



**Auditor of State
Betty Montgomery**

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2004 and the respective changes in financial position thereof, and the respective budgetary comparison for the General and Fire Levy funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 30, 2005

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
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The discussion and analysis of the City of Pepper Pike's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ The assets of the City of Pepper Pike exceeded its liabilities at the close of the most recent fiscal year by \$21.8 million. Of this amount, \$7.4 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$0.8 million, which represents a decrease of approximately 2.4 percent over 2003. The biggest change was a decrease in the intergovernmental receivables of \$0.7 million. Also, the depreciable capital assets decreased by \$0.7 million but was offset by an increase in nondepreciable capital assets of \$0.4 million, an increase in income taxes receivable of \$0.2 million, and property taxes receivable of \$0.1 million.
- ◆ Total liabilities increased by \$1.9 million which represents an increase of 21.0 percent compared to 2003. The main factor contributing to this increase was the issuance of a one-year note in the amount of \$2.0 million to fund various capital projects. There were no significant changes in the categories of intergovernmental payable, deferred revenues, accrued wages, and accounts payable.
- ◆ In total, net assets in governmental activities decreased by \$2.7 million during 2004. This represents a 11.0 percent decrease from 2003.

Using this Annual Financial Report

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

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

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Pepper Pike's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Pepper Pike 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

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

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

Fund Financial Statements

The analysis of the City's major funds begins on page 10. Fund financial reports provide detailed information about the City's major funds. The City of Pepper Pike uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds for the 2004 fiscal year are the General fund, Fire Levy fund, Bond Retirement fund and Brainard Road Relocation Fund.

Governmental Funds

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

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

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

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Table 1 provides a summary of the City's net assets for 2004 as compared to 2003.

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

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$17.0	\$17.5
Capital Assets, Net	15.8	16.1
<i>Total Assets</i>	<u>32.8</u>	<u>33.6</u>
Liabilities		
Current Liabilities and Other Liabilities	4.2	3.7
Long-term Liabilities		
Due Within One Year	0.7	0.7
Due In More Than One Year	6.1	4.7
<i>Total Liabilities</i>	<u>11.0</u>	<u>9.1</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	11.8	12.0
Restricted for:		
Capital Projects	0.5	0.2
Debt Service	1.2	1.4
Other Purpose	0.9	0.2
Unrestricted	7.4	10.7
<i>Total Net Assets</i>	<u><u>\$21.8</u></u>	<u><u>\$24.5</u></u>

Total assets decreased by \$0.8 during 2004 to end at \$32.8 million as compared to \$33.6 million at the end of 2003. The main contributing factors were a \$0.7 million decrease in intergovernmental receivables, a decrease in depreciable capital assets of \$0.7 million, and a combined increase of \$0.7 million in income taxes receivable, property taxes receivable, and non-depreciable assets.

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The total net assets of the City decreased by \$2.7 million. The following factors were responsible for this decrease:

- ◆ Decrease in intergovernmental receivables of \$0.7 million.
- ◆ Decrease in net depreciable capital assets of \$0.7 million.
- ◆ Increase in non-depreciable capital assets of \$0.4 million.
- ◆ Increase of \$0.2 million in income taxes receivable.
- ◆ Increase of \$0.1 million in Property taxes receivable.
- ◆ Decrease of \$0.5 million in other liabilities primarily contracts payable, accounts payable, and deferred revenue.
- ◆ Increase of \$1.4 million in Long-term liabilities.

The City continues to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past two years, the investments have shifted from short term CD's and government notes and bills to longer term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has generally refrained from locking in investments with maturities that are beyond two and a half years due to the volatility in the market. As expected, investment earnings continued to drop throughout most of the year. However, as the Federal Reserve started inching the interest rates upwards the market rates seemed to stabilize at the end of the year.

Also, the City continues to work in the direction of reducing its current liabilities and expenditures by stabilizing short and long-term liabilities. As an example, the City continued to use the consortium formed during 2000 by joining hands with nine surrounding communities for the purchase of road salt and other supplies during 2003. As a result of joining the consortium the City has saved approximately \$350,000 since inception, due to the power of volume purchasing afforded by the nine communities jointly bidding. These savings are expected to grow as more communities join the group and pool their quantities to allow for bigger bargaining power. The City has taken the lead in utilizing the power of pooling resources within the Chagrin Valley communities by promoting sharing of heavy equipment and machinery. For example, if one of the communities in the Chagrin Valley needs a front end loader for a specific project it would borrow that piece of equipment from a neighboring community and reciprocate by allowing the lending community to borrow one of its pieces of equipment when needed.

Another tool used by the City to reduce its long term liability is to pay off accumulated sick leave for employees who have a balance in excess of 960 hours of sick time remaining in their account at the end of each year. This excess is paid off at the rate of 1 hour for every two hours in excess of the 960 hours. This allows the City to buy back accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement of the employee. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to a future date. The total amount paid out for accumulated sick leave at the end of 2004 was \$33,456 as compared to \$27,915 at the end of 2003.

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The City of Pepper Pike is also part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which helped save approximately \$43,019 in premiums for the year as compared to being strictly a State funded employer. The various departments within the City have established safety committees to meet the Bureau guidelines and provide the employees with safety equipment to enable them to perform their tasks efficiently and also, as much as possible, to help keep the City premises an injury free work place. Random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The City's Service department continued to adopt cost saving measures during the year. With the help of an aggressive recycling campaign approximately 327 tons of recycled material and 260 tons of donated material were diverted from the landfill thus saving about \$11,250 in disposal costs. The City was named the Top Recycler in the County during 2004. The City also received a Recycle Ohio Grant for the second consecutive year in the amount of \$11,700 for the purchase of recycled materials and also for expanding public awareness for recycling through distribution of educational materials and newsletters. Additionally, a grant in the amount of \$11,800 was received from the Ohio Bicentennial Legacy Tree Grant for the planting of seventy-nine trees. The city was named a Tree City USA for the fifth consecutive year. The Service department also continued its residential mixed recycling program which entails picking up recyclable material at the residences as opposed to having the residents drop off the material at the service garage. This was a big success and will be continued during 2005 which will ensure additional savings by having even more material being diverted from the landfill. The purchasing of chemical and janitorial supplies was centralized in 2003 and bids are received for the purchase of such items resulting in savings of approximately \$4,000 as compared to each department buying in smaller quantities. Also, instead of contracting out the street sweeping of City streets to private contractors at an annual cost of \$6,000, the service department purchased a used street sweeper for \$5,000 during 2001 and has been using this equipment for the past four years resulting in additional savings. The department also purchased a swap loader which can convert from a salt bed to a dump bed in minutes. This afforded efficiencies in capital and maintenance costs since instead of two truck chassis the City only needed to purchase one. The service department also continues to do repairs and renovations by using the in-house crew as opposed to hiring contractors which ensures maximizing use of available resources.

Table 2 shows the changes in net assets for fiscal year 2004 and corresponds to the Statement of Activities on page 16. Since this is the third year the City has prepared the statements following the GASB 34 format, revenue and expense comparisons can be made between the years 2004 and 2003.

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Table 2
 Changes in Net Assets
 (In Millions)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenues		
Charges for Services	\$0.2	\$0.2
Operating Grants, Contributions and Interest	0.3	0.2
Capital Grants and Contributions	0.1	0.3
<i>Total Program Revenues</i>	<u>0.6</u>	<u>0.7</u>
General Revenues		
Property Taxes	3.2	3.0
Income Taxes	4.0	3.3
Grants and Entitlements	0.9	5.3
Investment Earnings	0.1	0.2
Other	0.1	0.1
<i>Total General Revenues</i>	<u>8.3</u>	<u>11.9</u>
<i>Total Revenues</i>	<u>8.9</u>	<u>12.6</u>
Program Expenses		
General Government	1.5	1.3
Security of Persons and Property	5.1	4.7
Transportation	3.1	3.0
Community Environment	0.2	0.2
Basic Utility Services	1.5	1.4
Interest and Fiscal Charges	0.2	0.2
<i>Total Program Expenses</i>	<u>11.6</u>	<u>10.8</u>
<i>Change in Net Assets</i>	(2.7)	1.8
<i>Net Assets Beginning of Year</i>	<u>24.5</u>	<u>22.7</u>
<i>Net Assets End of Year</i>	<u><u>\$21.8</u></u>	<u><u>\$24.5</u></u>

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Governmental Activities

Several revenue sources fund the governmental activities with the City income tax being the largest contributor. The City's income tax rate is one percent on gross income and has not changed since 1971 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community receive a fifty percent tax credit on their City tax for Pepper Pike. This tax credit is limited to fifty percent of the City's tax rate, which is one percent. During 2004 the revenues generated from this tax amounted to \$4.0 million as compared to \$3.3 million during 2003. The increase in revenues from this source seemed to be nominal and appeared to be a nationwide occurrence due to the general state of the economy. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. The City also conducts joint efforts with the Regional Income Tax Agency (RITA), the City's income tax collection agency, in tracking new taxpayers, especially contractors performing short term projects within the City. Property tax revenues come in a close second generating \$3.2 million in revenues for the year 2004. The median home value in the City is \$385,000. During 2004 the City received an amount of \$0.4 million settlement from Estate Taxes. Recent changes in State law now provides a higher percentage of revenue to the individual communities at the same time lowering the State's share. The State also changed the amount of estates exempt from the tax to \$338,333 effective January 1, 2002.

Security of Persons and Property and Transportation are the major activities of the City generating seventy percent of the governmental expenses. Currently, there are twenty full-time sworn officers in the police department. During 2004, the City was rated among the top five communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. The department continued to place strong emphasis on the training of its personnel to maintain their proficiency and to keep up with the rapidly changing laws, practices and technology. Five new cruisers were purchased during 2004 at a cost of approximately \$78,000 and each was subsequently equipped with Mobile Data Terminals to enable the officers to stay in the field thus increasing productivity. Also, the department purchased chemical, biological and nuclear first responder protective equipment. The police department in conjunction with the local school board started a School Resource Officer Program allowing a permanently placed officer to interdict problems or issues involving students before they become criminal matters. In 2000, the jail was converted to a three-day holding facility to reduce the costs of operations of a full-fledged jail and the liabilities associated with running such a facility. Also, the Reverse911 system installed at a total cost of \$41,767 during 2002 was used to make routine and emergency telephone calls to all residences within the City and will also be able to provide daily check-up phone calls to homebound seniors to ensure their safety and well being. The court-sanctioned self-supporting juvenile diversion program which was put in effect in June 1999 continues to be a success.

The fire department consists of twelve full-time and seventeen part-time fire fighters. All but one of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day to day operation of the fire department. Techniques such as driving rodeos, live practice burn-downs, continuing education classes, practice drills and watching training videos help keep the men updated to perform their jobs most efficiently. The department handled 811 calls for assistance of which 398 were for EMS and 413 for fire and fire related incidents. The total amount spent on overtime expenses during 2004 was \$255,416 compared to \$257,814 during 2003. This constituted a decrease of one percent over 2003. During the 2004 General Elections the City had placed a 4 mill replacement levy on the ballot and this levy was overwhelmingly approved by the residents for the operation and upkeep of the fire and

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EMS department. The levy is expected to generate approximately \$1.4 million in property taxes. The total cost of operating the Fire and EMS department during 2004 was \$1.9 million with the General Fund subsidizing the difference between the revenues generated by the property taxes and the actual expenses.

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

The City's Funds

Information about the City's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. During 2004 the major funds depicted in the Governmental Funds Balance Sheet (page 17) and Statement of Revenues, Expenditures and Changes in Fund Balances (page 19) are the General Fund, Bond Retirement Fund, the Fire Levy Fund, and the Brainard Relocation Fund. All governmental funds had total revenues of \$8.9 million and expenditures of \$12.0 million. The net change in fund balance for the year was most significant in the General Fund showing a decrease of more than \$2 million due to the fact the revenue from estate taxes was lower by \$4.0 million during 2004 as compared to 2003. The total year end fund balance of \$9.0 million is more than ample to meet these times of lower revenues. Overall the revenue base reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted at an object level by City council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of fiscal 2004, the City amended its general fund budget once at the end of the fiscal year. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

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For the general fund, budget basis revenue was \$1.2 million above original budget estimates of \$5.8 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenues areas. The original appropriations of \$7.9 million was sufficient to meet the expenditures for the year, which ended up at \$7.8 million or \$0.1 million less than anticipated due to a savings experienced in contracts for the annual road maintenance program and other areas like health insurance costs.

The City's ending unobligated budgetary fund balance was \$1.5 million higher than the final projected budgetary fund balance amount of \$4.2 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City of Pepper Pike had \$15.8 million invested in land, buildings, and equipment.

Table 3 shows fiscal 2004 balances of Capital Assets as compared to 2003:

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

	2004	2003
Land	\$0.3	\$0.3
Construction in Progress	0.5	0.1
Improvements to Land	0.1	0.1
Buildings and Improvements	3.3	3.4
Vehicles	0.4	0.4
Furniture, Fixtures and Equipment	0.3	0.3
Infrastructure		
Streets	9.7	10.5
Bridges	0.1	0.1
Sanitary Sewer System	1.1	0.9
	\$15.8	\$16.1
Total Capital Assets		

Net of depreciation, the balances for the above capital assets declined by \$0.3 million. The streets inventory was lower by \$0.8 million as a net result of annual depreciation expense of \$1.2 million offset by an increase in the street valuation of approximately \$0.4 million. There was an increase in construction in progress category of \$0.4 million. There was also an additional \$0.2 million added to the sanitary sewer category to account for installation of new sewer lines and pump stations after depreciation. There was no significant change in Land, Improvements to Land, Buildings and

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Improvements, Vehicles and Furniture and Fixtures. The City continued its aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks, ambulances, rubbish trucks etc. are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the maximum time frame. Police cars are replaced every eighteen months or when they have been driven approximately 65,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or cracksealed and in the case of concrete roads, either replaced 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 of Pepper Pike, as mentioned before, the City has effectively pursued external sources of funding for 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. Further information on the City's capital assets can be found in Note 12 to the basic financial statements.

Debt

At December 31, 2004, the City of Pepper Pike had \$6.8 million in outstanding debt and long-term liabilities, of which \$3.9 million was in General Obligation Bonds, and \$2.0 million in one-year notes payable and due in June 2005. Table 4 summarizes the bonds outstanding.

Table 4
 Outstanding Debt at Year End
 (In Millions)

	2004	2003
Special Assessment		
Manuscript Bonds	\$0.3	\$0.3
General Obligation Bonds	4.0	4.6
OPWC Loans	0.3	0.4
Notes Payable	2.0	0.0
Compensated Absences	0.2	0.1
Total	\$6.8	\$5.4

At December 31, 2004, the City's overall legal debt margin was \$32,311,944 with an unvoted debt margin of \$14,382,298. The City of Pepper Pike has an aggressive debt reduction attitude whereby most long term bonds are paid off within ten years as opposed to fifteen or twenty years. Also, the

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manuscript bonds represent four separate water and sewer improvement issues in the form of manuscript bonds issued by the City. Manuscript Bonds are bonds issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the General fund from the Debt Service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. At year end, the outstanding general obligation debt was \$3,940,000 and the outstanding Special Assessment Manuscript bonds were \$309,245. In addition, the City had an outstanding balance of \$315,650 on a twenty-year interest free loan obtained from the Ohio Water Pollution Loan Control Fund and 2004 was the eighth year in the repayment cycle. There was also an amount of \$206,934 booked as compensated absences in the long-term debt obligations for items such as accrued sick leave and accrued vacation payable to the employees. See notes 16 and 17 for additional information on the City's debt obligations.

Current Related Financial Activities

The City of Pepper Pike is strong financially. In addition, the City of Pepper Pike'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 of Pepper Pike with full disclosure of the financial position of the City.

Contacting the City of Pepper Pike's Financial Management

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

City of Pepper Pike, Ohio

Cuyahoga County

Statement of Net Assets

December 31, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$11,239,488
Investments	309,245
Accounts Receivable	48,073
Due from Other Governments	454,683
Prepaid Items	95,808
Materials and Supplies Inventory	80,791
Income Taxes Receivable	992,996
Property Taxes Receivable	3,191,727
Special Assessments Receivable	552,728
Nondepreciable Capital Assets	813,855
Depreciable Capital Assets, Net	15,022,097
	<hr/>
<i>Total Assets</i>	32,801,491
	<hr/>
Liabilities	
Accounts Payable	245,855
Contracts Payable	111,421
Accrued Wages	163,516
Matured Compensated Absences Payable	8,379
Due to Other Governments	362,673
Deferred Revenue	2,998,024
Accrued Interest Payable	35,818
Vacation Benefits Payable	262,250
Long-Term Liabilities:	
Due Within One Year	701,868
Due In More Than One Year	6,115,961
	<hr/>
<i>Total Liabilities</i>	11,005,765
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,764,930
Restricted for:	
Capital Projects	522,851
Debt Service	1,173,970
Other Purposes	887,432
Unrestricted	7,446,543
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<i>Total Net Assets</i>	\$21,795,726
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See accompanying notes to the basic financial statements

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Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$1,473,954	\$130,600	\$0	\$0	(\$1,343,354)
Security of Persons and Property:					
Police	3,139,071	13,980	0	0	(3,125,091)
Fire	1,902,445	0	0	0	(1,902,445)
Public Health Services	36,768	0	0	0	(36,768)
Transportation	3,053,354	4,105	258,286	75,127	(2,715,836)
Community Environment	231,006	13,930	22,921	0	(194,155)
Basic Utility Services	1,500,482	0	0	35,735	(1,464,747)
Interest and Fiscal Charges	224,265	0	0	0	(224,265)
<i>Total Governmental Activities</i>	<u>\$11,561,345</u>	<u>\$162,615</u>	<u>\$281,207</u>	<u>\$110,862</u>	<u>(11,006,661)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,355,501
Debt Service	511,518
Fire	1,226,800
Other Purposes	95,910
Income Tax	3,966,490
Estate Tax	377,589
Grants and Entitlements not Restricted to Specific Programs	563,243
Investment Earnings	143,428
Miscellaneous	92,542

Total General Revenues 8,333,021

Change in Net Assets (2,673,640)

Net Assets Beginning of Year 24,469,366

Net Assets End of Year \$21,795,726

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Balance Sheet
Governmental Funds
December 31, 2004

	General	Fire Levy	Bond Retirement	Brainard Road Relocation	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and						
Cash Equivalents	\$5,789,977	\$728,775	\$645,688	\$2,332,495	\$1,742,553	\$11,239,488
Investments	309,245	0	0	0	0	309,245
Property Taxes Receivable	1,108,692	1,343,907	537,548	0	201,580	3,191,727
Income Taxes Receivable	992,996	0	0	0	0	992,996
Accounts Receivable	48,073	0	0	0	0	48,073
Intergovernmental Receivable	210,353	73,333	33,623	0	137,374	454,683
Interfund Receivable	2,534,000	0	0	0	0	2,534,000
Materials and Supplies Inventory	80,791	0	0	0	0	80,791
Prepaid Items	95,808	0	0	0	0	95,808
Special Assessments Receivable	0	0	552,728	0	0	552,728
<i>Total Assets</i>	<u>\$11,169,935</u>	<u>\$2,146,015</u>	<u>\$1,769,587</u>	<u>\$2,332,495</u>	<u>\$2,081,507</u>	<u>\$19,499,539</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$168,577	\$5,975	\$0	\$6,532	\$64,771	\$245,855
Contracts Payable	0	0	0	0	111,421	111,421
Accrued Wages and Benefits	108,997	54,519	0	0	0	163,516
Intergovernmental Payable	184,384	0	0	0	178,289	362,673
Matured Compensated Absences Payable	8,379	0	0	0	0	8,379
Interfund Payable	0	0	0	1,675,000	859,000	2,534,000
Deferred Revenue	1,771,521	1,417,240	1,123,899	0	317,073	4,629,733
<i>Total Liabilities</i>	<u>2,241,858</u>	<u>1,477,734</u>	<u>1,123,899</u>	<u>1,681,532</u>	<u>1,530,554</u>	<u>8,055,577</u>
Fund Balances						
Reserved for Encumbrances	359,861	721,542	0	2,331,364	846,434	4,259,201
Unreserved						
Undesignated, Reported in:						
General Fund	8,568,216	0	0	0	0	8,568,216
Special Revenue Funds (Deficit)	0	(53,261)	0	0	46,897	(6,364)
Debt Service Funds	0	0	645,688	0	0	645,688
Capital Projects Funds (Deficit)	0	0	0	(1,680,401)	(342,378)	(2,022,779)
<i>Total Fund Balances (Deficit)</i>	<u>8,928,077</u>	<u>668,281</u>	<u>645,688</u>	<u>650,963</u>	<u>550,953</u>	<u>11,443,962</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,169,935</u>	<u>\$2,146,015</u>	<u>\$1,769,587</u>	<u>\$2,332,495</u>	<u>\$2,081,507</u>	<u>\$19,499,539</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total Governmental Fund Balances	\$11,443,962
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,835,952
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	193,703
Income Taxes	513,888
Estate Taxes	15,951
Special Assessments	552,728
Intergovernmental	355,439
Total	1,631,709
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(35,818)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(262,250)
Long-term liabilities, such as bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(3,940,000)
Special Assessment Bonds	(309,245)
Notes Payable	(2,046,000)
OPWC Loans	(315,650)
Compensated Absences	(206,934)
Total	(6,817,829)
<i>Net Assets of Governmental Activities</i>	\$21,795,726

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Fire Levy	Bond Retirement	Brainard Road Relocation	Other Governmental Funds	Total Governmental Funds
Revenues						
Property and Other Taxes	\$1,361,995	\$1,127,609	\$514,667	\$0	\$193,002	\$3,197,273
Municipal Income Taxes	3,841,193	0	0	0	0	3,841,193
Estate Taxes	575,225	0	0	0	0	575,225
Charges for Services	53,139	0	0	0	0	53,139
Fines and Forfeitures	67,716	0	0	0	0	67,716
Intergovernmental	282,064	149,892	67,246	0	281,909	781,111
Special Assessments	0	0	46,169	0	35,735	81,904
Interest	143,428	0	0	0	0	143,428
Rentals	41,760	0	0	0	0	41,760
Contributions and Donations	0	0	0	0	425	425
Other	92,542	0	0	0	0	92,542
<i>Total Revenues</i>	<u>6,459,062</u>	<u>1,277,501</u>	<u>628,082</u>	<u>0</u>	<u>511,071</u>	<u>8,875,716</u>
Expenditures						
Current:						
General Government	1,465,122	0	10,682	0	0	1,475,804
Security of Persons and Property:						
Police	2,845,340	0	0	0	263,030	3,108,370
Fire	0	1,610,901	0	0	267,652	1,878,553
Public Health Services	36,768	0	0	0	0	36,768
Community Environment	217,031	0	0	0	36,245	253,276
Basic Utility Services	1,451,152	0	0	0	0	1,451,152
Transportation	1,531,473	0	0	0	214,379	1,745,852
Capital Outlay	0	0	0	549,037	584,243	1,133,280
Debt Service:						
Principal Retirement	0	0	701,110	0	0	701,110
Interest and Fiscal Charges	0	0	205,578	0	0	205,578
<i>Total Expenditures</i>	<u>7,546,886</u>	<u>1,610,901</u>	<u>917,370</u>	<u>549,037</u>	<u>1,365,549</u>	<u>11,989,743</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,087,824)</u>	<u>(333,400)</u>	<u>(289,288)</u>	<u>(549,037)</u>	<u>(854,478)</u>	<u>(3,114,027)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	18,465	0	0	0	0	18,465
General Obligation Notes Issued	0	0	0	1,200,000	846,000	2,046,000
Transfers In	0	970,000	0	0	310,300	1,280,300
Transfers Out	(1,280,300)	0	0	0	0	(1,280,300)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,261,835)</u>	<u>970,000</u>	<u>0</u>	<u>1,200,000</u>	<u>1,156,300</u>	<u>2,064,465</u>
<i>Net Change in Fund Balances</i>	<u>(2,349,659)</u>	<u>636,600</u>	<u>(289,288)</u>	<u>650,963</u>	<u>301,822</u>	<u>(1,049,562)</u>
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>11,277,736</u>	<u>31,681</u>	<u>934,976</u>	<u>0</u>	<u>249,131</u>	<u>12,493,524</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$8,928,077</u>	<u>\$668,281</u>	<u>\$645,688</u>	<u>\$650,963</u>	<u>\$550,953</u>	<u>\$11,443,962</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds (\$1,049,562)

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

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

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

Capital Outlay	1,318,554
Depreciation	<u>(1,534,239)</u>

Total (215,685)

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. (41,735)

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

Property Taxes	(7,544)
Income Taxes	125,297
Estate Taxes	(197,636)
Special Assessments	28,958
Intergovernmental	<u>62,914</u>

Total 11,989

Other financing sources, such as proceeds of notes, in the governmental funds increase long-term liabilities in the statement of net assets. (2,046,000)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 701,110

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. (18,687)

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

Compensated Absences	(55,697)
Pension Obligation	68,457
Vacation Benefits Payable	<u>(27,830)</u>

Total (15,070)

Change in Net Assets of Governmental Activities (\$2,673,640)

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property and Other Taxes	\$1,094,445	\$1,094,445	\$1,318,361	\$223,916
Municipal Income Taxes	3,072,628	3,072,628	3,701,265	628,637
Estate Taxes	969,734	969,734	1,168,134	198,400
Charges for Services	76,792	76,792	92,503	15,711
Fines and Forfeitures	56,732	56,732	68,339	11,607
Intergovernmental	231,276	231,276	278,593	47,317
Interest	207,699	207,699	250,193	42,494
Rentals	34,667	34,667	41,760	7,093
Other	70,036	60,036	89,072	29,036
<i>Total Revenues</i>	<u>5,814,009</u>	<u>5,804,009</u>	<u>7,008,220</u>	<u>1,204,211</u>
Expenditures				
Current:				
General Government	1,442,577	1,377,077	1,333,174	43,903
Security of Persons and Property				
Police	2,956,550	2,956,550	2,891,550	65,000
Public Health Services	30,311	36,311	35,906	405
Community Environment	204,145	220,145	207,806	12,339
Basic Utility Services	1,401,695	1,516,695	1,433,322	83,373
Transportation	1,920,681	1,921,681	1,878,513	43,168
Leisure Time Activities	5,000	5,000	0	5,000
<i>Total Expenditures</i>	<u>7,960,959</u>	<u>8,033,459</u>	<u>7,780,271</u>	<u>253,188</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	<u>(2,146,950)</u>	<u>(2,229,450)</u>	<u>(772,051)</u>	<u>1,457,399</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	15,329	15,329	18,465	3,136
Advances In	361,118	361,118	435,000	73,882
Advances Out	(525,421)	(2,625,421)	(2,534,000)	91,421
Transfers Out	(1,280,300)	(1,280,300)	(1,280,300)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,429,274)</u>	<u>(3,529,274)</u>	<u>(3,360,835)</u>	<u>168,439</u>
<i>Net Change in Fund Balance</i>	<u>(3,576,224)</u>	<u>(5,758,724)</u>	<u>(4,132,886)</u>	<u>1,625,838</u>
<i>Fund Balance Beginning of Year</i>	9,706,173	9,706,173	9,706,173	0
Prior Year Encumbrances Appropriated	159,141	159,141	159,141	0
<i>Fund Balance End of Year</i>	<u><u>\$6,289,090</u></u>	<u><u>\$4,106,590</u></u>	<u><u>\$5,732,428</u></u>	<u><u>\$1,625,838</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$1,305,313	\$1,305,313	\$1,127,609	(\$177,704)
Intergovernmental	174,929	174,929	149,892	(25,037)
<i>Total Revenues</i>	1,480,242	1,480,242	1,277,501	(202,741)
Expenditures				
Current:				
Security of Persons and Property				
Fire	2,543,429	2,309,429	2,308,021	1,408
<i>Excess of Revenues Under Expenditures</i>	(1,063,187)	(829,187)	(1,030,520)	(201,333)
Other Financing Sources				
Transfers In	1,122,866	1,122,866	970,000	(152,866)
<i>Net Change in Fund Balance</i>	59,679	293,679	(60,520)	(354,199)
<i>Fund Balance Beginning of Year</i>	16,974	16,974	16,974	0
Prior Year Encumbrances Appropriated	45,629	45,629	45,629	0
<i>Fund Balance End of Year</i>	<u>\$122,282</u>	<u>\$356,282</u>	<u>\$2,083</u>	<u>(\$354,199)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$151,325</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$151,325</u></u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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 of Pepper Pike (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity.”

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

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

The City participates in the Northeast Ohio Public Energy Council and the Ohio Municipal League Group Rating Program, which are defined as a jointly governed organization and an insurance purchasing pool. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest nor responsibility on the part of the participating governments. These organizations are discussed in Note 11 and Note 15 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

B. Fund Accounting

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

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

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

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

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

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

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

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F. Cash and Cash Equivalents

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

During 2004, investments were limited to federal home loan bank bonds, federal national mortgage association bonds, federal farm credit bank bonds, STAROhio and special assessment manuscript bonds.

STAROhio is an investment pool managed by the State Treasurer's Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$143,428, which includes \$69,542 assigned from other City funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

I. Capital Assets

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

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

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

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

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

J. Interfund Balances

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

K. Compensated Absences

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

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

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund 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 unpaid leave is paid.

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L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$2,584,253, of which \$1,047,069 is restricted by enabling legislation. Net assets restricted for other purposes include street construction, maintenance and repair and the operation of the fire department.

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

O. Interfund Activity

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

P. Extraordinary and Special Items

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

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Q. Estimates

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

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

For 2004, the City has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers.”

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39 and GASB Statement No. 46 did not affect the presentation of the financial statements of the City. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on fund balance:

	General	Fire Levy	Bond Retirement
Fund Balance, December 31, 2003	\$11,277,736	\$31,681	\$934,976
Implementation of GASB Technical Bulletin 2004-2	0	0	0
Adjusted Fund Balance December 31, 2003	\$11,277,736	\$31,681	\$934,976

(continued)

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	Brainard Road Relocation	Other Governmental Funds	Total Governmental Funds
Fund Balance, December 31, 2003	\$0	\$412,764	\$12,657,157
Implementation of GASB Technical Bulletin 2004-2	0	(163,633)	(163,633)
Adjusted Fund Balance December 31, 2003	\$0	\$249,131	\$12,493,524

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments are reported at cost (budget) rather than fair value (GAAP).
5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transaction (GAAP).

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

	General	Fire Levy
GAAP Basis	(\$2,349,659)	\$636,600
Net Adjustment for Revenue Accruals	442,393	0
Beginning Fair Value Adjustments for Investments	7,465	0
Ending Fair Value Adjustment for Investments	99,300	0
Advances In	435,000	0
Advances Out	(2,534,000)	0
Net Adjustment for Expenditure Accruals	232,709	29,572
Encumbrances	(466,094)	(726,692)
Budget Basis	(\$4,132,886)	(\$60,520)

Note 5 – Fund Deficits

Fund balances at December 31, 2004, included the following individual fund deficits:

<i>Special Revenue Funds</i>	
Police Pension	\$82,379
Fire Pension	90,108
<i>Capital Projects Funds</i>	
Brainard Relocation	561,267
Brainard Road Waterline	245,736
Brainard Road Sewerline	334,812
Pepper Hills Waste Water Treatment Plant	103,676
Lander Road Pump Station	199,905
Brainard Road Pump Station	212
SOM Center Road Sanitary Sewer	30,846

The Brainard Relocation, the Brainard Road Waterline and the Brainard Road Sewerline capital projects funds' deficits are the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

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

Note 6 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposits 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 deposits maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

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

Investments may only be made through specified dealers and institutions. Payments for investments may be made upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits At year end, the carrying amount of the City's deposits was \$182,132 and the bank balance was \$275,650. The entire bank balance is covered by federal depository insurance.

Investments The City's investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured or unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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	<u>Category 3</u>	<u>Fair Value</u>
Manuscript Bonds	\$309,245	\$309,245
Federal Home Loan Bank Bonds	9,913,000	9,913,000
Federal National Mortgage Association Bonds	490,050	490,050
Federal Farm Credit Bank Bonds	497,650	497,650
STAROhio		307,981
Total Investments	<u>\$11,209,945</u>	<u>\$11,517,926</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with maturities of three months or less at the time of their purchase by the City.

A reconciliation between the classifications of cash and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3, is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
<i>GASB Statement No. 9</i>	\$11,390,813	\$309,245
Investments of Cash Management Pool:		
Federal Home Loan Bank Bonds	(9,913,000)	9,913,000
Federal National Mortgage Association Bonds	(490,050)	490,050
Federal Farm Credit Bank Bonds	(497,650)	497,650
STAROhio	(307,981)	307,981
<i>GASB Statement No. 3</i>	<u>\$182,132</u>	<u>\$11,517,926</u>

Note 7 - Receivables

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts.

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

Special assessments expected to be collected in more than one year amount to \$507,796 in the special assessment bond retirement fund. At December 31, 2004 the amount of delinquent special assessments was \$6,566.

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A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of the true value of inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$320,666,480
Other Real Estate	29,089,680
Tangible Personal Property	
Public Utility	6,518,230
General Tangible Personal Property	2,318,528
Total Assessed Values	\$358,592,918

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Pepper Pike. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the general, fire levy, fire pension and police pension special revenue and bond retirement debt service funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collections of delinquent taxes during the available period is not subject to reasonable

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estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2004 follows:

Homestead and Rollback	\$188,912
Gasoline Tax	124,766
Local Government	73,281
Estate Tax	63,805
Court Fines	<u>3,919</u>
Total	<u><u>\$454,683</u></u>

C. Income Taxes

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

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

Note 8- Contingencies

A. Litigation

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

B. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

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Note 9 – Other Employee Benefits

A. Compensated Absences

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

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

B. Health Insurance

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

Note 10 - Interfund Transfers and Balances

Transfers made during the year ended December 31, 2004 were as follows:

Transfer To	Transfer From General
Fire Levy	\$970,000
Other Governmental Funds:	
Urban Forestry	8,600
Recycle Ohio Grant	1,700
Police Pension	150,000
Fire Pension	150,000
Total All Funds	\$1,280,300

The general fund transfer to the fire levy special revenue fund was to subsidize the revenue from the 4 mill fire levy which was not sufficient to cover the expenditures in the fire levy fund for 2004. The general fund transfer to the Urban Forestry Grant and Recycle Ohio Grant special revenue funds were to pay for the City's share of the grants. The general fund transfer to the police pension special revenue fund was to subsidize the .3 mill police pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund. The general fund transfer to the fire pension special revenue fund was to subsidize the .3 mill fire pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund.

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On the fund financial statements interfund balances at December 31, 2004 were:

Interfund Payable	Interfund Receivable
	General
Major Fund	
Brainard Road Relocation	\$1,675,000
Nonmajor Capital Projects Funds:	
Pepper Pike Wastewater Treatment Plant and East Road	31,000
PepperHills Wastewater Treatment Plant	105,000
SOM Center Road Sanitary Improvement	42,000
Brainard Road Sewer	70,000
Brainard Road Pump Station	356,000
Lander Road Pump Station	255,000
	\$2,534,000
<i>Totals</i>	

The interfund payables were advances for grant monies that the funds will receive at a later date. All are expected to be paid within one year.

Note 11 – Jointly Governed Organization

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2004. Financial information can be obtained by contacting the Joseph Migliorini, Chairman, 175 South Main Street, Akron, Ohio 44308.

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Note 12 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Balance</u> 12/31/2003	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/2004
<i>Capital Assets not being Depreciated</i>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	<u>109,000</u>	<u>688,505</u>	<u>(255,000)</u>	<u>542,505</u>
<i>Total Capital Assets not being Depreciated</i>	<u>380,350</u>	<u>688,505</u>	<u>(255,000)</u>	<u>813,855</u>
<i>Capital Assets being Depreciated</i>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,079,803	0	0	4,079,803
Vehicles	2,161,721	78,930	(67,106)	2,173,545
Furniture, Fixtures and Equipment	1,455,983	125,393	(29,674)	1,551,702
Infrastructure				
Streets	25,214,201	425,726	0	25,639,927
Bridges	198,795	0	0	198,795
Sanitary Sewers	<u>1,813,073</u>	<u>255,000</u>	<u>0</u>	<u>2,068,073</u>
<i>Total Capital Assets being Depreciated</i>	<u>35,145,382</u>	<u>885,049</u>	<u>(96,780)</u>	<u>35,933,651</u>
<i>Less: Accumulated Depreciation</i>				
Improvements to Land	(90,809)	(9,200)	0	(100,009)
Buildings and Improvements	(722,780)	(70,154)	0	(792,934)
Vehicles	(1,681,814)	(90,498)	33,405	(1,738,907)
Furniture, Fixtures and Equipment	(1,217,501)	(65,428)	21,640	(1,261,289)
Infrastructure				
Streets	(14,672,488)	(1,260,710)	0	(15,933,198)
Bridges	(104,171)	(1,988)	0	(106,159)
Sanitary Sewers	<u>(942,797)</u>	<u>(36,261)</u>	<u>0</u>	<u>(979,058)</u>
<i>Total Accumulated Depreciation</i>	<u>(19,432,360)</u>	<u>(1,534,239)</u>	<u>55,045</u>	<u>(20,911,554)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>15,713,022</u>	<u>(649,190)</u>	<u>(41,735)</u>	<u>15,022,097</u>
<i>Total Capital Assets, Net</i>	<u>\$16,093,372</u>	<u>\$39,315</u>	<u>(\$296,735)</u>	<u>\$15,835,952</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$63,289
Security of Persons and Property	
Police	34,378
Fire	29,072
Transportation	1,298,959
Basic Utility Services	<u>108,541</u>
Total Depreciation Expense	<u>\$1,534,239</u>

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$240,508 \$198,508 and \$183,753 respectively; 87.24 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$2,832 made by the City and \$1,776 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for December 31, 2004, 2003, and 2002 were \$330,426, \$320,196 and \$306,680 respectively equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 65.48 percent has been contributed for 2004.

Note 14 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$100,736. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$102,171 for police and \$83,710 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 15 - Insurance Purchasing Pool

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 16 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2004 follows:

	Principal Outstanding 12/31/2003	Additions	Deletions	Principal Outstanding 12/31/2004	Amounts Due In One Year
<i>Governmental Activities</i>					
General Obligation Bonds					
1997 5.35%					
Brookwood Water	\$695,000	\$0	(\$50,000)	\$645,000	\$50,000
1998 3.90% - 4.60%					
Street Improvement	1,500,000	0	(300,000)	1,200,000	300,000
2001 2.50% - 4.00%					
Road Improvement	2,395,000	0	(300,000)	2,095,000	300,000
<i>Total General Obligation Bonds</i>	4,590,000	0	(650,000)	3,940,000	650,000
Special Assessment Manuscript Bonds					
1996 5.05%					
Brainard Road Water	23,029	0	(7,301)	15,728	7,670
1996 5.75%					
Brainard Road Sewer	125,853	0	(6,773)	119,080	7,162
1999 3.70% - 5.65%					
Lander Emerson Road Sewer	64,000	0	(4,000)	60,000	4,000
2001 4.70%					
Kersdale Road Improvement	121,169	0	(6,732)	114,437	6,732
Total Special Assessment Manuscript Bonds	334,051	0	(24,806)	309,245	25,564
Other Long-Term Debt					
1995 0% OPWC Loan	341,954	0	(26,304)	315,650	26,304
Notes Payable	0	2,046,000	0	2,046,000	0
Compensated Absences	151,237	148,541	(92,844)	206,934	0
<i>Total Governmental Activities</i>	\$5,417,242	\$2,194,541	(\$793,954)	\$6,817,829	\$701,868

General obligation bonds are the direct obligation of the City and will be paid from the debt service fund using property tax revenues. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The Ohio Public Works Commission (OPWC) project is being paid from the bond retirement debt service fund. Compensated absences will be paid from the general and fire levy special revenue fund.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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

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

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

On September 26, 1996, the City issued \$65,200 in manuscript special assessment bonds for the construction of a waterline on Brainard Road. The bonds were issued for a ten year period with a final maturity at December 1, 2016.

On September 26, 1996, the City issued \$164,000 in manuscript special assessment bonds for the construction of a sewer line on Brainard Road. The bonds were issued for a twenty year period with a final maturity at December 1, 2016.

On September 1, 1999, the City issued \$79,500 in manuscript special assessment bonds for the construction of a water line on Lander Emerson Road. The bonds were issued for a twenty year period with a final maturity at December 1, 2019.

On December 1, 2001, the City issued \$134,633 in manuscript special assessment bonds for the construction of a waterline on Kersdale Road. The bonds were issued for a twenty year period with a final maturity at December 1, 2021.

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

The \$2,046,000 Brainard Road Sewer, Brainard Road Water, and Brainard Road Relocation note issued June 29, 2004, will be paid from the capital projects funds.

As of December 31, 2004, the City's overall legal debt margin was \$32,311,944. The unvoted legal debt margin was \$14,382,298. Principal and interest requirements to retire the long-term general obligation bonds, special assessment manuscript bonds and the OPWC loan as of December 31, 2004 are as follows:

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

	General Obligation Bonds		Special Assessment Bonds		OPWC Loan	Totals
	Principal	Interest	Principal	Interest		
2005	\$650,000	\$163,383	\$25,564	\$16,214	\$26,304	\$881,465
2006	650,000	138,358	26,364	14,912	26,304	855,938
2007	650,000	112,582	18,742	13,563	26,304	821,191
2008	650,000	86,057	19,202	12,593	26,304	794,156
2009	350,000	58,708	19,689	11,591	26,304	466,292
2010-2014	845,000	114,213	106,790	41,723	131,520	1,239,246
2015-2019	145,000	15,248	79,432	13,543	52,610	305,833
2020-2021	0	0	13,462	949	0	14,411
Total	\$3,940,000	\$688,549	\$309,245	\$125,088	\$315,650	\$5,378,532

Note 17 - Outstanding Contractual Commitments

The City had entered into various contracts with construction contractors during the year. Of the total amounts authorized by Council ordinance, the following amounts remain unspent as of December 31, 2004:

Project	Amount Remaining
Pepper Pike Wastewater Treatment Plant/Creekside	\$162,690
Lander Road Pump Station	53,655
Brainard Road	
Water	110,233
Sanitary Sewer	241,947
Relocation	1,983,592
Signalization	332,555
Pump Station	354,250
Totals	\$3,238,922

Note 18 - Risk Management

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Type	Deductible	Coverage
Property	\$1,000	\$9,518,715
Boiler and Machinery	1,000	9,518,715
Inland Marine	500	351,094
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement and Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	50,000
Employee Dishonesty	N/A	10,000

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

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

Note 19 – Subsequent Event

On June 21, 2005, the City issued 3 percent general obligation various purpose improvement notes in the amount of \$5,492,000. The notes will mature on June 22, 2006.

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Auditor of State Betty Montgomery

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

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

To the Members of City Council

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 30, 2005, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated August 30, 2005, we reported another matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

August 30, 2005



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
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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 13, 2005**