



Dave Yost • Auditor of State

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Member of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2012, 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 thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

November 1, 2013

City of Pepper Pike, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
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, 2012. 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 2012 are as follows:

- Net position increased by \$5,026,967, mainly due to the City receiving \$3,664,459 in estate taxes.
- 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 2012, 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 Position and the Statement of Activities

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

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 7. 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 2012 fiscal year are the general fund, fire levy fund and the bond retirement fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such

City of Pepper Pike, Ohio
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information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

Proprietary Fund

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 Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net position for 2012 as compared to 2011.

Table 1
Net Position

	Governmental Activities		
	2012	2011	Change
Assets			
Current and Other Assets	\$14,133,685	\$10,083,601	\$4,050,084
Capital Assets, Net	19,836,352	19,601,619	234,733
<i>Total Assets</i>	<u>33,970,037</u>	<u>29,685,220</u>	<u>4,284,817</u>
Liabilities			
Current Liabilities and Other Liabilities	818,050	1,205,825	(387,775)
Long-term Liabilities			
Due Within One Year	539,794	546,884	(7,090)
Due In More Than One Year	7,930,220	8,404,901	(474,681)
<i>Total Liabilities</i>	<u>9,288,064</u>	<u>10,157,610</u>	<u>(869,546)</u>
Deferred Inflows of Resources	<u>3,311,934</u>	<u>3,204,538</u>	<u>107,396</u>
Net Position			
Net Investment in Capital Assets	11,955,858	11,368,670	587,188
Restricted for:			
Capital Projects	850,000	557,322	292,678
Debt Service	142,842	136,810	6,032
Other Purpose	1,282,660	892,935	389,725
Unrestricted	7,138,679	3,387,335	3,751,344
<i>Total Net Position</i>	<u>21,370,039</u>	<u>16,343,072</u>	<u>5,026,967</u>

City of Pepper Pike, Ohio
Management's Discussion and Analysis
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Net position of the City increased during 2012. The increase is primarily due to the City receiving \$3,664,459 in estate taxes, a \$3,294,400 increase from 2011.

Total liabilities decreased due to the repayment of long-term debt.

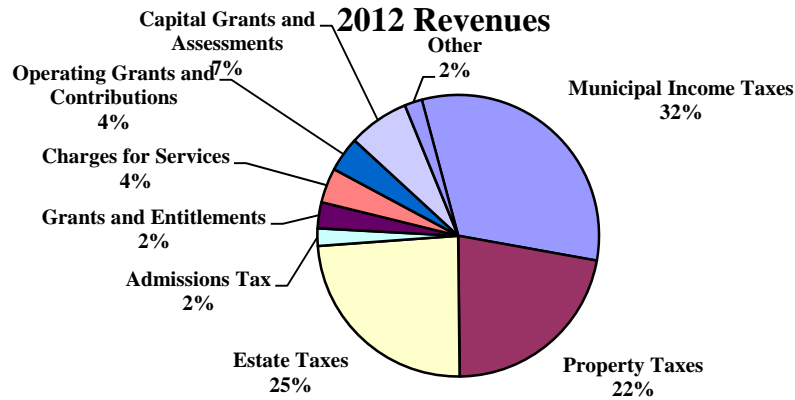
Table 2 shows the changes in net position for the years ended December 31, 2012 and December 31, 2011 and corresponds to the Statement of Activities on page 13.

Table 2
Changes in Net Position

	Governmental Activities		
	2012	2011	Change
Program Revenues			
Charges for Services	\$580,522	\$562,636	\$17,886
Operating Grants and Contributions	556,870	518,624	38,246
Capital Grants and Assessments	1,056,016	1,038,737	17,279
<i>Total Program Revenues</i>	<u>2,193,408</u>	<u>2,119,997</u>	<u>73,411</u>
General Revenues			
Property Taxes	3,246,576	3,248,425	(1,849)
Income Taxes	4,821,340	4,894,169	(72,829)
Estate Taxes	3,664,459	370,059	3,294,400
Admissions Tax	254,697	257,036	(2,339)
Franchise Tax	108,502	84,551	23,951
Grants and Entitlements	310,920	368,773	(57,853)
Investment Earnings	11,071	17,432	(6,361)
Other	243,844	118,562	125,282
<i>Total General Revenues</i>	<u>12,661,409</u>	<u>9,359,007</u>	<u>3,302,402</u>
<i>Total Revenues</i>	<u>14,854,817</u>	<u>11,479,004</u>	<u>3,375,813</u>
Program Expenses			
General Government	1,354,060	1,420,042	(65,982)
Security of Persons and Property	4,890,769	4,810,293	80,476
Public Health Services	54,412	29,569	24,843
Leisure Time Activities	0	2,000	(2,000)
Community Environment	273,452	300,723	(27,271)
Basic Utility Services	1,015,598	1,359,351	(343,753)
Transportation	1,902,783	2,214,012	(311,229)
Interest and Fiscal Charges	336,776	354,766	(17,990)
<i>Total Program Expenses</i>	<u>9,827,850</u>	<u>10,490,756</u>	<u>(662,906)</u>
<i>Change in Net Position</i>	<u>5,026,967</u>	<u>988,248</u>	<u>4,038,719</u>
Net Position Beginning of Year	<u>16,343,072</u>	<u>15,354,824</u>	<u>988,248</u>
Net Position End of Year	<u>\$21,370,039</u>	<u>\$16,343,072</u>	<u>\$5,026,967</u>

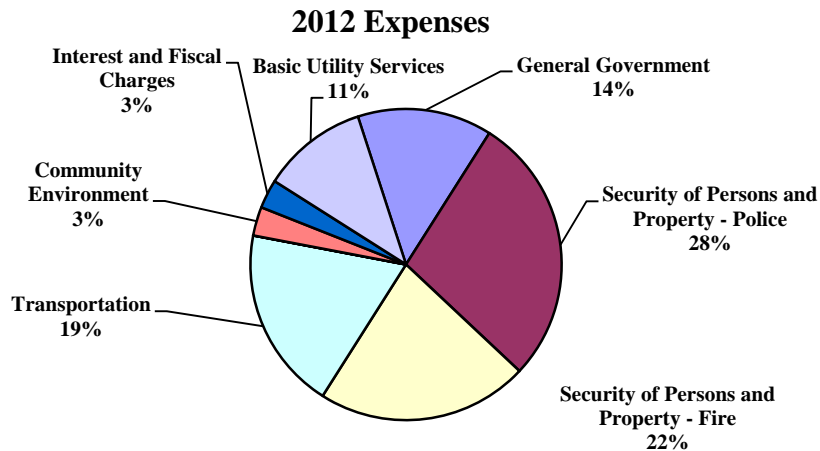
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Management's Discussion and Analysis
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Governmental Activities



Governmental activities increased the City's net position by \$5,026,967.

In 2012, the City's total revenue increased over 2011 levels. During 2012, estate taxes increased from 2011, due to a large settlement in 2012.



Expenses decreased from 2011 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 decreases, with the exception of security of persons and property and public health and welfare. The increase in security of persons and property was due to increases in salaries and benefits. The increase in public health and welfare is due to increase cost in the care of prisoners in 2012.

The City's Funds

Information about the City's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. The City had several capital projects funds with deficit fund balances. These are caused by the recognition of expenditures on the modified accrual basis of accounting. In addition, in 1999, the general fund made an interfund loan to capital projects funds, and they issued manuscript notes which were used to finance the project. Once the interfund loans are repaid, these deficits will be eliminated.

City of Pepper Pike, Ohio
Management's Discussion and Analysis
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All governmental funds had total revenues of \$14,069,702 and expenditures of \$9,824,176. The fund balance in the general fund had an increase of \$3,610,951 from 2011. The total year end fund balance was \$8,060,428 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 2012, 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 original and final, budget basis revenue was \$7,177,441, which was below actual revenues by \$3,747,767 due to the City receiving a large estate settlement. The final appropriations of \$7,055,721 was sufficient to meet the expenditures for the year, which ended up at \$6,477,898 or \$577,823 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 \$4,477,090 higher than the final projected budgetary fund balance amount of \$1,336,714.

Debt Administration and Capital Assets

Debt

Table 4 summarizes the obligations outstanding.

Table 4
 Outstanding Long-term Liabilities at Year End

	Governmental Activities	
	2012	2011
General Obligation Bonds	\$7,541,590	\$7,928,154
OPWC Loans	715,712	784,119
Compensated Absences	212,712	239,512
Total	\$8,470,014	\$8,951,785

At December 31, 2012, the City's overall legal debt margin was \$35,211,851 with an unvoted debt margin of \$14,913,398. 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 \$7,541,590. In addition, the City had an outstanding balance of \$715,712 on two twenty-year interest free loans obtained from the Ohio Public Works Commission. There was also an amount of \$212,712 booked as compensated absences in the long-term debt obligations for accrued sick leave payable to the employees.

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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 \$137,405. Additional information concerning the City's manuscript debt can be found in Note 15 to the basic financial statements.

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

Capital Assets

Table 3 shows fiscal 2012 balances of Capital Assets as compared to 2011:

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

	Governmental Activities		
	2012	2011	Change
Land	\$751,350	\$271,350	\$480,000
Construction in Progress	1,297,870	797,176	500,694
Improvements to Land	55,428	63,393	(7,965)
Buildings and Improvements	3,064,068	3,102,830	(38,762)
Vehicles	732,008	878,209	(146,201)
Furniture, Fixtures and Equipment	455,529	467,976	(12,447)
Infrastructure			
Streets	4,564,082	4,905,650	(341,568)
Bridges	74,882	77,378	(2,496)
Sanitary Sewer System	8,841,135	9,057,657	(216,522)
Total Capital Assets	<u>\$19,836,352</u>	<u>\$19,621,619</u>	<u>\$214,733</u>

The increase in capital assets from 2011 to 2012 is primarily due to increases in land and construction in progress. During 2012, the City received by donation the Morgan Park property. Improvements to the Pepper Pike pump station are still going forward, with an anticipated completion date of 2013. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced 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

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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.

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 Position

December 31, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,108,981
Accounts Receivable	222,765
Intergovernmental Receivable	548,019
Prepaid Items	45,283
Materials and Supplies Inventory	76,047
Income Taxes Receivable	1,487,642
Property Taxes Receivable	3,437,777
Special Assessments Receivable	207,171
Nondepreciable Capital Assets	2,049,220
Depreciable Capital Assets, Net	<u>17,787,132</u>
<i>Total Assets</i>	<u>33,970,037</u>
Liabilities	
Accounts Payable	110,499
Contracts Payable	65,777
Claims Payable	35,106
Accrued Wages	53,388
Intergovernmental Payable	300,870
Accrued Interest Payable	23,495
Vacation Benefits Payable	228,915
Long-Term Liabilities:	
Due Within One Year	539,794
Due In More Than One Year	<u>7,930,220</u>
<i>Total Liabilities</i>	<u>9,288,064</u>
Deferred Inflows of Resources	
Property Taxes	<u>3,311,934</u>
Net Position	
Net Investment in Capital Assets	11,955,858
Restricted for:	
Capital Projects	850,000
Debt Service	142,842
Other Purposes	1,282,660
Unrestricted	<u>7,138,679</u>
<i>Total Net Position</i>	<u><u>\$21,370,039</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General Government	\$1,354,060	\$83,052	\$0	\$576,016	(\$694,992)
Security of Persons and Property:					
Police	2,721,152	162,649	14,521	0	(2,543,982)
Fire	2,169,617	147,676	208,133	0	(1,813,808)
Public Health Services	54,412	3,492	0	0	(50,920)
Community Environment	273,452	17,678	39,605	0	(216,169)
Basic Utility Services	1,015,598	87,173	0	0	(928,425)
Transportation	1,902,783	78,802	294,611	480,000	(1,049,370)
Interest and Fiscal Charges	336,776	0	0	0	(336,776)
<i>Total Governmental Activities</i>	<u>\$9,827,850</u>	<u>\$580,522</u>	<u>\$556,870</u>	<u>\$1,056,016</u>	<u>(7,634,442)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,469,826
Debt Service	205,091
Fire	1,469,113
Police	102,546
Municipal Income Taxes Levied for General Purposes	4,821,340
Estate Taxes	3,664,459
Admissions Taxes	254,697
Franchise Taxes	108,502
Grants and Entitlements not Restricted to Specific Programs	310,920
Interest	11,071
Miscellaneous	243,844

Total General Revenues 12,661,409

Change in Net Position 5,026,967

Net Position Beginning of Year 16,343,072

Net Position End of Year \$21,370,039

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$5,900,595	\$363,217	\$100,100	\$1,745,069	\$8,108,981
Property Taxes Receivable	1,562,551	1,439,166	218,030	218,030	3,437,777
Income Taxes Receivable	1,487,642	0	0	0	1,487,642
Accounts Receivable	111,799	110,966	0	0	222,765
Intergovernmental Receivable	285,523	96,512	14,477	151,507	548,019
Interfund Receivable	412,386	0	0	0	412,386
Materials and Supplies Inventory	7,190	817	0	68,040	76,047
Prepaid Items	45,283	0	0	0	45,283
Special Assessments Receivable	0	0	69,766	137,405	207,171
<i>Total Assets</i>	<u>\$9,812,969</u>	<u>\$2,010,678</u>	<u>\$402,373</u>	<u>\$2,320,051</u>	<u>\$14,546,071</u>
Liabilities					
Accounts Payable	\$96,401	\$9,157	\$0	\$4,941	\$110,499
Contracts Payable	65,777	0	0	0	65,777
Accrued Wages	43,183	10,205	0	0	53,388
Intergovernmental Payable	130,792	48,038	0	122,040	300,870
Claims Payable	30,529	4,577	0	0	35,106
Accrued Interest Payable	0	0	0	603	603
Interfund Payable	0	0	0	412,386	412,386
<i>Total Liabilities</i>	<u>366,682</u>	<u>71,977</u>	<u>0</u>	<u>539,970</u>	<u>978,629</u>
Deferred Inflow of Resources					
Property Taxes	1,505,352	1,386,483	210,049	210,050	3,311,934
Unavailable Revenue	1,582,365	249,273	92,224	271,218	2,195,080
<i>Total Deferred Inflow of Resources</i>	<u>3,087,717</u>	<u>1,635,756</u>	<u>302,273</u>	<u>481,268</u>	<u>5,507,014</u>
Fund Balances					
Nonspendable	189,878	817	0	68,040	258,735
Restricted	0	302,128	100,100	1,493,668	1,895,896
Assigned	79,812	0	0	0	79,812
Unassigned (Deficit)	6,088,880	0	0	(262,895)	5,825,985
<i>Total Fund Balances</i>	<u>6,358,570</u>	<u>302,945</u>	<u>100,100</u>	<u>1,298,813</u>	<u>8,060,428</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$9,812,969</u>	<u>\$2,010,678</u>	<u>\$402,373</u>	<u>\$2,320,051</u>	<u>\$14,546,071</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2012*

Total Governmental Fund Balances	\$8,060,428
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,836,352
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	125,843
Income Taxes	1,275,987
Estate Taxes	126,385
Special Assessments	207,171
Intergovernmental	359,616
Charges for Services	<u>100,078</u>
Total	2,195,080
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(22,892)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(228,915)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(7,541,590)
OPWC Loans	(715,712)
Compensated Absences	<u>(212,712)</u>
Total	<u>(8,470,014)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$21,370,039</u></u>

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, 2012

	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,485,130	\$1,381,320	\$207,227	\$207,228	\$3,280,905
Municipal Income Taxes	4,580,388	0	0	0	4,580,388
Estate Taxes	3,538,074	0	0	0	3,538,074
Admissions Taxes	254,697	0	0	0	254,697
Charges for Services	2,363	146,999	0	0	149,362
Fees, Licenses and Permits	321,123	0	0	0	321,123
Fines and Forfeitures	37,300	0	0	0	37,300
Intergovernmental	309,090	193,024	28,954	366,233	897,301
Special Assessments	0	0	583,275	29,713	612,988
Interest	10,874	0	0	197	11,071
Rentals	72,060	0	0	0	72,060
Franchise Tax	108,502	0	0	0	108,502
Other	205,931	0	0	0	205,931
<i>Total Revenues</i>	<u>10,925,532</u>	<u>1,721,343</u>	<u>819,456</u>	<u>603,371</u>	<u>14,069,702</u>
Expenditures					
Current:					
General Government	1,173,599	0	8,893	0	1,182,492
Security of Persons and Property:					
Police	2,438,656	0	0	251,072	2,689,728
Fire	0	1,757,307	0	232,699	1,990,006
Public Health Services	51,067	0	0	0	51,067
Community Environment	261,709	0	0	48,077	309,786
Basic Utility Services	1,237,572	0	0	0	1,237,572
Transportation	1,147,088	0	0	144,319	1,291,407
Capital Outlay	29,890	0	0	254,135	284,025
Debt Service:					
Principal Retirement	0	0	453,407	0	453,407
Interest and Fiscal Charges	0	0	326,395	8,291	334,686
<i>Total Expenditures</i>	<u>6,339,581</u>	<u>1,757,307</u>	<u>788,695</u>	<u>938,593</u>	<u>9,824,176</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,585,951</u>	<u>(35,964)</u>	<u>30,761</u>	<u>(335,222)</u>	<u>4,245,526</u>
Other Financing Sources (Uses)					
Transfers In	0	220,000	0	755,000	975,000
Transfers Out	(975,000)	0	0	0	(975,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(975,000)</u>	<u>220,000</u>	<u>0</u>	<u>755,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	3,610,951	184,036	30,761	419,778	4,245,526
<i>Fund Balances Beginning of Year</i>	<u>2,747,619</u>	<u>118,909</u>	<u>69,339</u>	<u>879,035</u>	<u>3,814,902</u>
<i>Fund Balances End of Year</i>	<u><u>\$6,358,570</u></u>	<u><u>\$302,945</u></u>	<u><u>\$100,100</u></u>	<u><u>\$1,298,813</u></u>	<u><u>\$8,060,428</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, 2012*

Net Change in Fund Balances - Total Governmental Funds \$4,245,526

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

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

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

Capital Asset Additions:		
Capital Outlay	742,673	
Capital Contributions	480,000	
Depreciation	(991,073)	
Total	231,600	231,600

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (16,867)

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

Delinquent Property Taxes	(34,329)	
Income Taxes	240,952	
Estate Taxes	126,385	
Special Assessments	(36,972)	
Intergovernmental	(29,511)	
Charges for Services	677	
Total	267,202	267,202

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 453,407

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. (232,473)

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

Accrued Interest on Bonds	(3,654)	
Amortization of Bond Premium	1,564	
Total	(2,090)	(2,090)

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	26,800	
Vacation Benefits Payable	53,862	
Total	80,662	80,662

Change in Net Position of Governmental Activities \$5,026,967

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property Taxes	\$1,253,690	\$1,253,690	\$1,485,130	\$231,440
Municipal Income Taxes	3,680,082	3,680,082	4,642,759	962,677
Estate Taxes	1,198,664	1,198,664	3,522,239	2,323,575
Admissions Taxes	215,292	215,292	268,511	53,219
Charges for Services	0	0	2,363	2,363
Fees, Licenses and Permits	221,352	221,352	321,123	99,771
Fines and Forfeitures	51,996	51,996	39,087	(12,909)
Intergovernmental	292,695	292,695	297,270	4,575
Interest	11,607	11,607	10,874	(733)
Rentals	54,610	54,610	42,060	(12,550)
Franchise Tax	53,598	53,598	88,979	35,381
Other	143,855	143,855	204,813	60,958
<i>Total Revenues</i>	<u>7,177,441</u>	<u>7,177,441</u>	<u>10,925,208</u>	<u>3,747,767</u>
Expenditures				
Current:				
General Government	1,231,744	1,348,744	1,168,799	179,945
Security of Persons and Property:				
Police	2,435,352	2,558,352	2,444,630	113,722
Public Health Services	34,200	64,200	51,067	13,133
Community Environment	292,672	302,672	259,623	43,049
Basic Utility Services	1,257,046	1,307,046	1,218,963	88,083
Transportation	1,164,707	1,474,707	1,334,816	139,891
<i>Total Expenditures</i>	<u>6,415,721</u>	<u>7,055,721</u>	<u>6,477,898</u>	<u>577,823</u>
<i>Excess of Revenues Over Expenditures</i>	<u>761,720</u>	<u>121,720</u>	<u>4,447,310</u>	<u>4,325,590</u>
Other Financing Sources (Uses)				
Advances In	248,500	248,500	0	(248,500)
Transfers Out	(685,000)	(1,375,000)	(975,000)	400,000
<i>Total Other Financing Sources (Uses)</i>	<u>(436,500)</u>	<u>(1,126,500)</u>	<u>(975,000)</u>	<u>151,500</u>
<i>Net Change in Fund Balance</i>	325,220	(1,004,780)	3,472,310	4,477,090
<i>Fund Balance Beginning of Year</i>	2,052,773	2,052,773	2,052,773	0
Prior Year Encumbrances Appropriated	288,721	288,721	288,721	0
<i>Fund Balance End of Year</i>	<u>\$2,666,714</u>	<u>\$1,336,714</u>	<u>\$5,813,804</u>	<u>\$4,477,090</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$1,466,494	\$1,466,494	\$1,381,320	(\$85,174)
Charges for Services	173,108	173,108	146,701	(26,407)
Intergovernmental	220,372	220,372	193,024	(27,348)
<i>Total Revenues</i>	1,859,974	1,859,974	1,721,045	(138,929)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	1,871,796	1,851,796	1,765,304	86,492
<i>Excess of Revenues Over (Under) Expenditures</i>	(11,822)	8,178	(44,259)	(52,437)
Other Financing Sources				
Transfers In	239,658	239,658	220,000	(19,658)
<i>Net Change in Fund Balance</i>	227,836	247,836	175,741	(72,095)
<i>Fund Balance Beginning of Year</i>	170,007	170,007	170,007	0
Prior Year Encumbrances Appropriated	5,796	5,796	5,796	0
<i>Fund Balance End of Year</i>	<u>\$403,639</u>	<u>\$423,639</u>	<u>\$351,544</u>	<u>(\$72,095)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Year Ended December 31, 2012*

	Self Insurance
Operating Revenues	
Charges for Services	\$1,512
Other	37,913
<i>Total Operating Revenues</i>	39,425
Operating Expenses	
Contractual Services	70,499
Claims	124,523
Other	76,876
<i>Total Operating Expenses</i>	271,898
<i>Change in Net Position</i>	(232,473)
<i>Net Position Beginning of Year</i>	232,473
<i>Net Position End of Year</i>	\$0

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, 2012

	<u>Self Insurance</u>
<i>Increases/(Decreases) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,512
Cash Received from Other Sources	37,913
Cash Payments for Claims	(182,593)
Cash Payments for Contractual Services	(70,499)
Cash Payments for Other	(76,876)
<i>Net Decrease in Cash and Cash Equivalents</i>	(290,543)
<i>Cash and Cash Equivalents Beginning of Year</i>	290,543
<i>Cash and Cash Equivalents End of Year</i>	\$0
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$232,473)
Adjustments:	
Decrease in Claims Payable	(58,070)
<i>Net Cash Used for Operating Activities</i>	(\$290,543)

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, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$278,836</u></u>
 Liabilities	
Deposits Held and Due to Others	<u><u>\$278,836</u></u>

See accompanying notes to the basic financial statements

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City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 Buckeye Ohio Risk Management Agency, the Northeast Ohio Public Energy Council and the Valley Enforcement Regional Council of Governments, which are defined as an insurance purchasing pools 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 17 and 18 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Basis of Presentation

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

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

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 run off claims for medical and prescription drug claims of City employees dated prior to December 31, 2012.

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

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net 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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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 position. The statement of changes in fund net position 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, 2012

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represent receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, intergovernmental grants and ambulance charges. These amounts are deferred and recognized as an inflow of resources in the period the amounts became available.

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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.

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 2012, 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, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$10,874, which includes \$2,818 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, 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.

Capital Assets

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

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

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

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

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

Interfund Balances

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

Compensated Absences

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

anniversary date, the outstanding liability is recorded as “vacation benefits payable” on the statement of net position rather than as a long-term liability.

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

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 receipted in the year the bonds are issued.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

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

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

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

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

City of Pepper Pike, Ohio
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For The Year Ended December 31, 2012

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

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

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

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

Net Position

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

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

Interfund Activity

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

Estimates

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

Note 3 – Changes in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53”, Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City’s financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City’s financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. 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, 2012

Note 4 - Fund Balances

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

Fund Balances	General	Fire Levy	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Materials and Supplies	\$7,190	\$817	\$0	\$68,040	\$76,047
Prepays	45,283	0	0	0	45,283
Interfund Loans	137,405	0	0	0	137,405
<i>Total Nonspendable</i>	189,878	817	0	68,040	258,735
<i>Restricted for</i>					
Road Improvements	0	0	0	552,541	552,541
Recycle Ohio	0	0	0	21,950	21,950
Fire Department	0	302,128	0	0	302,128
Beautification	0	0	0	10,501	10,501
Law Enforcement	0	0	0	690	690
Emergency Assistance	0	0	0	11,727	11,727
Municipal Energy Program	0	0	0	4,965	4,965
Municipal Emergency	0	0	0	41,276	41,276
Urban Forestry	0	0	0	18	18
Capital Improvements	0	0	0	850,000	850,000
Debt Service Payments	0	0	100,100	0	100,100
<i>Total Restricted</i>	0	302,128	100,100	1,493,668	1,895,896
<i>Assigned to</i>					
Purchases on Order	79,812	0	0	0	79,812
<i>Unassigned (Deficit)</i>	6,088,880	0	0	(262,895)	5,825,985
<i>Total Fund Balances</i>	\$6,358,570	\$302,945	\$100,100	\$1,298,813	\$8,060,428

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).

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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	\$3,610,951	\$184,036
Net Adjustment for Revenue Accruals	(324)	(298)
Net Adjustment for Expenditure Accruals	85,879	3,676
Encumbrances	(224,196)	(11,673)
Budget Basis	\$3,472,310	\$175,741

Note 6 – Fund Deficits

Fund balances at December 31, 2012, included the following individual fund deficits:

Special Revenue Funds

Fire Pension	\$36,758
Police Pension	14,835

Capital Projects Funds

Northwest Quadrant	24,000
Pepper Pike Waste Water Treatment Plant	46,813
Brainard Road Sewerline	49,058
Lander/Emerson Waterline	28,132
Kersdale Road Waterline	60,818
Thornapple Waterline	2,481

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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;
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:

City of Pepper Pike, Ohio
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For The Year Ended December 31, 2012

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, \$3,579,285 of the City's bank balance of \$4,542,722 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

Investments

At December 31, 2012, the City had \$3,783,837 invested in STAR Ohio with an average maturity of 55.4 days.

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, 2012, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 \$69,766 in the special assessment bond retirement fund. At December 31, 2012 the amount of delinquent special assessments was \$27,556.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes are levied after October 1, 2012 on the assessed value as of January 1, 2012 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$9.50 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2012 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$366,648,740
Other Real Estate	32,915,410
Public Utility Property	<u>6,404,910</u>
Total Assessed Values	<u><u>\$405,969,060</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collective delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2012 follows:

Homestead and Rollback	\$229,215
Estate Tax	142,220
Gasoline Tax	94,216
Permissive Tax	42,815
Local Government	21,639
Court Fines	17,914
Total	<u><u>\$548,019</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.

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, 2012.

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.

City of Pepper Pike, Ohio
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For The Year Ended December 31, 2012

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, employees with more than 960 hours (120 days) of sick leave at 12.31 of a given year are paid for the hours over 960 at a rate of 1 hour for every 2 hours accumulated. This payment is made with the second pay in January of the subsequent year, upon retirement or death with at least 20 years of service to the City. The employee's sick leave balance will be paid at a rate of 1 day for every 2 days accumulated.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<i>Capital Assets not being Depreciated</i>				
Land	\$271,350	\$480,000	\$0	\$751,350
Construction in Progress	797,176	500,694	0	1,297,870
<i>Total Capital Assets not being Depreciated</i>	1,068,526	980,694	0	2,049,220
<i>Capital Assets being Depreciated</i>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,402,955	43,965	0	4,446,920
Vehicles	3,380,986	82,712	(14,657)	3,449,041
Furniture, Fixtures and Equipment	1,888,390	79,415	(114,614)	1,853,191
Infrastructure				
Streets	29,575,874	35,887	0	29,611,761
Bridges	249,605	0	0	249,605
Sanitary Sewers	10,826,108	0	0	10,826,108
<i>Total Capital Assets being Depreciated</i>	50,545,724	241,979	(129,271)	50,658,432
<i>Less: Accumulated Depreciation</i>				
Improvements to Land	(158,413)	(7,965)	0	(166,378)
Buildings and Improvements	(1,300,125)	(82,727)	0	(1,382,852)
Vehicles	(2,502,777)	(228,913)	14,657	(2,717,033)
Furniture, Fixtures and Equipment	(1,420,414)	(74,995)	97,747	(1,397,662)
Infrastructure				
Streets	(24,670,224)	(377,455)	0	(25,047,679)
Culverts	(172,227)	(2,496)	0	(174,723)
Sanitary Sewers	(1,768,451)	(216,522)	0	(1,984,973)
<i>Total Accumulated Depreciation</i>	(31,992,631)	(991,073)	112,404	(32,871,300)
<i>Total Capital Assets being Depreciated, Net</i>	18,553,093	(749,094)	(16,867)	17,787,132
<i>Total Capital Assets, Net</i>	\$19,621,619	\$231,600	(\$16,867)	\$19,836,352

City of Pepper Pike, Ohio
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For The Year Ended December 31, 2012

Depreciation expense was charged to governmental activities as follows:

General Government	\$85,613
Security of Persons and Property:	
Police	22,351
Fire	131,474
Community Development	375
Basic Utility Services	151,336
Transportation	<u>599,924</u>
Total Depreciation Expense	<u><u>\$991,073</u></u>

During 2012, the City received a \$480,000 land donation for the Morgan Park property. The City has recorded this as capital contributions.

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. 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. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

The City’s 2012 contribution rate was 14.0 percent. 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 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$220,916, \$248,795, and \$222,053, respectively. For 2012, 84.47 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Neither the City or plan members made contributions to the Member-Directed Plan for 2012.

Ohio Police and Fire Pension Fund

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

Funding Policy – 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 \$160,520 and \$141,754 for the year ended December 31, 2012, \$164,936 and \$173,369 for the year ended December 31, 2011, and \$170,628 and \$161,782 for the year ended December 31, 2010, respectively. For 2012, 79.18 percent for police and 64.04 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 2011 and 2010.

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, 2012, 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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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.

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 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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, 2012, 2011, and 2010 were \$133,654, \$126,388, and \$126,461, respectively. For 2012, 84.47 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

Ohio Police and Fire Pension Fund

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 visiting www.op-f.org or writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, 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 \$84,981 and \$55,469 for the year ended December 31, 2012, \$87,319 and \$67,840 for the year ended December 31, 2011, and \$90,333 and \$63,306 for the year ended December 31, 2010. For 2012, 79.18 percent has been contributed for police and 64.04 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 2011 and 2010.

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 the Buckeye Ohio Risk Management Agency (BORMA) for property, liability and crime insurance. The

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

BORMA program is subject to \$150,000 deductible for any property or liability loss. Coverage provided by BORMA is as follows:

Type	Deductible	Coverage
Property and Equipment	\$1,000	\$8,595,809
Boiler and Machinery	1,000	8,595,809
Inland Marine	500	519,949
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement	5,000	1,000,000
Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	75,000
Employee Dishonesty	N/A	100,000
Vehicle Physical Damage	500/1,000	Actual cash value

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

The City participates in the Buckeye Ohio Risk Management Agency (BORMA), a public entity shared risk pool among several cities in Northern Ohio. The City pays monthly premiums for health care coverage for its employees and for property, liability, and crime insurance. BORMA is responsible for the management and operations of the programs. Member cities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage provided under the respective programs. Upon withdrawal from BORMA, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal from the respective program.

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

In previous years, medical insurance was offered to employees through a self-insurance internal service fund. The City's monthly premiums were paid to the fiscal agent who in turn paid the claims on the City's behalf. A specific excess loss coverage (stop-loss) insurance policy covered claims in excess of \$35,000 per employee, per year. As of December 31, 2012 the City is no longer self-insured for medical insurance.

Changes in the fund's claims liability amount in fiscal year 2011 and 2012 were:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2011	\$89,155	\$683,711	\$714,796	\$58,070
2012	58,070	174,403	232,473	0

Note 15 - Interfund Transfers and Balances

Interfund Transfers

The general fund made transfers to the police pension, fire pension, and fire levy special revenue funds in the amounts of \$150,000, \$105,000, and \$220,000 respectively. These transfers were to supplement the funds available for maintaining the programs in those funds. There was one other transfer from the general fund to the capital improvement capital projects fund for \$500,000 to provide funding for capital improvements within the City.

Interfund Balances

On the fund financial statements interfund balances at December 31, 2012 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$137,405	\$274,981	\$0	\$0
Pepper Pike Wastewater Treatment				
Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	48,824	0
Lander/Emerson Waterline	0	0	28,000	0
Kersdale Road Waterline	0	0	60,581	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<i>Totals</i>	\$137,405	\$274,981	\$137,405	\$274,981

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

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

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

The remaining interfund balances at December 31, 2012 were made to support projects in the Pepper Pike wastewater treatment plant and East Road, northwest quadrant and thornapple water main capital projects funds' pending the receipt of assessments and grant monies that will be used to repay the loans.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 16 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2012 follows:

	Principal Outstanding 12/31/2011	Additions	Deletions	Principal Outstanding 12/31/2012	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds					
1997 5.35% Brookwood Water					
Serial Bonds	\$295,000	\$0	(\$50,000)	\$245,000	\$50,000
2007 4.00 - 5.00 % Various Purpose			0		
Serial Bonds	1,250,000	0	(135,000)	1,115,000	135,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00 % Street Improvement					
Serial Bonds	500,000	0	(50,000)	450,000	50,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13 % Street Improvement					
Serial Bonds	3,210,000	0	(140,000)	3,070,000	140,000
Premium on Bonds	28,154	0	(1,564)	26,590	0
2010 Windy Hill Bonds					
Serial Bonds	143,000	0	(5,000)	138,000	5,000
2010 Thornapple Bonds					
Serial Bonds	92,000	0	(5,000)	87,000	5,000
Total General Obligation Bonds	7,928,154	0	(386,564)	7,541,590	385,000
OPWC Loans					
1996 0% Pinetree Water	131,522	0	(26,304)	105,218	26,304
2007 0% Brainard Road	652,597	0	(42,103)	610,494	42,103
Total OPWC Loans	784,119	0	(68,407)	715,712	68,407
Other Long-term Obligations					
Compensated Absences	239,512	71,004	(97,804)	212,712	86,387
Total Governmental Activities	\$8,951,785	\$71,004	(\$552,775)	\$8,470,014	\$539,794

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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:

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

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

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

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

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

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

<u>Year</u>	<u>Amount</u>
2021	\$65,000
2022	75,000
2023	75,000
Total	<u>\$215,000</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>\$255,000</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.

As of December 31, 2012, the City's overall legal debt margin was \$35,211,851. The unvoted legal debt margin was \$14,913,398. Principal and interest requirements to retire the long-term general obligation bonds and the OPWC loans as of December 31, 2012 are as follows:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

	General Obligation Bonds				OPWC Loan
	Serial		Term		
	Principal	Interest	Principal	Interest	
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	47,358
2017	430,000	253,495	0	0	42,103
2018-2022	1,440,000	731,120	735,000	294,225	210,515
2023-2027	1,095,000	239,576	1,580,000	268,000	210,515
2028-2030	515,000	32,741	95,000	4,750	0
Total	\$5,105,000	\$2,425,026	\$2,410,000	\$566,975	\$715,712

Note 17 – Insurance Purchasing Pool

Ohio Association of Public Treasurers

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.

Buckeye Ohio Risk Management Agency (BORMA)

The Buckeye Ohio Risk Management Agency (BORMA) is a public entity shared risk pool among several cities in Northern Ohio. BORMA was formed as an Ohio not-for-profit corporation and operates a health insurance program. Each member appoints one person to represent the city on the Board of Directors for a term of one year for participation in the health insurance program and three years for participation in the property, crime, and liability insurance program. Each member city’s control over the budgeting and financing of BORMA is limited to its voting authority and any representation it may have on the Board of Directors. Participation in BORMA is by written application subject to approval of the Board of Directors and the payment of premiums. Member cities must remain members for cycles of three years. A member may withdraw from a program by giving a forty day notice prior to the beginning of the next cycle. BORMA did not have any outstanding debt obligations as of December 31, 2012. Financial information may be obtained from Arthur J. Gallagher Risk Management Services, Inc., 1500 West Third Street, Suite 405, Cleveland, Ohio 44113.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 2012. 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.

Note 20 – Significant Commitments

Encumbrances

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

General	\$224,196
Fire Levy	11,673
Other Governmental Funds	84
Total	<u><u>\$235,953</u></u>

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Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated November 1, 2013, wherein we noted the City adopted GASB Statement Nos. 63 and 65.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

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**