306 for the year ended December 31, 2010, and \$104,797 and \$84,653 for the year ended December 31, 2009. For 2011, 68.49 percent has been contributed for police and 69 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

## **Note 14 - Risk Management**

### ***Property and Liability***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

Type	Deductible	Coverage
Property	\$1,000	\$11,419,678
Boiler and Machinery	1,000	11,419,678
Inland Marine	500	372,660
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	100,000

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

***Workers' Compensations***

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

***Self - Insurance***

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

Beginning in 2009, the City offered medical, surgical and prescription drug claims coverage to all employees through a self – insurance internal service fund. Klais and Company serves as the third party administrator. The claims liability of \$58,070 reported in the internal service fund at December 31, 2011 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal year 2010 and 2011 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2010	\$87,091	\$658,169	\$656,105	\$89,155
2011	89,155	683,711	714,796	58,070

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

**Note 15 – Insurance Purchasing Pool**

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

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

**Note 16 - Interfund Transfers and Balances**

*Interfund Transfers*

The general fund made transfers to the police pension and fire pension special revenue funds in the amounts of \$200,000 and \$185,000, respectively. These transfers were to subsidize the fund deficits of the pension funds. There were two other transfers from the general fund, one to the fire levy fund for \$273,000 and the other to establish a capital projects fund for \$350,000.

*Interfund Balances*

On the fund financial statements interfund balances at December 31, 2011 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$158,730	\$274,981	\$0	\$0
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	59,417	0
Lander/Emerson Waterline	0	0	32,000	0
Kersdale Road Waterline	0	0	67,313	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<i>Totals</i>	<u>\$158,730</u>	<u>\$274,981</u>	<u>\$158,730</u>	<u>\$274,981</u>

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2011

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

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

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

**Note 17 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2011 follows:

	Principal Outstanding 12/31/2010	Additions	Deletions	Principal Outstanding 12/31/2011	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1997 5.35% Brookwood Water					
Serial Bonds	\$345,000	\$0	(\$50,000)	\$295,000	\$50,000
2001 2.50% - 4.00% Road Improvement					
Serial Bonds	295,000	0	(295,000)	0	0
2007 4.00 - 5.00 % Various Purpose					
Serial Bonds	1,375,000	0	(125,000)	1,250,000	135,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00 % Street Improvement					
Serial Bonds	545,000	0	(45,000)	500,000	50,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13 % Street Improvement					
Serial Bonds	3,345,000	0	(135,000)	3,210,000	140,000
Premium on Bonds	29,718	0	(1,564)	28,154	0
2010 Windy Hill Bonds					
Serial Bonds	148,000	0	(5,000)	143,000	5,000
2010 Thornapple Bonds					
Serial Bonds	97,000	0	(5,000)	92,000	5,000
<b>Total General Obligation Bonds</b>	<b>8,589,718</b>	<b>0</b>	<b>(661,564)</b>	<b>7,928,154</b>	<b>385,000</b>
<b>OPWC Loans</b>					
1996 0% Pinetree Water	157,826	0	(26,304)	131,522	26,304
2007 0% Brainard Road	694,700	0	(42,103)	652,597	42,103
<b>Total OPWC Loans</b>	<b>852,526</b>	<b>0</b>	<b>(68,407)</b>	<b>784,119</b>	<b>68,407</b>
<b>Other Long-term Obligations</b>					
Compensated Absences	252,922	33,995	(47,405)	239,512	93,477
<b>Total Governmental Activities</b>	<b>\$9,695,166</b>	<b>\$33,995</b>	<b>(\$777,376)</b>	<b>\$8,951,785</b>	<b>\$546,884</b>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

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

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

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

Year	Amount
2020	\$190,000
2021	200,000
Total	\$390,000

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

---

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

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

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

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

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

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

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2011*

As of December 31, 2011, the City's overall legal debt margin was \$33,969,481. The unvoted legal debt margin was \$14,078,033. Principal and interest requirements to retire the long-term general obligation bonds and the OPWC loans as of December 31, 2011 are as follows:

	General Obligation Bonds				OPWC Loan
	Serial		Term		
	Principal	Interest	Principal	Interest	
2012	\$385,000	\$326,395	\$0	\$0	\$68,407
2013	385,000	313,483	0	0	68,407
2014	405,000	299,745	0	0	68,407
2015	410,000	285,033	0	0	68,407
2016	425,000	269,833	0	0	68,407
2017-2021	1,675,000	912,077	455,000	194,500	210,515
2022-2026	1,055,000	281,664	1,515,000	342,725	210,515
2027-2030	750,000	63,191	440,000	26,750	21,054
Total	\$5,490,000	\$2,751,421	\$2,410,000	\$563,975	\$784,119

**Note 18 – Jointly Governed Organizations**

***Northeast Ohio Public Energy Council (NOPEC)***

The City is a member of the NOPEC, a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2011. Financial information can be obtained by contacting 31320 Solon Road, Suite 20, Solon, Ohio 11120.

***Valley Enforcement Regional Council of Governments***

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

**This page intentionally left blank.**





# Dave Yost • Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2013, wherein we noted the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

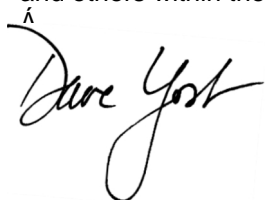
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies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

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

### **Compliance and Other Matters**

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

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

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

**Dave Yost**  
Auditor of State

November 1, 2013



# Dave Yost • Auditor of State

CITY OF PEPPER PIKE

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
NOVEMBER 26, 2013