



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY  
DECEMBER 31, 2018**

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DECEMBER 31, 2018

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City), as of and for the ended December 31, 2018, 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 such 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, 2018, 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 20 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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 August 9, 2019, 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.

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

Keith Faber  
Auditor of State

Columbus, Ohio

August 9, 2019

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**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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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, 2018. 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 2018 are as follows:

- The City's net position increased due mainly to an increase in cash and cash equivalents as the City was able to increase income tax collections while reducing capital improvement spending. The decrease in the net pension liability exceeded the increase in the net OPEB liability which also contributed to the increase in net position.
- The City previously implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. Due to an unsuccessful attempt for a .5 percent tax increase in August of 2010, the majority of these measures are still in place.
- The City implemented GASB 75, which established standards for measuring and recognizing other postemployment benefit (OPEB) liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of this GASB statement resulted in a significant change to the financial statements for the City.
- Capital asset additions consisted of construction in progress for various street reconstruction projects, land, buildings and improvements, the purchase of vehicles and various equipment, road construction and repairs.
- Outstanding debt decreased during the year due to annual debt payments.

**Using this Annual Financial Report**

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

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

*Statement of Net Position and the Statement of Activities*

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

***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 with the discussion of the balance sheet. 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 are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund.

*Governmental Funds*

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

*Fiduciary Funds*

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

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

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net position for 2018 as compared to 2017.

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Table 1  
Net Position

	Governmental Activities		
	2018	2017	Change
<b>Assets</b>			
Current and Other Assets	\$28,515,502	\$25,636,458	\$2,879,044
Noncurrent Assets:			
Capital Assets, Net	24,448,527	24,440,340	8,187
<i>Total Assets</i>	<u>52,964,029</u>	<u>50,076,798</u>	<u>2,887,231</u>
<b>Deferred Outflows of Resources</b>			
Pension	1,529,765	2,468,657	(938,892)
OPEB	616,059	29,058	587,001
<i>Total Deferred Outflows of Resources</i>	<u>2,145,824</u>	<u>2,497,715</u>	<u>(351,891)</u>
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	1,412,682	745,886	(666,796)
Long-term Liabilities			
Due Within One Year	574,935	586,600	11,665
Due In More Than One Year			
Net Pension Liability	7,613,359	8,781,511	1,168,152
Net OPEB Liability	6,416,981	5,531,208	(885,773)
Other Amounts	6,017,138	6,508,371	491,233
<i>Total Liabilities</i>	<u>22,035,095</u>	<u>22,153,576</u>	<u>118,481</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,672,459	3,528,392	(144,067)
Pension	1,011,996	357,787	(654,209)
OPEB	207,779	0	(207,779)
<i>Total Deferred Inflows of Resources</i>	<u>4,892,234</u>	<u>3,886,179</u>	<u>(1,006,055)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	17,381,831	17,545,562	(163,731)
Restricted for:			
Capital Projects	2,233,544	2,839,314	(605,770)
Debt Service	4,691,545	4,956,874	(265,329)
Other Purposes	3,419,969	3,100,507	319,462
Unrestricted (Deficit)	455,635	(1,907,499)	2,363,134
<i>Total Net Position</i>	<u>\$28,182,524</u>	<u>\$26,534,758</u>	<u>\$1,647,766</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the deferred outflows related to pension and OPEB.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract, but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

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As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating governmental net position at December 31, 2017, from \$32,036,908 to \$26,534,758.

Total assets for governmental activities increased due mainly to an increase in cash from greater income tax collections coupled with reduced expenditures from cost cutting. Net investment in capital assets decreased due to annual depreciation and construction related payables exceeding additions of land, building and improvements, the purchase of vehicles and various equipment, construction work for various street reconstruction projects as well as major road repairs. The decrease in long-term liabilities was due to the continued pay-down of long-term obligations which was partially offset by an increase in current liabilities from contracts owed on construction. Table 2 shows the changes in net position for 2018 compared to 2017.

Table 2  
Changes in Net Position

	Governmental Activities		
	2018	2017	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$602,860	\$640,349	(\$37,489)
Operating Grants	537,774	560,272	(22,498)
Capital Grants and Assessments	223,889	226,065	(2,176)
<i>Total Program Revenues</i>	<u>1,364,523</u>	<u>1,426,686</u>	<u>(62,163)</u>
<b>General Revenues</b>			
Property Taxes	3,593,781	3,618,617	(24,836)
Income Taxes	6,897,537	5,755,722	1,141,815
Admissions Taxes	318,064	298,578	19,486
Franchise Tax	80,387	83,960	(3,573)
Grants and Entitlements	498,313	489,243	9,070
Interest	237,841	52,590	185,251
Gain on Sale of Capital Assets	4,046	61,564	(57,518)
Other	298,018	257,275	40,743
<i>Total General Revenues</i>	<u>11,927,987</u>	<u>10,617,549</u>	<u>1,310,438</u>
<i>Total Revenues</i>	<u>13,292,510</u>	<u>12,044,235</u>	<u>1,248,275</u>
<b>Program Expenses</b>			
General Government	1,765,469	1,848,614	83,145
Security of Persons and Property	5,519,418	4,803,191	(716,227)
Public Health Services	49,879	37,473	(12,406)
Community Environment	290,524	154,335	(136,189)
Basic Utility Services	855,368	902,670	47,302
Transportation	2,928,354	2,603,407	(324,947)
Interest and Fiscal Charges	235,732	252,733	17,001
<i>Total Program Expenses</i>	<u>11,644,744</u>	<u>10,602,423</u>	<u>(1,042,321)</u>
<i>Change in Net Position</i>	1,647,766	1,441,812	205,954
Net Position Beginning of Year	<u>26,534,758</u>	N/A	N/A
Net Position End of Year	<u>\$28,182,524</u>	<u>\$26,534,758</u>	<u>\$1,647,766</u>

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The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$29,058 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned and adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report an OPEB expense of \$517,429. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities
Total 2018 program expenses under GASB 75	\$11,644,744
OPEB expense under GASB 75	(517,429)
2018 contractually required contribution	10,878
Adjusted 2018 program expenses	11,138,193
Total 2017 program expenses under GASB 45	10,602,423
Increase in program expenses not related to OPEB	\$535,770

*Governmental Activities*

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

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

The City realized increases in both income tax and interest revenue which are signs of a healthy economy for the City of Pepper Pike and surrounding areas along with having additional cash for investments .

Expenses increased from the prior year comparison as the City fully implemented GASB 75 in 2018 which established standards for measuring and recognizing other postemployment benefit (OPEB) liabilities, deferred outflows/inflows of resources and expense/expenditure

**The City's Funds**

Information about the City's major funds starts with the balance sheet. These funds are accounted for using the modified accrual basis of accounting.

**City of Pepper Pike, Ohio**  
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The City's major governmental funds are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund. The general fund had an increase in fund balance during the year as revenues and other financing sources exceeded expenditures and other financing uses. City Council's 2018 budget ensured that the City's general fund would see a significant increase in fund balance. The fire levy special revenue fund had an increase in fund balance from additional revenue collection aided from an increase in assessed property values. The City continues to seek out additional sources of revenues to maintain the current level of services. The bond retirement fund had an increase in fund balance as property taxes and assessments continue to exceed the payments related to the debt. The capital improvement fund had a decrease in fund balance due to expenditures related to City-wide improvements.

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

In 2018, the general fund's actual revenue plus other financing sources exceeded the final revenue estimate mainly due to higher than estimated municipal income taxes tied to the healthy economic situation the City and surrounding area is experiencing. Actual expenditures plus other financing uses were under the final budget due to management carefully planning the City's final budget to ensure an improvement to the general fund balance.

**Capital Assets and Long-term Obligations**

*Capital Assets*

Governmental capital assets, net of depreciation, increased due to current year additions outpacing annual depreciation and disposals. Primary additions included construction in progress for various street reconstruction projects, building improvements, the purchase of various vehicles and equipment, road construction and other major road repairs. Vehicles are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on one of the main arteries in the City, as mentioned, the City has effectively pursued

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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 9 to the basic financial statements.

***Outstanding Long-term Obligations***

The bonds and OPWC loans in governmental activities are to finance various improvement projects and will be paid from the bond retirement fund with property taxes and special assessments. The compensated absences category represents accrued sick leave payable to employees and will be paid from the general and fire levy special revenue funds. Employer pension/OPEB contributions are made from the general and fire levy special revenue funds. The capital lease will be paid from the general fund. Additional information concerning the City's long-term obligations can be found in Note 15 to the basic financial statements.

Also, the City has manuscript notes which represent two separate water and sewer improvement issues in the form of manuscript notes issued by the City. Manuscript notes are notes issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the general fund from the debt service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. These notes are shown on the balance sheet as interfund receivables/payables between the general fund and the various capital project funds. At year end, the outstanding special assessment manuscript notes were \$24,193. Additional information concerning the City's manuscript debt can be found in Note 16 to the basic financial statements.

**Current Related Financial Activities**

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

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

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



## Basic Financial Statements

**City of Pepper Pike, Ohio**

*Statement of Net Position*

*December 31, 2018*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$17,576,326
Accounts Receivable	232,460
Accrued Interest Receivable	32,117
Intergovernmental Receivable	491,342
Prepaid Items	63,722
Materials and Supplies Inventory	165,548
Income Taxes Receivable	1,707,356
Property Taxes Receivable	3,764,694
Special Assessments Receivable	4,481,937
Deferred Charges	
Nondepreciable Capital Assets	2,359,117
Depreciable Capital Assets, Net	<u>22,089,410</u>
<i>Total Assets</i>	<u>52,964,029</u>
<b>Deferred Outflows of Resources</b>	
Pension	1,529,765
OPEB	<u>616,059</u>
<i>Total Deferred Outflows of Resources</i>	<u>2,145,824</u>
<b>Liabilities</b>	
Accounts Payable	172,879
Contracts Payable	611,592
Accrued Wages	139,462
Matured Compensated Absences Payable	22,341
Intergovernmental Payable	162,368
Retainage Payable	73,348
Accrued Interest Payable	18,575
Vacation Benefits Payable	212,117
Long-Term Liabilities:	
Due Within One Year	574,935
Due In More Than One Year	
Net Pension Liability (See Note 11)	7,613,359
Net OPEB Liability (See Note 12)	6,416,981
Other Amounts	<u>6,017,138</u>
<i>Total Liabilities</i>	<u>22,035,095</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	3,672,459
Pension	1,011,996
OPEB	<u>207,779</u>
<i>Total Deferred Inflows of Resources</i>	<u>4,892,234</u>
<b>Net Position</b>	
Net Investment in Capital Assets	17,381,831
Restricted for:	
Capital Projects	2,233,544
Debt Service	4,691,545
Other Purposes	3,419,969
Unrestricted	<u>455,635</u>
<i>Total Net Position</i>	<u>\$28,182,524</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2018

	Program Revenues			Capital Grants and Assessments	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants		Governmental Activities
<b>Governmental Activities:</b>					
General Government	\$1,765,469	\$95,999	\$0	\$1,718	(\$1,667,752)
Security of Persons and Property:					
Police	3,278,283	177,739	15,418	0	(3,085,126)
Fire	2,241,135	160,177	213,908	0	(1,867,050)
Public Health Services	49,879	3,826	0	0	(46,053)
Community Environment	290,524	19,095	5,000	0	(266,429)
Basic Utility Services	855,368	43,401	0	0	(811,967)
Transportation	2,928,354	102,623	303,448	222,171	(2,300,112)
Interest and Fiscal Charges	235,732	0	0	0	(235,732)
<i>Total Governmental Activities</i>	<u>\$11,644,744</u>	<u>\$602,860</u>	<u>\$537,774</u>	<u>\$223,889</u>	<u>(10,280,221)</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	1,651,663
Debt Service	230,471
Fire	1,596,424
Police	115,223
Municipal Income Taxes Levied for General Purposes	6,897,537
Admissions Taxes	318,064
Franchise Tax	80,387
Grants and Entitlements not Restricted to Specific Programs	498,313
Interest	237,841
Gain on Sale of Capital Asset	4,046
Other	298,018
<i>Total General Revenues</i>	<u>11,927,987</u>
Change in Net Position	1,647,766
<i>Net Position Beginning of Year</i> <i>(Restated - See Note 20)</i>	<u>26,534,758</u>
<i>Net Position End of Year</i>	<u>\$28,182,524</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2018*

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$11,409,329	\$1,582,474	\$248,187	\$1,703,717	\$2,632,619	\$17,576,326
Property Taxes Receivable	1,752,733	1,522,827	244,568	0	244,566	3,764,694
Income Taxes Receivable	1,707,356	0	0	0	0	1,707,356
Accounts Receivable	81,571	150,889	0	0	0	232,460
Intergovernmental Receivable	212,714	99,072	15,402	0	164,154	491,342
Interfund Receivable	24,193	0	0	0	0	24,193
Accrued Interest Receivable	30,279	0	0	0	1,838	32,117
Materials and Supplies Inventory	3,242	406	0	0	161,900	165,548
Prepaid Items	61,530	2,192	0	0	0	63,722
Special Assessments Receivable	0	0	4,457,744	0	24,193	4,481,937
<i>Total Assets</i>	<u>\$15,282,947</u>	<u>\$3,357,860</u>	<u>\$4,965,901</u>	<u>\$1,703,717</u>	<u>\$3,229,270</u>	<u>\$28,539,695</u>
<b>Liabilities</b>						
Accounts Payable	\$152,829	\$18,193	\$0	\$0	\$1,857	\$172,879
Contracts Payable	5,864	0	0	597,070	8,658	611,592
Accrued Wages	98,153	41,309	0	0	0	139,462
Intergovernmental Payable	95,384	6,916	0	0	60,068	162,368
Accrued Interest Payable	0	0	0	0	98	98
Interfund Payable	0	0	0	0	24,193	24,193
Retainage Payable	0	0	0	73,348	0	73,348
Matured Compensated Absences Payable	22,341	0	0	0	0	22,341
<i>Total Liabilities</i>	<u>374,571</u>	<u>66,418</u>	<u>0</u>	<u>670,418</u>	<u>94,874</u>	<u>1,206,281</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	1,709,791	1,485,518	238,576	0	238,574	3,672,459
Unavailable Revenue	1,459,090	277,878	4,479,138	0	170,601	6,386,707
<i>Total Deferred Inflows of Resources</i>	<u>3,168,881</u>	<u>1,763,396</u>	<u>4,717,714</u>	<u>0</u>	<u>409,175</u>	<u>10,059,166</u>
<b>Fund Balances</b>						
Nonspendable	78,234	2,598	0	0	161,900	242,732
Restricted	0	1,525,448	248,187	1,033,299	2,587,612	5,394,546
Assigned	61,639	0	0	0	0	61,639
Unassigned (Deficit)	11,599,622	0	0	0	(24,291)	11,575,331
<i>Total Fund Balances</i>	<u>11,739,495</u>	<u>1,528,046</u>	<u>248,187</u>	<u>1,033,299</u>	<u>2,725,221</u>	<u>17,274,248</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$15,282,947</u>	<u>\$3,357,860</u>	<u>\$4,965,901</u>	<u>\$1,703,717</u>	<u>\$3,229,270</u>	<u>\$28,539,695</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, 2018*

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**Total Governmental Fund Balances** \$17,274,248

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

Capital assets used in governmental activities are not financial resources and  
 therefore are not reported in the funds. 24,448,527

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	92,235
Income Taxes	1,209,718
Special Assessments	4,481,937
Intergovernmental	380,031
Charges for Services	<u>222,786</u>

Total 6,386,707

In the statement of activities, interest is accrued on outstanding bonds, whereas  
 in governmental funds, an interest expenditure is reported when due. (18,477)

Vacation benefits payable is not expected to be paid with expendable available  
 financial resources and therefore not reported in the funds. (212,117)

The net pension liability and net OPEB liability is not due and payable in the current  
 period; therefore, the liability and related deferred inflows/outflows are not  
 reported in governmental funds:

Deferred Outflows - Pension	1,529,765
Net Pension Liability	(7,613,359)
Deferred Inflows - Pension	(1,011,996)
Deferred Outflows - OPEB	616,059
Net OPEB Liability	(6,416,981)
Deferred Inflows - OPEB	<u>(207,779)</u>

Total (13,104,291)

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

Special Assessment Bonds	(5,072,205)
OPWC Loans	(1,330,475)
Capital Lease	(2,145)
Compensated Absences	<u>(187,248)</u>

Total (6,592,073)

*Net Position of Governmental Activities* \$28,182,524

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, 2018*

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$1,671,358	\$1,500,114	\$233,219	\$0	\$233,194	\$3,637,885
Municipal Income Taxes	6,336,929	0	0	0	0	6,336,929
Admissions Taxes	318,064	0	0	0	0	318,064
Charges for Services	4,621	143,198	0	0	0	147,819
Fees, Licenses and Permits	286,418	0	0	0	0	286,418
Fines and Forfeitures	33,215	0	0	0	7,900	41,115
Intergovernmental	266,303	198,144	230,804	0	346,610	1,041,861
Special Assessments	0	0	516,120	0	12,449	528,569
Interest	217,002	0	0	0	20,839	237,841
Rentals	108,339	0	0	0	0	108,339
Contributions and Donations	0	0	0	5,500	0	5,500
Franchise Tax	80,387	0	0	0	0	80,387
Other	297,004	1,014	0	0	0	298,018
<i>Total Revenues</i>	<u>9,619,640</u>	<u>1,842,470</u>	<u>980,143</u>	<u>5,500</u>	<u>620,992</u>	<u>13,068,745</u>
<b>Expenditures</b>						
Current:						
General Government	1,250,194	0	203,250	0	0	1,453,444
Security of Persons and Property:						
Police	2,203,214	0	0	0	299,362	2,502,576
Fire	0	1,680,763	0	0	83,174	1,763,937
Public Health Services	49,879	0	0	0	0	49,879
Community Environment	248,930	0	0	0	7,920	256,850
Basic Utility Services	592,115	0	0	0	0	592,115
Transportation	1,310,911	0	0	0	215,107	1,526,018
Capital Outlay	0	0	0	2,355,015	49,755	2,404,770
Debt Service:						
Principal Retirement	1,110	0	506,048	0	0	507,158
Interest and Fiscal Charges	0	0	236,887	0	1,673	238,560
<i>Total Expenditures</i>	<u>5,656,353</u>	<u>1,680,763</u>	<u>946,185</u>	<u>2,355,015</u>	<u>656,991</u>	<u>11,295,307</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,963,287</u>	<u>161,707</u>	<u>33,958</u>	<u>(2,349,515)</u>	<u>(35,999)</u>	<u>1,773,438</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	79,211	0	0	0	0	79,211
Transfers In	0	0	0	1,543,500	415,000	1,958,500
Transfers Out	(1,958,500)	0	0	0	0	(1,958,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,879,289)</u>	<u>0</u>	<u>0</u>	<u>1,543,500</u>	<u>415,000</u>	<u>79,211</u>
<i>Net Change in Fund Balances</i>	2,083,998	161,707	33,958	(806,015)	379,001	1,852,649
<i>Fund Balances Beginning of Year</i>	<u>9,655,497</u>	<u>1,366,339</u>	<u>214,229</u>	<u>1,839,314</u>	<u>2,346,220</u>	<u>15,421,599</u>
<i>Fund Balances End of Year</i>	<u><u>\$11,739,495</u></u>	<u><u>\$1,528,046</u></u>	<u><u>\$248,187</u></u>	<u><u>\$1,033,299</u></u>	<u><u>\$2,725,221</u></u>	<u><u>\$17,274,248</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, 2018*

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**Net Change in Fund Balances - Total Governmental Funds** \$1,852,649

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

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

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

Capital Asset Additions	1,624,390	
Current Year Depreciation	(1,451,342)	
Total		173,048

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. (164,861)

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

Delinquent Property Taxes	(44,104)	
Income Taxes	560,608	
Special Assessments	(310,180)	
Intergovernmental	(5,774)	
Charges for Services	19,169	
Total		219,719

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	697,192	
OPEB	10,878	
Total		708,070

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities:

Pension	(1,122,141)	
OPEB	(517,429)	
Total		(1,639,570)

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. 507,158

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

Accrued Interest on Bonds	1,264	
Amortization of Bond Premium	1,564	
Total		2,828

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	(5,824)	
Vacation Benefits Payable	(5,451)	
Total		(11,275)

*Change in Net Position of Governmental Activities* \$1,647,766

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, 2018*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,836,137	\$1,836,137	\$1,671,358	(\$164,779)
Municipal Income Taxes	6,769,393	5,373,771	6,456,341	1,082,570
Admissions Taxes	331,341	263,030	316,018	52,988
Charges for Services	4,845	3,846	4,621	775
Fees, Licenses and Permits	300,306	238,393	286,418	48,025
Fines and Forfeitures	36,760	29,181	35,060	5,879
Intergovernmental	275,638	218,811	262,891	44,080
Interest	216,348	171,744	206,343	34,599
Rentals	113,592	90,173	108,339	18,166
Franchise Tax	92,395	73,346	88,122	14,776
Other	326,595	259,262	294,699	35,437
<i>Total Revenues</i>	<u>10,303,350</u>	<u>8,557,694</u>	<u>9,730,210</u>	<u>1,172,516</u>
<b>Expenditures</b>				
Current:				
General Government	1,246,843	1,304,716	1,259,495	45,221
Security of Persons and Property:				
Police	2,249,211	2,317,776	2,270,727	47,049
Public Health Services	50,835	51,128	51,124	4
Community Environment	191,728	228,606	227,845	761
Basic Utility Services	554,057	697,951	563,076	134,875
Transportation	1,302,972	1,370,505	1,323,387	47,118
Leisure Time Activities	1,000	1,000	0	1,000
<i>Total Expenditures</i>	<u>5,596,646</u>	<u>5,971,682</u>	<u>5,695,654</u>	<u>276,028</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,706,704</u>	<u>2,586,012</u>	<u>4,034,556</u>	<u>1,448,544</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	65,445	51,952	79,211	27,259
Transfers Out	(1,947,441)	(1,958,500)	(1,958,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,881,996)</u>	<u>(1,906,548)</u>	<u>(1,879,289)</u>	<u>27,259</u>
<i>Net Change in Fund Balance</i>	2,824,708	679,464	2,155,267	1,475,803
<i>Fund Balance Beginning of Year</i>	9,174,496	9,174,496	9,174,496	0
Prior Year Encumbrances Appropriated	78,709	78,709	78,709	0
<i>Fund Balance End of Year</i>	<u>\$12,077,913</u>	<u>\$9,932,669</u>	<u>\$11,408,472</u>	<u>\$1,475,803</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, 2018*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$1,648,048	\$1,648,048	\$1,500,114	(\$147,934)
Charges for Services	815,167	52,793	145,409	92,616
Intergovernmental	1,110,801	71,939	198,144	126,205
Other	5,684	368	1,014	646
<i>Total Revenues</i>	<u>3,579,700</u>	<u>1,773,148</u>	<u>1,844,681</u>	<u>71,533</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	<u>1,797,861</u>	<u>1,797,861</u>	<u>1,722,020</u>	<u>75,841</u>
<i>Net Change in Fund Balance</i>	1,781,839	(24,713)	122,661	147,374
<i>Fund Balance Beginning of Year</i>	1,352,105	1,352,105	1,352,105	0
Prior Year Encumbrances Appropriated	<u>83,061</u>	<u>83,061</u>	<u>83,061</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$3,217,005</u></u>	<u><u>\$1,410,453</u></u>	<u><u>\$1,557,827</u></u>	<u><u>\$147,374</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2018*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$328,272</u></u>
<b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$328,272</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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

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

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

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

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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***Basis of Presentation***

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

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

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

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

***Fund Accounting***

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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

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

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

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

***Measurement Focus***

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

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

***Basis of Accounting***

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

***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.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred 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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 11 and 12.

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 until that time. For the City, deferred inflows of resources include property taxes, pension, OPEB and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2018 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 represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes, special assessments, interest and intergovernmental grants and ambulance charges. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Notes 11 and 12)

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

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

**City of Pepper Pike, Ohio**  
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***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension asset, the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

***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 2018, the City invested in STAR Ohio, money market accounts, federal home loan bank bonds and negotiable certificates of deposits. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

**City of Pepper Pike, Ohio**  
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For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. The fair value of the money market fund is determined by the fund's current share price.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2018 amounted to \$217,002, which includes \$65,443 assigned from other City funds.

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

***Inventory***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2018, 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 acquisition values as of the date received. The City maintains a capitalization threshold of two thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.



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

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

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

***Interfund Balances***

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

***Compensated Absences***

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

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

On the financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave will be paid.

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***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

***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 that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits. 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.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is

**City of Pepper Pike, Ohio**  
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*For The Year Ended December 31, 2018*

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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. City Council assigned fund balance to cover a gap between estimated revenues and appropriations in 2019's budget.

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

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

***Net Position***

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

The City applies restricted resources first 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.

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.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2018

**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 - Fund Balances**

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

Fund Balances	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>						
Inventory	\$3,242	\$406	\$0	\$0	\$161,900	\$165,548
Prepays	61,530	2,192	0	0	0	63,722
Interfund Loans	13,462	0	0	0	0	13,462
<b><i>Total Nonspendable</i></b>	<b>78,234</b>	<b>2,598</b>	<b>0</b>	<b>0</b>	<b>161,900</b>	<b>242,732</b>
<b><i>Restricted for</i></b>						
Street Construction,						
Maintenance and Repair	0	0	0	0	1,049,970	1,049,970
Recycle Ohio	0	0	0	0	20,167	20,167
Fire Department	0	1,525,448	0	0	0	1,525,448
Police Pension	0	0	0	0	83,077	83,077
Fire Pension	0	0	0	0	157,744	157,744
Beautification	0	0	0	0	9,348	9,348
Law Enforcement	0	0	0	0	15,805	15,805
Emergency Assistance	0	0	0	0	11,727	11,727
Municipal Emergency	0	0	0	0	39,511	39,511
Urban Forestry	0	0	0	0	18	18
Debt Service	0	0	248,187	0	0	248,187
Capital Improvements	0	0	0	1,033,299	1,200,245	2,233,544
<b><i>Total Restricted</i></b>	<b>0</b>	<b>1,525,448</b>	<b>248,187</b>	<b>1,033,299</b>	<b>2,587,612</b>	<b>5,394,546</b>
<b><i>Assigned to</i></b>						
Purchases on Order:						
Other Operating	15,060	0	0	0	0	15,060
2019 Operations	46,579	0	0	0	0	46,579
<b><i>Total Assigned</i></b>	<b>61,639</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61,639</b>
<b><i>Unassigned (Deficit)</i></b>	<b>11,599,622</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(24,291)</b>	<b>11,575,331</b>
<b><i>Total Fund Balances</i></b>	<b>\$11,739,495</b>	<b>\$1,528,046</b>	<b>\$248,187</b>	<b>\$1,033,299</b>	<b>\$2,725,221</b>	<b>\$17,274,248</b>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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**Note 4 – Fund Deficits**

Fund balances at December 31, 2018, included the following individual fund deficits:

<i>Capital Projects Funds</i>	
Lander/Emerson Waterline	\$4,019
Kersdale Road Waterline	20,272

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

**Note 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 funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Investments are reported at cost (budget) rather than at fair value (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.
5. 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.

**City of Pepper Pike, Ohio**  
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Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	\$2,083,998	\$161,707
Net Adjustment for Revenue Accruals	97,731	4,670
Beginning Fair Value Adjustments for Investments	(23,563)	0
Ending Fair Value Adjustment for Investments	43,183	0
Beginning Unrecorded Cash	(6,781)	(2,459)
Net Adjustment for Expenditure Accruals	28,932	(16,610)
Encumbrances	(68,233)	(24,647)
Budget Basis	\$2,155,267	\$122,661

**Note 6 - Deposits and Investments**

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

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

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

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

Interim monies held by the City 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
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4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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.

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

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

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

**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2018, \$41,815 of the City's total bank balance of \$4,533,561 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the City's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 61 percent resulting in the uninsured and uncollateralized balance.

**City of Pepper Pike, Ohio**  
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The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

**Investments**

Investments are reported at fair value. As of December 31, 2018, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Standard and Poor's Rating</u>	<u>Percent of Total Investments</u>
Net Asset Value Per Share:				
Star Ohio	\$5,400,445	Average 44.9 days	AAAm	N/A
Fair Value - Level Two Inputs:				
Money Market Accounts	1,117,668	7 days	N/A	8.29 %
Federal Home Loan Bank Bonds	2,002,050	Less than five years	AAA	14.85
Negotiable CD's	1,972,037	Less than one year	N/A	14.62
Negotiable CD's	<u>2,993,109</u>	Less than three years	N/A	22.20
Total Portfolio	<u>\$13,485,309</u>			

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2018. The City's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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

**Note 7 - Receivables**

Receivables at December 31, 2018, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.



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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 \$4,032,802 in the bond retirement fund. At December 31, 2018, the amount of delinquent special assessments was \$73,375.

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of 2017 taxes.

2018 real property taxes are levied after October 1, 2018 on the assessed value as of January 1, 2018 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.

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. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$9.50 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2018 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$396,354,530
Other Real Estate	34,101,130
Public Utility Property	<u>8,447,310</u>
Total Assessed Values	<u><u>\$438,902,970</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, 2018 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2018 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*  
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***Income Taxes***

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

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

***Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2018 follows:

Homestead and Rollback	\$240,251
Gasoline Tax	105,454
Orange City Schools	81,289
Permissive Tax	43,300
Local Government	17,671
Shaker Heights Municipal Court	2,777
Cuyahoga County Treasurer	<u>600</u>
Total	<u><u>\$491,342</u></u>

**Note 8 - Contingencies**

***Litigation***

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

***Grants***

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2018.

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**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$936,866	\$5,500	\$0	\$942,366
Construction in Progress	1,326,780	89,971	0	1,416,751
<b><i>Total Capital Assets not being Depreciated</i></b>	<b>2,263,646</b>	<b>95,471</b>	<b>0</b>	<b>2,359,117</b>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	251,739	0	(3,965)	247,774
Buildings and Improvements	4,475,513	99,752	(160,674)	4,414,591
Vehicles	4,119,866	205,019	(377,692)	3,947,193
Furniture, Fixtures and Equipment	2,726,973	288,486	(270,469)	2,744,990
Infrastructure				
Streets	34,014,867	894,476	(670,857)	34,238,486
Bridges and Culverts	258,189	0	0	258,189
Sanitary Sewers	12,166,294	41,186	0	12,207,480
<b><i>Total Capital Assets being Depreciated</i></b>	<b>58,013,441</b>	<b>1,528,919</b>	<b>(1,483,657)</b>	<b>58,058,703</b>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(95,639)	(7,179)	3,965	(98,853)
Buildings and Improvements	(1,727,920)	(91,442)	112,614	(1,706,748)
Vehicles	(2,835,844)	(176,151)	303,323	(2,708,672)
Furniture, Fixtures and Equipment	(1,791,642)	(160,220)	228,037	(1,723,825)
Infrastructure				
Streets	(25,778,837)	(769,618)	670,857	(25,877,598)
Bridges and Culverts	(190,215)	(2,582)	0	(192,797)
Sanitary Sewers	(3,416,650)	(244,150)	0	(3,660,800)
<b><i>Total Accumulated Depreciation</i></b>	<b>(35,836,747)</b>	<b>(1,451,342) *</b>	<b>1,318,796</b>	<b>(35,969,293)</b>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<b>22,176,694</b>	<b>77,577</b>	<b>(164,861)</b>	<b>22,089,410</b>
<b><i>Total Capital Assets, Net</i></b>	<b>\$24,440,340</b>	<b>\$173,048</b>	<b>(\$164,861)</b>	<b>\$24,448,527</b>

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

General Government	\$75,884
Security of Persons and Property:	
Police	65,210
Fire	92,851
Community Development	4,562
Basic Utility Services	160,995
Transportation	1,051,840
<b>Total Depreciation Expense</b>	<b>\$1,451,342</b>

**City of Pepper Pike, Ohio**  
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**Note 10 – Other Employee Benefits**

***Compensated Absences***

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

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

***Insurance***

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

Life insurance is provided to full-time employees through Lincoln Financial. Full-time employees receive \$25,000 term life coverage. The City pays the total monthly premium.

**Note 11 - Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability/Net OPEB Liability***

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions –between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

**City of Pepper Pike, Ohio**  
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Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the tradition and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

**City of Pepper Pike, Ohio**  
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Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2018 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee *	10.0 %
 <b>2018 Actual Contribution Rates</b>	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

\* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

\*\* These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2018, The City's contractually required contribution was \$268,804 for the traditional plan, \$0 for the combined plan and \$820 for the member-directed plan. Of these amounts, \$33,824 is reported as an intergovernmental payable for the traditional plan, \$0 for the combined plan and \$146 for the member-directed plan.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
<b>2018 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2018 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %



**City of Pepper Pike, Ohio**  
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Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$428,388 for 2018. Of this amount, \$58,629 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

	OPERS		
	<u>Traditional Plan</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.014194%	0.0877660%	
Prior Measurement Date	<u>0.013944%</u>	<u>0.0886510%</u>	
Change in Proportionate Share	<u>0.000250%</u>	<u>-0.0008850%</u>	
Proportionate Share of the:			
Net Pension Liability	\$2,226,763	\$5,386,596	\$7,613,359
Pension Expense	483,451	638,690	1,122,141

2018 pension expense for the member-directed defined contribution plan was \$820.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

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	OPERS		
	Traditional Plan	OP&F	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$2,274	\$81,746	\$84,020
Changes of assumptions	266,114	234,722	500,836
Changes in proportion and differences between City contributions and proportionate share of contributions	33,297	214,420	247,717
City contributions subsequent to the measurement date	268,804	428,388	697,192
<b>Total Deferred Outflows of Resources</b>	<b>\$570,489</b>	<b>\$959,276</b>	<b>\$1,529,765</b>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$43,883	\$9,744	\$53,627
Net difference between projected and actual earnings on pension plan investments	478,057	186,335	664,392
Changes in proportion and differences between City contributions and proportionate share of contributions	2,322	291,655	293,977
<b>Total Deferred Inflows of Resources</b>	<b>\$524,262</b>	<b>\$487,734</b>	<b>\$1,011,996</b>

\$697,192 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS		
	Traditional Plan	OP&F	Total
Year Ending December 31:			
2019	\$217,084	\$133,881	\$350,965
2020	(32,709)	84,892	52,183
2021	(210,511)	(108,106)	(318,617)
2022	(196,441)	(125,983)	(322,424)
2023	0	45,984	45,984
Thereafter	0	12,486	12,486
<b>Total</b>	<b>(\$222,577)</b>	<b>\$43,154</b>	<b>(\$179,423)</b>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

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The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
<b>Total</b>	<b>100.00 %</b>	<b>5.66 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
<b>City’s proportionate share of the net pension liability</b>			
OPERS Traditional Plan	\$3,954,165	\$2,226,763	\$786,631

***Changes between Measurement Date and Report Date***

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City’s net pension liability is not known.

***Actuarial Assumptions – OP&F***

OP&F’s total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations.

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Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

	January 1, 2017	January 1, 2016
Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

For the January 1, 2016 valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

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The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

\* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

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	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$7,467,234	\$5,386,596	\$3,689,645

***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, 2017, three members of the Architectural Review Board and seventeen part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

**Note 12 – Defined Benefit OPEB Plans**

See Note 11 for a description of the net OPEB liability

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - The 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 trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
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Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$328 for 2018. Of this amount, \$42 is reported as an intergovernmental payable.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, 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 Governmental Accounting Standards Board (GASB) Statement No. 75.

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. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.



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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 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 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$10,550 for 2018. Of this amount, \$1,439 is reported as an intergovernmental payable.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.013300%	0.0877660%	
Prior Measurement Date	<u>0.013100%</u>	<u>0.0886510%</u>	
Change in Proportionate Share	<u>0.000200%</u>	<u>-0.0008850%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$1,444,282	\$4,972,699	\$6,416,981
OPEB Expense	\$127,861	\$389,568	\$517,429

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At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$1,125	\$0	\$1,125
Changes of assumptions	105,159	485,230	590,389
Changes in proportion and differences between City contributions and proportionate share of contributions	13,667	0	13,667
City contributions subsequent to the measurement date	<u>328</u>	<u>10,550</u>	<u>10,878</u>
Total Deferred Outflows of Resources	<u>\$120,279</u>	<u>\$495,780</u>	<u>\$616,059</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$25,080	\$25,080
Net difference between projected and actual earnings on OPEB plan investments	107,589	32,733	140,322
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>0</u>	<u>42,377</u>	<u>42,377</u>
Total Deferred Inflows of Resources	<u>\$107,589</u>	<u>\$100,190</u>	<u>\$207,779</u>

\$10,878 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2019	\$30,452	\$52,894	\$83,346
2020	30,452	52,894	83,346
2021	(21,644)	52,894	31,250
2022	(26,898)	52,894	25,996
2023	0	61,077	61,077
Thereafter	<u>0</u>	<u>112,387</u>	<u>112,387</u>
Total	<u>\$12,362</u>	<u>\$385,040</u>	<u>\$397,402</u>

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

**City of Pepper Pike, Ohio**  
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Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

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The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
<b>Total</b>	<b>100.00 %</b>	<b>4.98 %</b>

**Discount Rate** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**  
The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$1,918,791	\$1,444,282	\$1,060,409

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***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$1,381,870	\$1,444,282	\$1,508,752

***Changes between Measurement Date and Report Date***

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net OPEB liability is not known.

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

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Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
<b>Total</b>	<b>120.00 %</b>	

Note: Assumptions are geometric.

\* levered 2x

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$6,215,933	\$4,972,699	\$4,016,075

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2018

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate** Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$3,862,882	\$4,972,699	\$6,468,356

***Changes between Measurement Date and Report Date***

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's NOL is not known.

**Note 13 - Risk Management**

***Workers' Compensation***

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

***Property and Liability***

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



**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

Type	Deductible	Coverage
Property and Equipment	\$1,000	\$9,063,957
Boiler and Machinery	1,000	9,063,957
Inland Marine	1,000	1,157,556
Vehicle	N/A	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	1,000	50,000
Employee Dishonesty	10,000	750,000
Vehicle Physical Damage	500	Actual cash value
Emergency Services Portable Equipment	1,000	305,000

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

**Note 14 – Capital Leases**

During 2015, the City entered into a lease agreement for a copier. This lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of December 31, 2018 can be found in the table below.

<i>Asset:</i>	Governmental Activities
Equipment	\$5,827
Less: Accumulated Depreciation	<u>(2,331)</u>
Book Value as of December 31, 2018	<u><u>\$3,496</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year Ending December 31,	Governmental Activities
2019	\$1,110
2020	<u>1,035</u>
Present Value of Minimum Lease	<u><u>\$2,145</u></u>

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2018

**Note 15 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2018 follows:

	Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>Special Assessment Bonds</b>					
2007 4.00 - 5.00% Various Purpose					
Serial Bonds	\$350,000	\$0	(\$175,000)	\$175,000	\$175,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00% Street Improvement					
Serial Bonds	185,000	0	(60,000)	125,000	60,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13% Street Improvement					
Serial Bonds	2,340,000	0	(160,000)	2,180,000	165,000
Premium on Bonds	18,769	0	(1,564)	17,205	0
2010 2.00 - 4.25% Windy Hill Bonds					
Serial Bonds	113,000	0	(5,000)	108,000	5,000
2010 2.00 - 4.25% Thornapple Bonds					
Serial Bonds	62,000	0	(5,000)	57,000	5,000
<i>Total Special Assessment Bonds</i>	<u>5,478,769</u>	<u>0</u>	<u>(406,564)</u>	<u>5,072,205</u>	<u>410,000</u>
<b>OPWC Loans</b>					
2007 0% Brainard Road					
	399,979	0	(42,103)	357,876	42,103
2013 0% Lander Road					
	1,031,544	0	(58,945)	972,599	58,945
<i>Total OPWC Loans</i>	<u>1,431,523</u>	<u>0</u>	<u>(101,048)</u>	<u>1,330,475</u>	<u>101,048</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
OPERS	3,166,446	0	(939,683)	2,226,763	0
OP&F	5,615,065	0	(228,469)	5,386,596	0
<i>Total Net Pension Liability</i>	<u>8,781,511</u>	<u>0</u>	<u>(1,168,152)</u>	<u>7,613,359</u>	<u>0</u>
Net OPEB Liability:					
OPERS	1,323,144	121,138	0	1,444,282	0
OP&F	4,208,064	764,635	0	4,972,699	0
<i>Total Net OPEB Liability</i>	<u>5,531,208</u>	<u>885,773</u>	<u>0</u>	<u>6,416,981</u>	<u>0</u>
Capital Lease					
	3,255	0	(1,110)	2,145	1,110
Compensated Absences					
	181,424	81,043	(75,219)	187,248	62,777
<i>Total Other Long-term Obligations</i>	<u>14,497,398</u>	<u>966,816</u>	<u>(1,244,481)</u>	<u>14,219,733</u>	<u>63,887</u>
<i>Total Governmental Activities</i>	<u>\$21,407,690</u>	<u>\$966,816</u>	<u>(\$1,752,093)</u>	<u>\$20,622,413</u>	<u>\$574,935</u>

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

Special assessment bonds are paid from the bond retirement fund with special assessments levied against benefited property owners. The Ohio Public Works Commission (OPWC) projects are being paid from the bond retirement debt service fund. Compensated absences will be paid from the general and fire levy special revenue fund. The capital lease will be paid from the general fund. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability and net OPEB liability. However, employer pension and OPEB contributions are made from the following funds: the general and fire levy special revenue fund.

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2018

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

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

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

On 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.

During 2013, the City entered into \$1,178,907 in an OPWC loan to help finance the Lander Road Reconstruction project. The loan is a twenty year interest free with a final maturity on January 1, 2035.

As of December 31, 2018, the City's overall legal debt margin was \$46,332,999. The unvoted legal debt margin was 24,387,850. Principal and interest requirements to retire the long-term special assessment bonds and the OPWC loans as of December 31, 2018 are as follows:

	Special Assessment Bonds				OPWC Loan
	Serial		Term		
	Principal	Interest	Principal	Interest	
2019	\$410,000	\$104,207	\$0	\$117,525	\$101,048
2020	245,000	88,487	190,000	117,525	101,049
2021	185,000	79,475	265,000	108,975	101,048
2022	195,000	72,538	280,000	96,725	101,048
2023	205,000	64,775	285,000	83,750	101,049
2024-2028	1,135,000	195,814	1,390,000	189,000	442,087
2029-2033	270,000	11,728	0	0	294,727
2034-2035	0	0	0	0	88,419
Total	\$2,645,000	\$617,024	\$2,410,000	\$713,500	\$1,330,475

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

**Note 16 - Interfund Transfers and Balances**

*Interfund Transfers*

Transfer To	Transfer From General
Major Funds:	
Capital Improvement	\$1,543,500
Other Governmental Funds	
Police Pension	165,000
Emergency Capital Improvement	250,000
Total Other Governmental Funds	415,000
Total	\$1,958,500

The general fund transfer to the police pension special revenue fund was to supplement funding for maintaining that program. The transfers to the capital improvement and emergency capital improvement, capital projects funds were to provide funding for capital improvements within the City.

*Interfund Balances*

On the fund financial statements interfund balances at December 31, 2018 were:

	Receivable	Payable
	Manuscript Notes	Manuscript Notes
General	\$24,193	\$0
Lander/Emerson Waterline	0	4,000
Kersdale Road Waterline	0	20,193
<i>Totals</i>	\$24,193	\$24,193

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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**Note 17 – Public Entity Pool**

***Insurance Purchasing Pool***

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

**Note 18 – Jointly Governed Organizations**

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

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2018. Financial information can be obtained by contacting Chuck Keiper, Executive Director, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

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

The City is a member of Valley Enforcement Regional Council of Governments (“VERCOG”), a jointly governed organization. VERCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. The operation of the VERCOG is controlled by a general policy board which consists of a representative from each participant. Each member’s degree of control is limited to its representation on the board. The City of Pepper Pike contributed \$8,000 to VERCOG during 2018.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

**Note 19 – Significant Commitments**

***Contractual Commitments***

As of December 31, 2018, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid to Date	Remaining Contract
Ronyak Paving, Inc.	\$488,865	\$344,751	\$144,114
A&J Cement Contractors, Inc.	247,625	172,276	75,349
Tri-Mor Corp.	477,925	399,599	78,326
Burton Scot Contractors, LLC	1,278,438	684,504	593,934
	<u>\$2,492,853</u>	<u>\$1,601,130</u>	<u>\$891,723</u>

Remaining commitments were encumbered at year end.

***Encumbrances***

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

<i>Governmental Funds:</i>	
General	\$68,233
Fire Levy	24,647
Capital Improvement	1,395,460
Other Governmental Funds	<u>121,656</u>
Total	<u>\$1,609,996</u>

**Note 20 – Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For 2018, the City also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	<u>Governmental Activities</u>
Net Position December 31, 2017	\$32,036,908
Adjustments:	
Net OPEB Liability	(5,531,208)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>29,058</u>
Restated Net Position December 31, 2017	<u>\$26,534,758</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.



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## Required Supplementary Information

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**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Liability*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Five Years (1)*

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.014194%	0.013944%	0.013783%	0.014161%	0.014161%
City's Proportionate Share of the Net Pension Liability	\$2,226,763	\$3,166,446	\$2,387,390	\$1,707,974	\$1,669,397
City's Covered Payroll	\$1,875,715	\$1,802,617	\$1,715,425	\$1,736,950	\$1,947,240
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.72%	175.66%	139.17%	98.33%	85.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net OPEB Liability*  
*Ohio Public Employees Retirement System - OPEB Plan*  
*Last Two Years (1)*

	2018	2017
City's Proportion of the Net OPEB Liability	0.013300%	0.013100%
City's Proportionate Share of the Net OPEB Liability	\$1,444,282	\$1,323,144
City's Covered Payroll	\$1,883,915	\$1,810,817
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.66%	73.07%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Five Years (1)*

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0877660%	0.0886510%	0.0955080%	0.0871146%	0.0871146%
City's Proportionate Share of the Net Pension Liability	\$5,386,596	\$5,615,065	\$6,144,098	\$4,512,899	\$4,242,754
City's Covered Payroll	\$1,994,615	\$1,990,270	\$1,994,297	\$1,778,486	\$1,824,396
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	270.06%	282.13%	308.08%	253.75%	232.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net OPEB Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Two Years (1)*

	2018	2017
City's Proportion of the Net OPEB Liability	0.0877660%	0.0886510%
City's Proportionate Share of the Net OPEB Liability	\$4,972,699	\$4,208,064
City's Covered Payroll	\$1,994,615	\$1,990,270
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	249.31%	211.43%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Public Employees Retirement System*  
*Last Six Years (1)*

	2018	2017	2016
<b>Net Pension Liability - Traditional Plan</b>			
Contractually Required Contribution	\$268,804	\$243,843	\$216,314
Contributions in Relation to the Contractually Required Contribution	<u>(268,804)</u>	<u>(243,843)</u>	<u>(216,314)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,920,029	\$1,875,715	\$1,802,617
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net OPEB Liability - OPEB Plan (2)</b>			
Contractually Required Contribution	\$328	\$19,085	\$36,380
Contributions in Relation to the Contractually Required Contribution	<u>(328)</u>	<u>(19,085)</u>	<u>(36,380)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (3)	\$1,928,229	\$1,883,915	\$1,810,817
OPEB Contributions as a Percentage of Covered Payroll	<u>0.02%</u>	<u>1.01%</u>	<u>2.01%</u>

(1) Information prior to 2013 is not available for traditional plan.

(2) Information prior to 2016 is not available for the OPEB plan.

(3) The OPEB plan includes the members from the traditional plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>
\$205,851	\$208,434	\$253,141
<u>(205,851)</u>	<u>(208,434)</u>	<u>(253,141)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,715,425	\$1,736,950	\$1,947,240
<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>

**City of Pepper Pike, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Police and Fire Pension Fund*  
*Last Ten Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$428,388	\$403,788	\$407,459	\$409,855
Contributions in Relation to the Contractually Required Contribution	<u>(428,388)</u>	<u>(403,788)</u>	<u>(407,459)</u>	<u>(409,855)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$2,109,843	\$1,994,615	\$1,990,270	\$1,994,297
Pension Contributions as a Percentage of Covered Payroll	<u>20.30%</u>	<u>20.24%</u>	<u>20.47%</u>	<u>20.55%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$10,550	\$9,973	\$9,952	\$9,972
Contributions in Relation to the Contractually Required Contribution	<u>(10,550)</u>	<u>(9,973)</u>	<u>(9,952)</u>	<u>(9,972)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>
Total Contributions as a Percentage of Covered Payroll	<u>20.80%</u>	<u>20.74%</u>	<u>20.97%</u>	<u>21.05%</u>

(1) The City's Covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information



2014	2013	2012	2011	2010	2009
\$364,569	\$317,904	\$302,274	\$338,305	\$332,410	\$414,284
<u>(364,569)</u>	<u>(317,904)</u>	<u>(302,274)</u>	<u>(338,305)</u>	<u>(332,410)</u>	<u>(414,284)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,778,486	\$1,824,396	\$2,080,743	\$2,298,653	\$2,276,125	\$2,806,659
<u>20.50%</u>	<u>17.43%</u>	<u>14.53%</u>	<u>14.72%</u>	<u>14.60%</u>	<u>14.76%</u>
\$8,893	\$65,982	\$140,450	\$155,159	\$153,638	\$189,449
<u>(8,893)</u>	<u>(65,982)</u>	<u>(140,450)</u>	<u>(155,159)</u>	<u>(153,638)</u>	<u>(189,449)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>
<u>21.00%</u>	<u>21.05%</u>	<u>21.28%</u>	<u>21.47%</u>	<u>21.35%</u>	<u>21.51%</u>

**City of Pepper Pike, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

**Changes in Assumptions – OPERS Pension**

Amounts reported beginning in 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	2017	2016 and prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

**City of Pepper Pike, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

**Changes in Assumptions – OP&F Pension**

Amounts reported for 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

	2018	2017 and Prior
Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Amounts reported for 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Amounts reported for 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

Amounts reported for 2017 and prior use valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

**City of Pepper Pike, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

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**Changes in Assumptions – OPERS OPEB**

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

**Changes in Assumptions – OP&F OPEB**

For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

# OHIO AUDITOR OF STATE KEITH FABER



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## 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 (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 9, 2019.

### ***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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

August 9, 2019

# OHIO AUDITOR OF STATE KEITH FABER



**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  
SEPTEMBER 12, 2019**