



**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Report of Independent Accountants | 1 |
| Management Discussion and Analysis | 4 |
| Statement of Net Assets | 14 |
| Statement of Activities | 15 |
| Balance Sheet - Governmental Funds | 16 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund | 20 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Fire Levy Fund | 21 |
| Statement of Fiduciary Net Assets - Agency Funds | 22 |
| Notes to the Basis Financial Statements | 23 |
| Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 45 |

This page intentionally left blank.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 -
Telephone 216-787-
800-626-
Facsimile 216-787-
www.auditor.state.oh.

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Members of City Council:

We have audited the accompanying basic financial statements of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2001, and the results of its operations 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 May 29, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

May 29, 2002

This page intentionally left blank.

This page intentionally left blank.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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, 2001. 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 2001 are as follows:

- ◆ The assets of the City of Pepper Pike exceeded its liabilities at the close of the most recent year by \$22.7 million. Of this amount, \$8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$0.1 million, which represents a decrease of approximately 0.3 percent over 2000. The biggest change was a decrease in the Depreciable Capital Assets by \$0.8 million and taxes receivable decreased by \$0.4 million. A positive offset was provided by an increase of approximately \$1 million in the Cash and Cash Equivalents.
- ◆ Total liabilities increased by \$1.3 million which represents an increase of 14.6 percent over 2000. The main factor contributing to this increase was an increase of \$2.7 in long-term liabilities, specifically a general obligation bond issue. However, there was a decrease of \$1.3 million in the notes payable category.
- ◆ In total, net assets in governmental activities decreased by \$1.4 million during 2001. This represents a 5.8 percent decrease from 2000.

Using this Annual Financial Report

This discussion and analysis are 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 also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual*

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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 are the General fund, Fire Levy fund, Bond Retirement fund, South Woodland fund, and the Fairmount Boulevard fund.

Governmental Funds

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

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

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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Table 1 provides a summary of the City's net assets for 2001 compared to 2000.

(Table 1)
Net Assets
(In Millions)

| | Governmental Activities | |
|--|-------------------------|--------|
| | 2001 | 2000 |
| Assets | | |
| Current and Other Assets | \$16.0 | \$15.3 |
| Capital Assets, Net | 16.9 | 17.7 |
| <i>Total Assets</i> | 32.9 | 33.0 |
| Liabilities | | |
| Current Liabilities | (3.2) | (4.6) |
| Long-term Liabilities | | |
| Due within one Year | (0.9) | (0.6) |
| Due in More than one Year | (6.1) | (3.7) |
| <i>Total Liabilities</i> | (10.2) | (8.9) |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 10.2 | 13.8 |
| Restricted for: | | |
| Capital Projects | 2.5 | 0.9 |
| Debt Service | 0.6 | 0.6 |
| Other Purposes | 0.2 | 0.1 |
| Unrestricted | 9.2 | 8.7 |
| <i>Total Net Assets</i> | \$22.7 | \$24.1 |

Total assets remained at about \$33 million. Even though the cash and cash equivalents increased by \$1.0 million, a decrease in capital assets of \$.8 million offset this increase.

The total net assets of the City decreased by \$1.4 million. The following factors were partly responsible for this decrease:

- ◆ During 2001, the City's estate tax revenue was \$1.0 million less than in 2000.
- ◆ A reduction in proceeds of notes of \$1.3 million
- ◆ An increase in expenses of \$1.3 million

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

The City has tried 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 year, 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 not invested in any instrument with a maturity of more than two years.

Also, the City continues to work in the direction of reducing its current liabilities and stabilizing long-term liabilities. As an example, the City had joined hands with nine surrounding communities and formed a consortium for the purchase of road salt and other supplies during 2000. During October 2001, after discovering that the price of road salt was going to double for the 2001-2002 winter season, the City purchased approximately 5,000 tons of road salt at the 2000 contract price and stored it on site for the entire winter season thus saving approximately \$100,000 compared to the 2001 pricing. This measure has saved the City approximately \$55,000 in the first year alone, 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 to allow for bigger bargaining power.

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 one 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 City of Pepper Pike is also part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which helped save approximately \$35,000 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 developed programs which resulted in additional savings during the year. An aggressive recycling campaign was conducted which diverted approximately 426 tons of recycled material from the landfill thus saving about \$13,130 in dumping costs. 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 and will use this for the next few years to run the program. The City was able to plant 131 trees on Fairmount Boulevard at half the regular cost due to a fifty percent grant award through the Ohio Bicentennial Legacy Tree Planting Initiative and the local share ended up being \$12,750.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Table 2 shows the changes in net assets for fiscal year 2001 and corresponds to the Statement of Activities on page 15. Since this is the second year the City has prepared the statements following the GASB 34 format, revenue and expense comparisons can be made between the years 2000 and 2001.

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

| | <u>Governmental Activities</u> | |
|---|--------------------------------|-------------|
| | <u>2001</u> | <u>2000</u> |
| Program Revenues | | |
| Charges for Services | \$0.2 | \$0.1 |
| Operating Grants, Contributions and Interest | 0.2 | 0.4 |
| Capital Grants and Contributions | 0.1 | 0.3 |
| <i>Total Program Revenues</i> | 0.5 | 0.8 |
| General Revenues | | |
| Property Taxes | 2.9 | 2.8 |
| Income Taxes | 3.6 | 3.9 |
| Grants & Entitlements | 1.4 | 2.6 |
| Investment Earnings | 0.3 | 0.6 |
| Other | 0.1 | 0.1 |
| <i>Total Revenues</i> | 8.8 | 10.8 |
| Program Expenses | | |
| General Government | 1.1 | 0.9 |
| Security of Persons and Property | 4.0 | 3.5 |
| Public Health Services | 0.0 | 0.1 |
| Transportation | 3.4 | 2.9 |
| Community Environment | 0.2 | 0.2 |
| Basic Utility Services | 1.3 | 1.1 |
| Interest and Fiscal Charges | 0.2 | 0.2 |
| <i>Total Program Expenses</i> | 10.2 | 8.9 |
| <i>Change in Net Assets</i> | (\$1.4) | \$1.9 |

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Governmental Activities

Several revenue sources fund our 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, the credit limit being one percent. During 2001 the revenues generated from this tax amounted to \$3.6 million. There was a slight drop in revenues which seemed 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 \$2.9 million in revenues for the year 2001, which constituted an increase of seven percent over the \$2.8 million collected during 2000. The median home value in the City is \$375,000. As expected, investment earnings continued to drop as the Federal Reserve maintained its thrust on rate cuts.

Security of Persons and Property and Transportation are the major activities of the City generating seventy-two percent of the governmental expenses. Currently, there are sixteen full-time sworn officers in the police department. This number will be boosted to twenty during 2002 due to additional hiring. The City of Pepper Pike was recently rated number two amongst the top five communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. During 2001, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. 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. The court-sanctioned self-supporting juvenile diversion program which was put in effect in June 1999 proved to be a success. The City was reimbursed \$5,000 during 2001 from Cuyahoga County.

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 836 calls for assistance of which approximately 385 were for EMS and the rest for fire and fire related incidents. This constituted an increase of twenty-three percent over 2000. The total amount spent on overtime expenses during 2001 was \$258,223 compared to \$254,993 during 2000. During the 1999 General Elections the residents of the City overwhelmingly approved a 4 mill replacement levy for the operation and upkeep of the fire and EMS department which generates approximately \$1.2 million in property taxes. The total cost of operating the Fire and EMS department during 2001 was \$1.4 million with the unrestricted revenues 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 \$750,000 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. These

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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. These are an example of the City's annual road maintenance programs. A reconstruction of Gates Mills Boulevard was essentially completed during 1999 and thus it is no longer a major fund for 2001. Twenty-five percent of the total project cost of \$2,290,000 was funded by the OPWC by way of a grant, the balance being borrowed in the open market. In addition to this grant, the City was able to procure an additional \$160,715 in the form of loan assistance to help pay for the interest costs on the borrowing incurred by the City towards the project. The resurfacing of Fairmount Boulevard was started during 2001 at a contract price of \$1,143,000. The City issued a six month note in the amount of \$1,335,000 for the project which was later bonded out for ten years. In addition the City applied for and received a grant in the amount of thirty percent of the total cost and loan assistance in the amount of \$153,525 from the OPWC. South Woodland Road is scheduled to be resurfaced during 2002 and the funding is already in place via another grant from the OPWC in the amount of \$423,824, which constitutes twenty percent of the project cost. The City's share is being funded by a ten year General Obligation Bond in the amount of \$1,660,000.

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. All governmental funds had total revenues of \$8.9 million and expenditures of \$10.0 million. The net change in fund balance for the year was most significant in the South Woodland Road fund showing an increase in fund balance of more than \$1 million due to the fact the project was performed during 2001 but the funding occurred during 2002. The General Fund reflected a decrease in fund balance of \$389,716, however, the ending fund balance of \$8.5 million is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted at an object level by City council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of fiscal 2001, 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.

For the general fund, budget basis revenue was \$1.7 million above original budget estimates of \$5.3 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$7.3 million were sufficient to meet

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

the expenditures for the year, which ended up at \$6.7 million or \$0.6 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 \$1.9 million higher than the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2001, the City of Pepper Pike had \$16.9 million invested in land, buildings, and equipment.

Table 3 shows fiscal 2001 balances of Capital Assets as compared to 2000:

(Table 3)
 Capital Assts at December 31
 (Net of Accumulated Depreciation)

| | Governmental Activities | |
|-----------------------------------|-------------------------|--------|
| | 2001 | 2000 |
| Land | \$0.3 | \$0.3 |
| Improvements to Land | 0.1 | 0.2 |
| Buildings and Improvements | 3.4 | 3.3 |
| Vehicles | 0.3 | 0.3 |
| Furniture, Fixtures and Equipment | 0.1 | 0.2 |
| Infrastructure | | |
| Streets | 11.6 | 12.3 |
| Bridges | 0.1 | 0.1 |
| Sanitary Sewer System | 1.0 | 1.0 |
| Total Capital Assets | \$16.9 | \$17.7 |

Net of depreciation, the balances for the above capital assets, except for 'Streets', remained practically unchanged. The streets inventory was lower by \$0.7 million as a net result of annual depreciation expense of \$1.1 million offset by an increase in the inventory of \$0.4 million due to some resurfacing and reconstruction projects. However, this belies the City's 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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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 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.

Debt

At December 31, 2001, the City of Pepper Pike had \$7.0 million in outstanding debt, of which \$5.8 million was in General Obligation Bonds. Table 4 summarizes the debt outstanding.

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

| | Governmental Activities | |
|--------------------------|-------------------------|-------|
| | 2001 | 2000 |
| Manuscript Bonds | \$0.4 | \$0.3 |
| General Obligation Bonds | 5.8 | 3.2 |
| OPWC Loans | 0.4 | 0.4 |
| Compensated Absences | 0.4 | 0.4 |
| Total | \$7.0 | \$4.3 |

At December 31, 2001, the City's overall legal debt margin was \$29,619,715 with an unvoted debt margin of \$18,585,536. 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 manuscript bonds represent five 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 in primarily projects which require minimal funding. At year end, the outstanding general obligation debt was \$5,890,000 and the outstanding Special Assessment Manuscript bonds were \$381,542. In addition, the City had an outstanding balance of \$394,562 on a twenty-year interest free loan obtained from the Ohio Water Pollution Loan Control Fund.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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, 216-831-8500.

City of Pepper Pike, Ohio

Cuyahoga County

Statement of Net Assets

December 31, 2001

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash and Cash Equivalents | \$10,684,072 |
| Investments | 381,542 |
| Accounts Receivable | 21,117 |
| Due from Other Governments | 446,294 |
| Prepaid Items | 91,121 |
| Materials and Supplies Inventory | 101,335 |
| Taxes Receivable | 3,925,656 |
| Special Assessments Receivable | 376,981 |
| Land | 271,350 |
| Depreciable Capital Assets, Net | <u>16,637,550</u> |
| <i>Total Assets</i> | <u>32,937,018</u> |
| Liabilities | |
| Accounts Payable | 118,147 |
| Accrued Wages | 69,410 |
| Due to Other Governments | 233,955 |
| Deferred Revenue | 2,729,429 |
| Accrued Interest Payable | 32,401 |
| Long-Term Liabilities: | |
| Due Within One Year | 903,161 |
| Due In More Than One Year | <u>6,151,990</u> |
| <i>Total Liabilities</i> | <u>10,238,493</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 10,242,796 |
| Restricted for: | |
| Capital Projects | 2,508,948 |
| Debt Service | 573,231 |
| Other Purposes | 224,787 |
| Unrestricted | <u>9,148,763</u> |
| <i>Total Net Assets</i> | <u><u>\$22,698,525</u></u> |

See accompanying notes to the basic financial statements

City of Pepper Pike
Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2001

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|---------------------|-----------------------------------|---------------------------------------|-------------------------------------|---|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| General Government | \$1,111,794 | \$112,979 | \$0 | \$0 | (\$998,815) |
| Security of Persons and Property | 3,973,922 | 9,435 | 0 | 0 | (3,964,487) |
| Public Health Services | 24,477 | 535 | 0 | 0 | (23,942) |
| Transportation | 3,410,783 | 0 | 185,246 | 64,278 | (3,161,259) |
| Community Environment | 175,982 | 73,761 | 0 | 0 | (102,221) |
| Basic Utility Services | 1,306,515 | 0 | 0 | 0 | (1,306,515) |
| Interest and Fiscal Charges | 258,311 | 0 | 0 | 0 | (258,311) |
| <i>Total Governmental Activities</i> | <u>\$10,261,784</u> | <u>\$196,710</u> | <u>\$185,246</u> | <u>\$64,278</u> | <u>(9,815,550)</u> |

General Revenues

Property Taxes Levied for:

| | |
|---|-----------|
| General Purposes | 1,153,338 |
| Debt Service | 394,973 |
| Other Purposes | 1,311,323 |
| Capital Projects | 117,512 |
| Income Tax | 3,572,573 |
| Grants and Entitlements not Restricted to Specific Programs | 1,394,031 |
| Investment Earnings | 348,590 |
| Miscellaneous | 96,596 |

Total General Revenues 8,388,936

Change in Net Assets (1,426,614)

Net Assets Beginning of Year 24,125,139

Net Assets End of Year \$22,698,525

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Cuyahoga County

Balance Sheet

Governmental Funds

December 31, 2001

| | General | Fire Levy | Bond Retirement | South Woodland | Fairmount Boulevard |
|--|---------------------|--------------------|--------------------|--------------------|------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and | | | | | |
| Cash Equivalents | \$7,557,834 | \$119,607 | \$28,148 | \$1,631,931 | \$275,975 |
| Investments | 381,542 | 0 | 0 | 0 | 0 |
| Receivables: | | | | | |
| Taxes | 2,043,215 | 1,184,596 | 507,523 | 0 | 0 |
| Accounts | 21,117 | 0 | 0 | 0 | 0 |
| Interfund | 206,414 | 0 | 0 | 0 | 0 |
| Special Assessments | 0 | 0 | 376,981 | 0 | 0 |
| Due from Other Governments | 239,068 | 72,753 | 31,253 | 0 | 0 |
| Materials and Supplies Inventory | 101,335 | 0 | 0 | 0 | 0 |
| Prepaid Items | 91,121 | 0 | 0 | 0 | 0 |
| <i>Total Assets</i> | <u>\$10,641,646</u> | <u>\$1,376,956</u> | <u>\$943,905</u> | <u>\$1,631,931</u> | <u>\$275,975</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$112,911 | \$2,591 | \$0 | \$0 | \$0 |
| Interfund Payable | 0 | 0 | 0 | 0 | 10,000 |
| Accrued Wages | 58,276 | 11,134 | 0 | 0 | 0 |
| Due to Other Governments | 28,760 | 0 | 0 | 0 | 0 |
| Deferred Revenue | 1,446,011 | 1,257,349 | 915,757 | 0 | 0 |
| <i>Total Liabilities</i> | <u>1,645,958</u> | <u>1,271,074</u> | <u>915,757</u> | <u>0</u> | <u>10,000</u> |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 453,659 | 112,430 | 0 | 0 | 0 |
| Reserved for Inventory | 101,335 | 0 | 0 | 0 | 0 |
| Unreserved: | | | | | |
| Undesignated, Reported in: | | | | | |
| General Fund | 8,440,694 | 0 | 0 | 0 | 0 |
| Special Revenue Funds (Deficit) | 0 | (6,548) | 0 | 0 | 0 |
| Debt Service Funds | 0 | 0 | 28,148 | 0 | 0 |
| Capital Projects Funds | 0 | 0 | 0 | 1,631,931 | 265,975 |
| <i>Total Fund Balances</i> | <u>8,995,688</u> | <u>105,882</u> | <u>28,148</u> | <u>1,631,931</u> | <u>265,975</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$10,641,646</u> | <u>\$1,376,956</u> | <u>\$943,905</u> | <u>\$1,631,931</u> | <u>\$275,975</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, 2001

| Other Governmental Funds | Total Governmental Funds | | |
|--------------------------------|--------------------------------|---|---------------------|
| | | Total Governmental Funds Balances | \$11,914,893 |
| | | <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| \$1,070,577 | \$10,684,072 | Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 16,908,900 |
| 0 | 381,542 | | |
| 190,322 | 3,925,656 | Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | |
| 0 | 21,117 | | |
| 0 | 206,414 | Property and Other Taxes | 228,290 |
| 0 | 376,981 | Income Taxes | 253,910 |
| 103,220 | 446,294 | Special Assessments | 376,981 |
| 0 | 101,335 | Intergovernmental | 308,298 |
| 0 | 91,121 | | |
| <u>\$1,364,119</u> | <u>\$16,234,532</u> | Total | 1,167,479 |
| | | Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | (205,195) |
| \$2,645 | \$118,147 | | |
| 196,414 | 206,414 | In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (32,401) |
| 0 | 69,410 | | |
| 0 | 28,760 | | |
| 277,791 | 3,896,908 | Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds. | |
| <u>476,850</u> | <u>4,319,639</u> | General Obligation Bonds | (5,890,000) |
| | | Special Assessment Manuscript Bonds | (381,542) |
| 20,316 | 586,405 | OPWC Loan | (394,562) |
| 0 | 101,335 | Compensated Absences | (389,047) |
| | | | |
| 0 | 8,440,694 | Total | <u>(7,055,151)</u> |
| 124,278 | 117,730 | <i>Net Assets of Governmental Activities</i> | <u>\$22,698,525</u> |
| 0 | 28,148 | | |
| 742,675 | 2,640,581 | | |
| <u>887,269</u> | <u>11,914,893</u> | | |
| <u>\$1,364,119</u> | <u>\$16,234,532</u> | | |

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2001

| | General | Fire Levy | Bond Retirement | South Woodland | Fairmount Boulevard |
|--|--------------------|------------------|--------------------|--------------------|------------------------|
| Revenues | | | | | |
| Property and Other Taxes | \$1,158,766 | \$1,102,482 | \$383,962 | \$29,714 | \$87,798 |
| Municipal Income Tax | 3,629,564 | 0 | 0 | 0 | 0 |
| Charges for Services | 88,493 | 0 | 0 | 0 | 0 |
| Fines and Forfeitures | 85,022 | 0 | 0 | 0 | 0 |
| Intergovernmental | 1,160,545 | 145,091 | 115,986 | 0 | 0 |
| Special Assessments | 0 | 0 | 23,513 | 0 | 0 |
| Interest | 348,590 | 0 | 0 | 0 | 0 |
| Rentals | 22,660 | 0 | 0 | 0 | 0 |
| Contributions and Donations | 0 | 0 | 0 | 0 | 0 |
| Other | 97,031 | 0 | 0 | 0 | 0 |
| <i>Total Revenues</i> | <u>6,590,671</u> | <u>1,247,573</u> | <u>523,461</u> | <u>29,714</u> | <u>87,798</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 1,287,902 | 0 | 53,674 | 0 | 0 |
| Security of Persons and Property | 2,043,849 | 1,387,890 | 0 | 0 | 0 |
| Public Health Services | 24,477 | 0 | 0 | 0 | 0 |
| Transportation | 1,244,682 | 0 | 0 | 0 | 0 |
| Community Environment | 149,388 | 0 | 0 | 0 | 0 |
| Basic Utility Services | 1,347,512 | 0 | 0 | 0 | 0 |
| Capital Outlay | 0 | 0 | 0 | 28,069 | 1,037,897 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 392,329 | 0 | 0 |
| Interest and Fiscal Charges | 0 | 0 | 164,994 | 29,714 | 46,146 |
| <i>Total Expenditures</i> | <u>6,097,810</u> | <u>1,387,890</u> | <u>610,997</u> | <u>57,783</u> | <u>1,084,043</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>492,861</u> | <u>(140,317)</u> | <u>(87,536)</u> | <u>(28,069)</u> | <u>(996,245)</u> |
| Other Financing Sources (Uses) | | | | | |
| General Obligation Bonds Issued | 0 | 0 | 0 | 1,660,000 | 1,335,000 |
| Transfers In | 0 | 250,000 | 0 | 0 | 0 |
| Transfers Out | (482,750) | 0 | 0 | 0 | 0 |
| <i>Total Other Financing Sources and Uses</i> | <u>(482,750)</u> | <u>250,000</u> | <u>0</u> | <u>1,660,000</u> | <u>1,335,000</u> |
| <i>Net Change in Fund Balance</i> | 10,111 | 109,683 | (87,536) | 1,631,931 | 338,755 |
| <i>Fund Balances (Deficit) Beginning of Year</i> | 8,896,779 | (3,801) | 115,684 | 0 | (72,780) |
| Increase in Reserve for Inventory | 88,798 | 0 | 0 | 0 | 0 |
| <i>Fund Balances End of Year</i> | <u>\$8,995,688</u> | <u>\$105,882</u> | <u>\$28,148</u> | <u>\$1,631,931</u> | <u>\$265,975</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, 2001*

| Other Governmental Funds | Total Governmental Funds | | |
|--------------------------------|--------------------------------|---|-----------------------------|
| | | Net Change in Fund Balances - Total Governmental Funds | \$2,020,063 |
| | | <i>Amounts reported for governmental activities in the statement of activities are different because</i> | |
| \$176,991 | \$2,939,713 | 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. | |
| 0 | 3,629,564 | Capital Outlay | 946,875 |
| 0 | 88,493 | Depreciation | <u>(1,723,661)</u> |
| 0 | 85,022 | Total | (776,786) |
| 195,510 | 1,617,132 | Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | |
| 19,233 | 42,746 | Property and Other Taxes | 47,467 |
| 0 | 348,590 | Income Taxes | (56,991) |
| 0 | 22,660 | Special Assessments | (23,513) |
| 100 | 100 | Intergovernmental | <u>(24,344)</u> |
| 21,500 | 118,531 | Total | (57,381) |
| 413,334 | 8,892,551 | Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets. These sources were attributed to proceeds of bonds | (3,129,633) |
| 0 | 1,341,576 | Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 392,329 |
| 421,558 | 3,853,297 | In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (17,457) |
| 0 | 24,477 | 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. | |
| 218,766 | 1,463,448 | Compensated Absences | (38,876) |
| 24,815 | 174,203 | Pension Obligation | <u>92,329</u> |
| 0 | 1,347,512 | Total | 53,453 |
| 98,459 | 1,164,425 | Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed. | 88,798 |
| 0 | 392,329 | <i>Change in Net Assets of Governmental Activities</i> | <u>(\$1,426,614)</u> |
| 0 | 240,854 | | |
| 763,598 | 10,002,121 | | |
| (350,264) | (1,109,570) | | |
| 134,633 | 3,129,633 | | |
| 232,750 | 482,750 | | |
| 0 | (482,750) | | |
| 367,383 | 3,129,633 | | |
| 17,119 | 2,020,063 | | |
| 870,150 | 9,806,032 | | |
| 0 | 88,798 | | |
| \$887,269 | \$11,914,893 | | |

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, 2001

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property and Other Taxes | \$1,115,000 | \$1,115,000 | \$1,170,342 | \$55,342 |
| Municipal Income Tax | 2,733,286 | 2,732,161 | 3,696,771 | 964,610 |
| Charges for Services | 67,100 | 67,100 | 81,449 | 14,349 |
| Fines and Forfeitures | 55,000 | 55,000 | 83,671 | 28,671 |
| Intergovernmental | 782,475 | 782,475 | 1,280,024 | 497,549 |
| Interest | 475,000 | 475,000 | 585,412 | 110,412 |
| Rentals | 26,400 | 26,400 | 22,660 | (3,740) |
| Other | 10,075 | 10,075 | 98,169 | 88,094 |
| <i>Total Revenues</i> | <u>5,264,336</u> | <u>5,263,211</u> | <u>7,018,498</u> | <u>1,755,287</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,157,216 | 1,367,448 | 1,307,158 | 60,290 |
| Security of Persons and Property | 2,110,065 | 2,249,268 | 2,240,584 | 8,684 |
| Public Health Services | 25,996 | 26,811 | 25,647 | 1,164 |
| Transportation | 2,382,013 | 1,605,455 | 1,600,162 | 5,293 |
| Community Environment | 176,837 | 169,113 | 149,531 | 19,582 |
| Basic Utility Services | 1,438,025 | 1,379,880 | 1,370,128 | 9,752 |
| <i>Total Expenditures</i> | <u>7,290,152</u> | <u>6,797,975</u> | <u>6,693,210</u> | <u>104,765</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(2,025,816)</u> | <u>(1,534,764)</u> | <u>325,288</u> | <u>1,860,052</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (505,000) | (517,750) | (482,750) | 35,000 |
| Advances In | 213,000 | 213,000 | 202,397 | (10,603) |
| Advances Out | (120,000) | (107,250) | (82,750) | 24,500 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(412,000)</u> | <u>(412,000)</u> | <u>(363,103)</u> | <u>48,897</u> |
| <i>Net Change in Fund Balance</i> | (2,437,816) | (1,946,764) | (37,815) | 1,908,949 |
| <i>Fund Balance Beginning of Year</i> | 6,833,360 | 6,833,360 | 6,833,360 | 0 |
| Prior Year Encumbrances Appropriated | 492,177 | 492,177 | 492,177 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$4,887,721</u> | <u>\$5,378,773</u> | <u>\$7,287,722</u> | <u>\$1,908,949</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, 2001

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------------|----------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property and Other Taxes | \$1,093,040 | \$1,091,929 | \$1,102,482 | \$10,553 |
| Intergovernmental | 150,500 | 150,500 | 145,091 | (5,409) |
| <i>Total Revenues</i> | 1,243,540 | 1,242,429 | 1,247,573 | 5,144 |
| Expenditures | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,532,966 | 1,512,066 | 1,507,156 | 4,910 |
| <i>Excess of Revenues Under Expenditures</i> | (289,426) | (269,637) | (259,583) | 10,054 |
| Other Financing Sources | | | | |
| Transfers In | 275,000 | 275,000 | 250,000 | (25,000) |
| <i>Net Change in Fund Balance</i> | (14,426) | 5,363 | (9,583) | (14,946) |
| <i>Fund Balance Beginning of Year</i> | 4,390 | 4,390 | 4,390 | 0 |
| Prior Year Encumbrances Appropriated | 10,216 | 10,216 | 10,216 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$180</u> | <u>\$19,969</u> | <u>\$5,023</u> | <u>(\$14,946)</u> |

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Fiduciary Net Assets
Agency Funds
December 31, 2001

Assets

| | |
|--|-------------------------|
| Equity Pooled in Cash and Cash Equivalents | <u><u>\$130,285</u></u> |
|--|-------------------------|

Liabilities

| | |
|---------------------------------|-------------------------|
| Deposits Held and Due to Others | <u><u>\$130,285</u></u> |
|---------------------------------|-------------------------|

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 1 – Description of the City and Reporting Entity

The City of Pepper Pike 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, which is defined as a jointly governed organization. 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. This organization is discussed in Note 18.

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 provided they do not conflict with or contradict GASB pronouncements. The most 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 Year The Ended December 31, 2001

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. There are two categories of funds: governmental and 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 monies received from a fire levy. 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 street improvements and the payment of general long-term debt principal, interest and related costs.

South Woodland Capital Projects Fund The South Woodland capital projects fund received proceeds from the sale of bonds to be used for improvements to South Woodland Road.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Fairmount Boulevard Capital Projects Fund The Fairmount Boulevard capital projects fund received proceeds from the sale of bonds to be used for improvements to Fairmount Boulevard.

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 only fiduciary funds are agency funds.

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.

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. 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 Non-exchange 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, the resources must also be available before they can be recorded as revenue. 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 period 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 fiscal 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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a 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, 2001, but which were levied to finance year 2002 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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2001.

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

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. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

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 2001, investments were limited to Federal Home Loan Bank Notes, Federal Home Loan Mortgage Notes, Federal National Mortgage Association, 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 Investment 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, 2001.

Interest is distributed to the general fund. Interest revenue credited to the general fund during 2001 amounted to \$348,590, which includes \$92,672 assigned from other City funds.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of are stated at cost determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, 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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand dollars. The City's infrastructure consists of streets, bridges, and sanitary sewers. Improvements are capitalized; the costs of normal

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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 |
|-----------------------------------|-----------------|
| Land | N/A |
| Improvements to Land | 20 years |
| Building and Improvements | 30 - 75 years |
| Vehicles | 10 years |
| Furniture, Fixtures and Equipment | 5 years |
| Infrastructure | 20 - 100 years |

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.

L. Accrued Liabilities and Long-Term Obligations

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

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

M. Fund Balance Reserves

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

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 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. Neither type of transaction occurred during 2001.

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 Principles

For 2001, the City has implemented GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosure. The implementation of these statements had no effect on fund balances/net assets from the prior year.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

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 Balances - Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and 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).

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

Net Change in Fund Balance

| | General | Fire Levy |
|--|------------|--------------|
| GAAP Basis | \$10,111 | \$109,683 |
| Net Adjustment in Revenue Accruals | 508,208 | 0 |
| Advances In | 202,397 | 0 |
| Fair Value Adjustment for Investments | (80,381) | 0 |
| Net Adjustment in Expenditure Accruals | (78,521) | (4,682) |
| Advances Out | (82,750) | 0 |
| Encumbrances | (516,879) | (114,584) |
| Budget Basis | (\$37,815) | (\$9,583) |

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 5 - Accountability

Fund balances at December 31, 2001, included the following individual fund deficits:

| | |
|---|----------|
| Special Revenue Fund: | |
| Urban Forestry | \$10,655 |
| Capital Projects Funds: | |
| Lander Emerson | 90,380 |
| Pepper Hills Wastewater Treatment Plant | 58,945 |

The special revenue and capital project 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 deposit accounts.

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

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 not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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 other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

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

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

GASB Statement 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 3.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Deposits. At year-end, the carrying amount of the City's deposits was \$157,558 and the bank balance was \$271,713 of the bank balance:

1. \$218,755 was covered by federal depository insurance.
2. \$52,958 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments. 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 and 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 unclassified investments since it is not evidenced by securities that exist in physical or book entry form.

| | Category 1 | Fair Value |
|---------------------------------------|-------------|--------------|
| Manuscript Bonds | \$381,542 | \$381,542 |
| Federal Home Loan Bank Notes | 4,622,200 | 4,622,200 |
| Federal Home Loan Mortgage Notes | 1,990,950 | 1,990,950 |
| Federal National Mortgage Association | 1,205,600 | 1,205,600 |
| STAROhio | | 2,838,049 |
| Total Investments | \$8,200,292 | \$11,038,341 |

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

| | Cash and Cash Equivalents | Investments |
|---------------------------------------|------------------------------|--------------|
| GASB Statement 9 | \$10,814,357 | \$381,542 |
| Investments of Cash Management Pool: | | |
| Federal Home Loan Bank Notes | (4,622,200) | 4,622,200 |
| Federal Home Loan Mortgage Notes | (1,990,950) | 1,990,950 |
| Federal National Mortgage Association | (1,205,600) | 1,205,600 |
| STAROhio | (2,838,049) | 2,838,049 |
| GASB Statement 3 | \$157,558 | \$11,038,341 |

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 7 - Receivables

Receivables at December 31, 2001, 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 \$358,138 in the bond retirement fund.

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 2001 for real and public utility property taxes represents collections of 2000 taxes. Property tax payments received during 2001 for tangible personal property (other than public utility property) are for 2001 taxes.

2001 real property taxes are levied after October 1, 2001 on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2001 real property taxes are collected in and intended to finance 2002.

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. 2001 public utility property taxes became a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after October 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2001 was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

| Category | Assessed Value |
|------------------------------------|----------------|
| Real Estate | |
| Residential/Agricultural | \$296,350,720 |
| Other Real Estate | 28,675,910 |
| Tangible Personal Property | |
| Public Utility | 7,231,950 |
| General Tangible Personal Property | 5,660,251 |
| Total | \$337,918,831 |

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

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

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 represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance to finance 2001 operations. The receivable is offset by deferred revenue.

B. 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 required to pay their estimated tax at least 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.

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2001 follows:

| | |
|-------------------------|-----------|
| Local Government | \$60,354 |
| Homestead and Rollback | 100,125 |
| Estate Tax | 114,035 |
| Gasoline and Excise Tax | 98,704 |
| Permissive Tax | 19,662 |
| Auto Regulation | 17,133 |
| Cents Per Gallon | 17,734 |
| Excise Tax | 18,327 |
| Liquor Permit Fees | 220 |
| Total | \$446,294 |

Note 8 - Interfund Transfers and Balances

Transfers made during fiscal year 2001 were \$100,000 to Police Pension, \$120,000 to Fire Pension, \$250,000 to Fire Levy and \$12,750 to Urban Forestry Grant special revenue funds from the General fund. These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

On the fund financial statements interfund balances at December 31, 2001 were:

| Fund | Receivable | Payable |
|---|------------|-----------|
| General Fund | \$206,414 | \$0 |
| Urban Forestry Special Revenue Fund | 0 | 12,750 |
| Capital Projects Funds | | |
| Lander/Emerson Water Line | 0 | 113,061 |
| Pepper Hills Wastewater Treatment Plant | 0 | 60,000 |
| Kersdale Water Line | 0 | 10,603 |
| Fairmount Boulevard | 0 | 10,000 |
| <i>Total Capital Projects Funds</i> | 0 | 193,664 |
| <i>Total</i> | \$206,414 | \$206,414 |

The interfund payable of \$60,000 for Pepper Hills Wastewater was made to advance monies for engineering fees for a pump station and will be paid by special assessments. All other interfund payables were advances for grant monies that the funds will receive at a later date.

Note 9 – Contingencies

A. Grants

The City receives 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, 2001.

B. Litigation

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

Note 10 - 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. As of December 31, 2001, the liability for unpaid compensated absences was \$389,047 for the entire City.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2001, was as follows:

| | Balance 12/31/00 | Additions | Deductions | Balance 12/31/01 |
|--|---------------------|--------------------|---------------|---------------------|
| Governmental Activities | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$271,350 | \$0 | \$0 | \$271,350 |
| Capital Assets, being Depreciated: | | | | |
| Improvements to Land | 177,600 | 0 | 0 | 177,600 |
| Buildings and Improvements | 3,749,383 | 130,321 | 0 | 3,879,704 |
| Vehicles | 1,560,960 | 228,613 | 54,552 | 1,735,021 |
| Furniture, Fixtures and Equipment | 1,334,149 | 163,279 | 0 | 1,497,428 |
| Infrastructure | | | | |
| Streets | 23,404,509 | 424,662 | 0 | 23,829,171 |
| Bridges | 170,770 | 0 | 0 | 170,770 |
| Sanitary Sewers | 1,813,073 | 0 | 0 | 1,813,073 |
| Total Capital Assets, being Depreciated | <u>32,210,444</u> | <u>946,875</u> | <u>54,552</u> | <u>33,102,767</u> |
| Less Accumulated Derpreciation: | | | | |
| Improvements to Land | 35,025 | 8,880 | 0 | 43,905 |
| Buildings and Improvements | 381,020 | 66,266 | 0 | 447,286 |
| Vehicles | 1,247,383 | 173,502 | 54,552 | 1,366,333 |
| Furniture, Fixtures and Equipment | 1,150,556 | 267,441 | 0 | 1,417,997 |
| Infrastructure | | | | |
| Streets | 11,063,382 | 1,170,225 | 0 | 12,233,607 |
| Bridges | 99,047 | 1,708 | 0 | 100,755 |
| Sanitary Sewers | 819,695 | 35,639 | 0 | 855,334 |
| Total Accumulated Depreciation | <u>14,796,108</u> | <u>1,723,661</u> * | <u>54,552</u> | <u>16,465,217</u> |
| Total Capital Assets, being Depreciated, Net | <u>17,414,336</u> | <u>(776,786)</u> | <u>0</u> | <u>16,637,550</u> |
| Governmental Activities Capital Assets, Net | <u>\$17,685,686</u> | <u>(\$776,786)</u> | <u>\$0</u> | <u>\$16,908,900</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| General Government | \$116,525 |
| Security of Persons and Property | 197,231 |
| Transportation | 1,207,572 |
| Basic Utility Services | 200,700 |
| Community Environment | 1,633 |
| Total Depreciation Expense | <u>\$1,723,661</u> |

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 12 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the City was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contribution to PERS for the years ended December 31, 2001, 2000, and 1999 were \$178,966, \$120,089, and \$162,801, respectively. The full amount has been contributed for 2000 and 1999. 71 percent has been contributed for 2001, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

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 public employee retirement system administered by the OP&F's Board of Trustees. 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 by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12 percent for police and 16.5 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$128,726 and \$152,578 for the year ended December 31, 2001, \$119,779 and \$146,897 for the year ended December 31, 2000, and \$118,663 and \$135,219 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 69.98 percent and 69.32 percent, respectively, have been contributed for 2001, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

Note 13 - Postemployment Benefits

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. 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 PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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.

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$83,195. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

B. Police and Firemen's Disability 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 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 Ohio Police and Fire Pension Fund shall be included in the employers' contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent of covered payroll was applied to the postemployment health care program during 2001. For 2000, the percent used to fund healthcare was 7.25 percent. 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.

The City's actual contributions for 2001 that were used to fund postemployment benefits were \$76,185 for police and \$69,354 for fire. The OP&F's total health care expenses for the year ended December 31, 2000, (the latest information available) were \$106,160,054 which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 14 - Contractual Commitments

The City has several continuing contracts with construction contractors. Of the total amounts authorized by Council ordinance, the following amounts remain unspent as of December 31, 2001.

| Project | Balance |
|-----------------------------------|-----------|
| Fairmont Boulevard Reconstruction | \$275,404 |
| Kersdale Water Line | 3,000 |
| Total | \$278,404 |

Note 15 - Note Payable

Changes in the City's note activity for the year ended December 31, 2001, were as follows:

| | Outstanding 12/31/00 | Additions | (Reductions) | Outstanding 12/31/01 |
|--------------------------|-------------------------|-------------|---------------|-------------------------|
| Fairmont Boulevard 4.80% | \$1,335,000 | 0 | (\$1,335,000) | \$0 |
| South Woodland 3.60% | 0 | 1,660,000 | (1,660,000) | 0 |
| | \$1,335,000 | \$1,660,000 | (\$2,995,000) | \$0 |

The bond anticipation notes were issued for the renovation of Fairmont Boulevard and South Woodland Road.

Note 16 - Long-Term Debt

A schedule of changes in bonds and other long-term obligations of the City during 2001 are as follows:

| | Amount Outstanding 12/31/2000 | Additions | Deductions | Amount Outstanding 12/31/2001 | Amounts Due in One Year |
|---------------------------------------|-------------------------------------|-------------|-------------|-------------------------------------|-------------------------------|
| <i>Governmental Activities</i> | | | | | |
| General Obligation Bonds | | | | | |
| 1997 5.35% | | | | | |
| Brookwood Water | \$845,000 | \$0 | (\$50,000) | \$795,000 | \$50,000 |
| 1998 4.00% | | | | | |
| Street Improvement | 2,400,000 | 0 | (300,000) | 2,100,000 | 300,000 |
| 2001 2.50% | | | | | |
| Road Improvement | 0 | 2,995,000 | 0 | 2,995,000 | 300,000 |
| <i>Total General Obligation Bonds</i> | \$3,245,000 | \$2,995,000 | (\$350,000) | \$5,890,000 | \$650,000 |

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

| | Amount Outstanding 12/31/2000 | Additions | Deductions | Amount Outstanding 12/31/2001 | Amounts Due in One Year |
|--|-------------------------------------|--------------------|--------------------|-------------------------------------|-------------------------------|
| Special Assessment Manuscript Bonds | | | | | |
| 1996 5.05% | | | | | |
| Brainard Road Water | \$42,893 | \$0 | (\$6,298) | \$36,595 | \$6,616 |
| 1996 5.75% | | | | | |
| Brainard Road Water | 144,041 | 0 | (5,727) | 138,314 | 6,056 |
| 1999 5.75% | | | | | |
| Lander Emerson Road Sewer | 76,000 | 0 | (4,000) | 72,000 | 4,000 |
| 2000 5.75% | | | | | |
| Kersdale Road Improvement | 0 | 134,633 | 0 | 134,633 | 6,732 |
| Total Special Assessment Manuscript Bonds | <u>262,934</u> | <u>134,633</u> | <u>(16,025)</u> | <u>381,542</u> | <u>23,404</u> |
| Other Long-Term Debt | | | | | |
| 1995 0% OPWC Loan | 420,866 | 0 | (26,304) | 394,562 | 26,304 |
| Compensated Absences | <u>350,171</u> | <u>389,047</u> | <u>(350,171)</u> | <u>389,047</u> | <u>203,453</u> |
| Grand Total | <u>\$4,278,971</u> | <u>\$3,518,680</u> | <u>(\$742,500)</u> | <u>\$7,055,151</u> | <u>\$903,161</u> |

The City's overall legal debt margin was \$29,619,715 at December 31, 2001. The unvoted legal debt margin was \$18,585,536. Principal and interest requirements to retire the long-term general obligation bonds, special assessment manuscript bonds and the Ohio Public Works Commission (OPWC) loan as of December 31, 2001 are as follows:

| | General Obligation Bonds | | Special Assesment Bonds | | OPWC Loan | Total |
|-------------|-----------------------------|--------------------|----------------------------|------------------|------------------|--------------------|
| | Principal | Interest | Principal | Interest | | |
| 2002 | \$650,000 | \$242,322 | \$23,405 | \$19,853 | \$26,304 | \$961,884 |
| 2003 | 650,000 | 211,182 | 24,087 | 18,682 | 26,304 | 930,255 |
| 2004 | 650,000 | 188,107 | 24,806 | 17,471 | 26,304 | 906,688 |
| 2005 | 650,000 | 163,383 | 25,564 | 16,214 | 26,304 | 881,465 |
| 2006 | 650,000 | 138,357 | 26,364 | 14,912 | 26,304 | 855,937 |
| 2007 - 2011 | 2,345,000 | 332,238 | 95,587 | 57,795 | 131,521 | 2,962,141 |
| 2012 - 2016 | 250,000 | 52,163 | 113,074 | 30,065 | 131,521 | 576,823 |
| 2017 - 2021 | 45,000 | 2,408 | 48,655 | 6,101 | 0 | 102,164 |
| Total | <u>\$5,890,000</u> | <u>\$1,330,160</u> | <u>\$381,542</u> | <u>\$181,093</u> | <u>\$394,562</u> | <u>\$8,177,357</u> |

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 special assessment proceeds 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 complete and is being paid from the bond retirement debt service fund. Compensated absences will be paid from the general fund and the fire levy special revenue fund.

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

Note 17 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year the City contracted with several companies for their insurance as follows:

| Carrier | Type | Deductible | Coverage |
|----------------------------|----------------------------|------------|-------------|
| C. N. A. Insurance Company | Property | \$1,000 | \$8,796,000 |
| | Boiler and Machinery | 1,000 | 8,796,373 |
| | Inland Marine | 500 | 351,094 |
| | Vehicle | 100 | 1,000,000 |
| | General Liability | N/A | 1,000,000 |
| | EMT Liability | N/A | 1,000,000 |
| Zurich Insurance Company | Law Enforcement and | 5,000 | |
| | Public Officials Liability | 5,000 | 1,000,000 |
| TIG Insurance Company | Umbrella Liability | N/A | 10,000,000 |

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

Note 18 - 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. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of

City of Pepper Pike, Ohio
Cuyahoga County
Notes to the Basic Financial Statements
For Year The Ended December 31, 2001

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 2000. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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 City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001 and have issued our report thereon dated May 29, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 29, 2002.

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

May 29, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF PEPPER PIKE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 18, 2002**