



**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**CITY OF PEPPER PIKE
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	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
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2003 and the respective changes in financial position where applicable, and the respective budgetary comparison for the General Fund and Fire Levy Fund thereof 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 24, 2004 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 Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

May 24, 2004

This page intentionally left blank.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
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, 2003. 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 2003 are as follows:

- ◆ The assets of the City of Pepper Pike exceeded its liabilities at the close of the most recent fiscal year by \$24.5 million. Of this amount, \$11.7 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$1.1 million, which represents an increase of approximately 3.4 percent over 2002. The biggest change was an increase in cash and cash equivalents of \$1.7 million. Also, intergovernmental receivables at the end of 2003 were \$0.8 million more than the previous year. These increases in current assets were offset by a decline of \$1.2 million in depreciable capital assets.
- ◆ Total liabilities decreased by \$0.7 million which represents a decrease of 7.1 percent compared to 2002. The main factors contributing to this decrease was a reduction of \$0.8 million in long-term debt mainly due to a paydown of \$650,000 towards principal amounts for the outstanding general obligation bond issues. There were no significant changes in the categories of intergovernmental payable, deferred revenues, accrued wages and accounts payable.
- ◆ In total, net assets in governmental activities increased by \$1.8 million during 2003. This represents a 7.9 percent increase from 2002.

Using this Annual Financial Report

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

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

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Pepper Pike's assets and liabilities, with the difference between the two reported as *net assets*. Over time, an 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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting method 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 11. 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 and the Bond Retirement fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such 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 governmental 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 Fiscal Year Ended December 31, 2003
Unaudited

Table 1 provides a summary of the City's net assets for 2003 as compared to 2002.

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

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Current and Other Assets	\$17.5	\$15.2
Capital Assets, Net	16.1	17.3
<i>Total Assets</i>	<u>33.6</u>	<u>32.5</u>
Liabilities		
Current Liabilities and Other Liabilities	3.7	3.6
Long-term Liabilities		
Due Within One Year	0.7	0.7
Due In More Than One Year	4.7	5.5
<i>Total Liabilities</i>	<u>9.1</u>	<u>9.8</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	12.0	11.3
Restricted for:		
Capital Projects	0.2	1.2
Debt Service	0.4	0.8
Other Purpose	0.2	0.3
Unrestricted	11.7	9.1
<i>Total Net Assets</i>	<u>\$24.5</u>	<u>\$22.7</u>

Total assets grew to \$33.6 million during 2003 from \$32.5 million at the end of 2002. The three main contributing factors were a \$1.7 million increase in the cash and cash equivalents, a \$0.8 million increase in governmental receipts and a decline of \$1.2 million in net depreciable capital assets during 2003. The City received a large estate tax settlement of \$3.9 million which boosted the General fund cash balance at the end of the year. The remaining cash balances from South Woodland fund and Fairmont Boulevard Road Project fund totalling approximately \$1.0 million were transferred to the Bond Retirement fund as required by the Ohio Revised Code to satisfy future debt service payments on funds borrowed in the open market for these projects.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

The total net assets of the City increased by \$1.8 million. The following factors were responsible for this increase:

- ◆ Increase in cash and cash equivalents of \$1.7 million over 2002.
- ◆ Increase in intergovernmental receivables of \$0.8 million
- ◆ Decrease in long-term liabilities of \$0.8 million
- ◆ Decrease of \$1.2 million in the depreciable capital assets
- ◆ Increase of \$0.1 million in other liabilities

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 two years, the investments have shifted from short term CD's and government notes and bills to longer term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has generally refrained from locking in investments with maturities that are beyond two and a half years due to the volatility in the market. As expected, investment earnings continued to drop as the Federal Reserve maintained interest rates at historical lows.

Also, the City continues to work in the direction of reducing its current liabilities and expenditures by stabilizing short and long-term liabilities. As an example, the City continued to use the consortium formed during 2000 by joining hands with nine surrounding communities for the purchase of road salt and other supplies during 2003. As a result of joining the consortium the City has saved approximately \$55,000 in the first year alone and \$300,000 since inception, due to the power of volume purchasing afforded by the nine communities jointly bidding. These savings are expected to grow as more communities join the group and pool their quantities to allow for bigger bargaining power. The City is currently taking the lead in investigating the power of pooling resources within the Chagrin Valley communities by having discussions on the sharing of heavy equipment and machinery. For example, if one of the communities in the Chagrin Valley needs a front end loader for a specific project the idea would be to borrow it from a neighboring community and reciprocate by allowing the lending community to borrow its equipment when needed.

Another tool used by the City to reduce its long term liability is to pay off accumulated sick leave for employees who have a balance in excess of 960 hours of sick time remaining in their account at the end of each year. This excess is paid off at the rate of 1 hour for every two hours in excess of the 960 hours. This allows the City to buy back accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement of the employee. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to a future date. The total amount paid out for accumulated sick leave at the end of 2003 was \$27,915 as compared to \$27,511 at the end of 2002.

The City of Pepper Pike is also part of the Ohio Municipal League Group Rating Plan (OML) for workers' compensation which helped save approximately \$45,000 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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

injury free work place. Random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The City's service department continued to develop programs which resulted in additional savings during the year. With the help of an aggressive recycling campaign, approximately 563 tons of recycled material were diverted from the landfill thus saving about \$17,360 in disposal costs. The City was named the Top Recycler in the County during 2003. The City also received a Recycle Ohio Grant for the second consecutive year in the amount of \$11,700 for the purchase of recycled materials and also for subsidizing public awareness for recycling through distribution of educational materials and newsletters. The service department also continued its residential mixed recycling program which entailed picking up recyclable material at the residences as opposed to having the residents drop off the material at the service garage. This was a big success and will be continued during 2004 which will ensure additional savings by having even more material being diverted from the landfill. The purchasing of chemical and janitorial supplies was centralized and bids were received for the purchase of such items resulting in savings of approximately \$4,000 as compared to each department buying in smaller quantities. Also, instead of contracting out the street sweeping of City streets to private contractors at an annual cost of \$6,000, the service department purchased a used street sweeper for \$5,000 during 2001 and has been using this equipment for the past three years resulting in additional savings. The department also purchased a swap loader which can convert from a salt bed to a dump bed in minutes. This afforded efficiencies in capital and maintenance costs since instead of two truck chassis the City only needed to purchase one. The cost of the swap loader was \$118,446.

Table 2 shows the changes in net assets for fiscal year 2003 and corresponds to the Statement of Activities on page 15. Since this is the fourth year the City has prepared the statements following the GASB 34 format, revenue and expense comparisons can be made between the years 2003 and 2002.

Table 2
 Changes in Net Assets
 (In Millions)

	Governmental Activities	
	2003	2002
Program Revenues		
Charges for Services	\$0.2	\$0.2
Operating Grants and Contributions	0.2	0.2
Capital Grants and Contributions	0.3	0.4
<i>Total Program Revenues</i>	\$0.7	\$0.8

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
General Revenues		
Property Taxes	\$3.0	\$3.0
Income Taxes	3.4	3.4
Estate Taxes	4.8	1.7
Grants and Entitlements	0.5	0.7
Investment Earnings	0.2	0.4
Other	0.1	0.1
Total General Revenues	<u>12.0</u>	<u>9.3</u>
<i>Total Revenues</i>	<u>12.7</u>	<u>10.1</u>
Program Expenses		
General Government	1.3	1.3
Security of Persons and Property		
Police	2.8	3.0
Fire	1.9	1.4
Transportation	3.0	3.0
Community Environment	0.2	0.2
Basic Utility Services	1.5	1.4
Interest and Fiscal Charges	0.2	0.2
Total Program Expenses	<u>10.9</u>	<u>10.5</u>
<i>Change in Net Assets</i>	1.8	(0.4)
Net Assets Beginning of Year	22.7	23.1
Net Assets Ending of Year	<u>\$24.5</u>	<u>\$22.7</u>

Governmental Activities

Several revenue sources fund the governmental activities with the City income tax being the largest contributor. The City's income tax rate is one percent on gross income and has not changed since 1971 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community receive a fifty percent tax credit on their City tax for Pepper Pike, the credit limit being one percent. During 2003, the revenues generated from this tax amounted to \$3.4 million as compared to \$3.4 million during 2002. The revenues from this source seemed to stagnate and appeared to be a nationwide occurrence due to the general state of the economy. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. The City also conducts joint efforts with the Regional Income Tax Agency (RITA), the City's income tax collection agency, in tracking new taxpayers, especially contractors performing short term projects within the City. Property tax revenues came in a close second generating \$3.0 million in revenues for the year 2003. The median home value in the City is \$385,000. During 2003, the City received a larger than expected settlement from estate taxes. Recent changes in State law now provides a higher

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

percentage of revenue to the individual communities at the same time lowering the State's share. The State also changed the amount of estates exempt from the tax to \$338,333 effective January 1, 2002.

Security of Persons and Property and Transportation are the major activities of the City generating seventy-one percent of the governmental expenses. Currently, there are nineteen full-time sworn officers in the police department. During 2003, the City was rated number one among the fifty six communities in Cuyahoga County in an annual study of suburbs conducted by Cleveland Magazine. The department continued to place strong emphasis on the training of its personnel to maintain their proficiency and to keep up with the rapidly changing laws, practices and technology. In 2000, the jail was converted to a three-day holding facility to reduce the costs of operations of a full-fledged jail and the liabilities associated with running such a facility. Also, the Reverse 911 system installed at a total cost of \$41,767 during 2002 was used to make routine and emergency telephone calls to all residences within the City and will also be able to provide daily check-up phone calls to homebound seniors to ensure their safety and well being. The court-sanctioned self-supporting juvenile diversion program which was put in effect in June 1999 continues to be a success. The City has applied for funding in the amount of \$6,000 for the year 2004 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 837 calls for assistance of which 422 were for EMS and 415 for fire and fire related incidents. The total amount spent on overtime expenses during 2003 was \$257,814 as compared to \$243,749 during 2002. This constituted an increase of more than five percent over 2002. 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 \$1.3 million in property taxes. The total cost of operating the fire and EMS department during 2003 was \$1.6 million with the General fund subsidizing the difference of \$0.3 million between the revenues generated by the property taxes and the actual expenses. The Fire Levy expired at the end of tax year 2003 and will be placed before the voters in the November 2004 general elections.

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 \$500,000 in governmental expenses for the upkeep and maintenance of the roadways within the City limits. For the major resurfacing projects, the City has actively pursued and has been successful in obtaining grants and financial assistance from the Ohio Public Works Commission (OPWC). Since 1998, the City has been successful in obtaining in excess of \$1.8 million in grants or loans from OPWC. These grants and loan assistance programs account for twenty to thirty percent of the actual costs of the project, the balance being borrowed from the open market by way of bond issues, which reduces the amount of borrowing the City has to undertake. During 2003, the major funds depicted in the Governmental Funds Balance Sheet (page 16) and Statement of Revenues, Expenditures and Changes in Fund Balances (page 18) are the General fund, the Fire Levy and the Bond Retirement fund. South Woodland fund which was a major fund during 2002 is no longer reflected since it was substantially completed during 2002. This project commenced during 2001 and the City had received a grant from OPWC in the amount of \$423,824, which constitutes twenty percent of the estimated 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 of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

reconstruction of Fairmount Boulevard was completed during 2001 and the reconstruction of Gates Mills Boulevard was completed during 2000. Thus these two were not considered major funds during 2002.

The City's Funds

Information about the City's major funds start on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12.8 million and expenditures of \$10.5 million. The net change in fund balance for the year was most significant in the South Woodland fund showing a decrease in fund balance of more than \$1 million due to the fact the project was performed during 2002 but the funding occurred during 2001. Therefore, this no longer qualifies as a major fund. The General fund reflected an increase of \$2.8 million at the end of 2003. The total year end fund balance of \$11.3 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 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 2003, the City amended its general fund budget once at the end of the 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 \$3.8 million above original budget estimates of \$5.8 million. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenues areas. The original appropriations of \$8.1 million was sufficient to meet the expenditures for the year, which ended up at \$7.1 million or \$1.0 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 \$5.4 million higher than the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the City of Pepper Pike had \$16.1 million invested in land, buildings and equipment.

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Table 3 shows fiscal 2003 balances of Capital Assets as compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$0.3	\$0.3
Construction in Progress	0.1	0.0
Improvements to Land	0.1	0.1
Buildings and Improvements	3.4	3.4
Vehicles	0.4	0.6
Furniture, Fixtures and Equipment	0.3	0.4
Infrastructure		
Streets	10.5	11.5
Bridges	0.1	0.1
Sanitary Sewer System	0.9	0.9
Total Capital Assets	\$16.1	\$17.3

Net of depreciation, the balances for the above capital assets declined by \$1.2 million. The streets inventory was lower by \$1.0 million as a net result of annual depreciation expense. The remaining reduction of \$0.3 million was attributable to the annual depreciation on buildings and improvements, vehicles and furniture and fixtures. 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 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

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

City of Pepper Pike
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Debt

At December 31, 2003, the City of Pepper Pike had \$5.4 million in outstanding debt and long-term liabilities, of which \$4.6 million was in General Obligation Bonds. Table 4 summarizes the debt outstanding.

Table 4
 Outstanding Debt at Year End
 (In Millions)

	Governmental Activities	
	2003	2002
Manuscript Bonds	\$0.3	\$0.4
General Obligation Bonds	4.6	5.2
OPWC Loans	0.3	0.4
Compensated Absences	0.2	0.2
Total	\$5.4	\$6.2

At December 31, 2003, the City's overall legal debt margin was \$37,693,473 with an unvoted debt margin of \$19,620,881. 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 four separate water and sewer improvement issues in the form of manuscript bonds issued by the City. Manuscript bonds are bonds issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the General fund from the Debt Service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. At year end, the outstanding general obligation debt was \$4,590,000 and the outstanding Special Assessment Manuscript bonds were \$334,051. In addition, the City had an outstanding balance of \$341,954 on a twenty-year interest free loan obtained from the Ohio Water Pollution Loan Control Fund and 2003 was the seventh year in the repayment cycle. There was also an amount of \$151,237 booked as compensated absences in the long-term debt obligations for items such as accrued sick leave and accrued vacation payable to the employees.

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, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$11,429,034
Investments	334,051
Accounts Receivable	44,875
Due from Other Governments	1,173,520
Prepaid Items	104,140
Materials and Supplies Inventory	89,470
Taxes Receivable	3,774,878
Special Assessments Receivable	523,770
Nondepreciable Capital Assets	380,350
Depreciable Capital Assets, Net	15,713,022
	<hr/>
<i>Total Assets</i>	33,567,110
	<hr/>
Liabilities	
Accounts Payable	169,546
Accrued Wages	110,705
Matured Compensated Absences Payable	30,709
Due to Other Governments	272,131
Deferred Revenue	2,845,860
Accrued Interest Payable	17,131
Vacation Benefits Payable	234,420
Long-Term Liabilities:	
Due Within One Year	704,135
Due In More Than One Year	4,713,107
	<hr/>
<i>Total Liabilities</i>	9,097,744
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,951,350
Restricted for:	
Capital Projects	183,556
Debt Service	387,119
Other Purposes	208,035
Unrestricted	11,739,306
	<hr/>
<i>Total Net Assets</i>	\$24,469,366
	<hr/> <hr/>

See accompanying notes to the basic financial statements

City of Pepper Pike
Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2003

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$1,336,760	\$134,078	\$0	\$0	(\$1,202,682)
Security of Persons and Property:					
Police	2,801,400	12,586	0	0	(2,788,814)
Fire	1,898,571	0	0	0	(1,898,571)
Public Health Services	30,187	2,000	0	0	(28,187)
Transportation	2,931,488	0	207,386	272,952	(2,451,150)
Community Environment	211,965	94,739	19,554	0	(97,672)
Basic Utility Services	1,449,709	0	0	0	(1,449,709)
Interest and Fiscal Charges	227,839	0	0	0	(227,839)
<i>Total Governmental Activities</i>	<u>\$10,887,919</u>	<u>\$243,403</u>	<u>\$226,940</u>	<u>\$272,952</u>	<u>(10,144,624)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,246,727
Debt Service	487,016
Other Purposes	1,314,066
Income Tax	3,326,015
Estate Tax	4,755,517
Grants and Entitlements not Restricted to Specific Programs	514,142
Investment Earnings	226,338
Gain on Sale of Capital Asset	16,772
Miscellaneous	66,422

Total General Revenues 11,953,015

Change in Net Assets 1,808,391

Net Assets Beginning of Year - Restated (See Note 3) 22,660,975

Net Assets End of Year \$24,469,366

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio

Cuyahoga County

Balance Sheet

Governmental Funds

December 31, 2003

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$9,538,728	\$62,603	\$934,976
Investments	334,051	0	0
Receivables:			
Taxes	1,844,955	1,185,134	541,665
Accounts	44,875	0	0
Interfund	435,000	0	0
Special Assessments	0	0	523,770
Due from Other Governments	954,235	73,657	33,713
Materials and Supplies Inventory	89,470	0	0
Prepaid Items	104,140	0	0
<i>Total Assets</i>	<u>\$13,345,454</u>	<u>\$1,321,394</u>	<u>\$2,034,124</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$93,286	\$11,515	\$0
Interfund Payable	0	0	0
Accrued Wages	91,346	19,359	0
Matured Compensated Asences Payable	30,709	0	0
Due to Other Governments	39,298	48	0
Deferred Revenue	1,813,079	1,258,791	1,099,148
<i>Total Liabilities</i>	<u>2,067,718</u>	<u>1,289,713</u>	<u>1,099,148</u>
Fund Balances			
Reserved for Encumbrances	81,937	37,247	0
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	11,195,799	0	0
Special Revenue Funds	0	(5,566)	0
Debt Service Funds	0	0	934,976
Capital Projects Funds	0	0	0
<i>Total Fund Balances</i>	<u>11,277,736</u>	<u>31,681</u>	<u>934,976</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$13,345,454</u>	<u>\$1,321,394</u>	<u>\$2,034,124</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, 2003

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$12,657,157
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$892,727	\$11,429,034	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,093,372
0	334,051		
203,124	3,774,878	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
0	44,875		
0	435,000	Property and Other Taxes	201,247
0	523,770	Income Taxes	462,248
111,915	1,173,520	Special Assessments	523,770
0	89,470	Intergovernmental	432,455
0	104,140		
<u>\$1,207,766</u>	<u>\$17,908,738</u>	Total	1,619,720
		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.	(232,090)
\$64,745	\$169,546		
435,000	435,000	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(17,131)
0	110,705		
0	30,709	Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(234,420)
695	40,041		
294,562	4,465,580	Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
<u>795,002</u>	<u>5,251,581</u>	General Obligation Bonds	(4,590,000)
		Special Assessment Manuscript Bonds	(334,051)
64,084	183,268	OPWC Loan	(341,954)
0	11,195,799	Compensated Absences	(151,237)
228,908	223,342		
0	934,976	Total	(5,417,242)
119,772	119,772		
<u>412,764</u>	<u>12,657,157</u>	<i>Net assets of Governmental Activities</i>	<u>\$24,469,366</u>
<u>\$1,207,766</u>	<u>\$17,908,738</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, 2003

	General	Fire Levy	Bond Retirement
Revenues			
Property and Other Taxes	\$1,229,536	\$1,117,191	\$478,680
Municipal Income Tax	3,658,817	0	0
Estate Tax	4,564,425	0	0
Charges for Services	110,275	0	0
Fines and Forfeitures	91,368	0	0
Intergovernmental	268,739	146,656	64,986
Special Assessments	0	0	40,866
Interest	226,338	0	0
Rentals	41,760	0	0
Contributions and Donations	0	0	0
Other	50,858	15,564	0
<i>Total Revenues</i>	<u>10,242,116</u>	<u>1,279,411</u>	<u>584,532</u>
Expenditures			
Current:			
General Government	1,283,501	0	346
Security of Persons and Property			
Police	2,587,339		
Fire	0	1,559,356	0
Public Health Services	30,187	0	0
Transportation	1,418,390	0	0
Community Environment	192,647	0	0
Basic Utility Services	1,361,882	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	700,391
Interest and Fiscal Charges	0	0	229,864
<i>Total Expenditures</i>	<u>6,873,946</u>	<u>1,559,356</u>	<u>930,601</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,368,170</u>	<u>(279,945)</u>	<u>(346,069)</u>
Other Financing Sources (Uses)			
Sale of Fixed Assets	17,200	0	0
Transfers In	0	280,000	1,101,266
Transfers Out	(567,958)	0	0
<i>Total Other Financing Sources and Uses</i>	<u>(550,758)</u>	<u>280,000</u>	<u>1,101,266</u>
<i>Net Change in Fund Balance</i>	2,817,412	55	755,197
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>8,460,324</u>	<u>31,626</u>	<u>179,779</u>
<i>Fund Balances End of Year</i>	<u><u>\$11,277,736</u></u>	<u><u>\$31,681</u></u>	<u><u>\$934,976</u></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, 2003*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$2,330,501
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$179,504	\$3,004,911	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	3,658,817	Capital Outlay	638,510
0	4,564,425	Depreciation	<u>(1,846,288)</u>
0	110,275	Total	(1,207,778)
0	91,368	Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(428)
529,090	1,009,471	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	40,866	Property and Other Taxes	42,898
0	226,338	Income Taxes	(332,802)
0	41,760	Estate Tax	191,092
200	200	Special Assessments	(40,866)
0	66,422	Intergovernmental	<u>4,363</u>
708,794	12,814,853	Total	(135,315)
		Repayment of bond principal and loans is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	700,391
0	1,283,847	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	2,025
240,650	2,827,989	Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
249,187	1,808,543	Compensated Absences	37,146
0	30,187	Vacation Payable	6,750
272,925	1,691,315	Pension Obligation	<u>75,099</u>
0	192,647	Total	118,995
0	1,361,882	<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,808,391</u></u>
374,887	374,887		
0	700,391		
0	229,864		
1,137,649	10,501,552		
(428,855)	2,313,301		
0	17,200		
287,958	1,669,224		
(1,101,266)	(1,669,224)		
(813,308)	17,200		
(1,242,163)	2,330,501		
1,654,927	10,326,656		
\$412,764	\$12,657,157		

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, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$1,118,485	\$1,118,485	\$1,229,536	\$111,051
Municipal Income Tax	3,451,537	3,342,820	3,526,881	184,061
Estate Tax	450,000	450,000	3,991,147	3,541,147
Charges for Services	71,050	71,050	86,747	15,697
Fines and Forfeitures	78,000	78,000	92,993	14,993
Intergovernmental	265,359	265,359	267,639	2,280
Interest	300,000	300,000	296,447	(3,553)
Rentals	23,760	23,760	41,760	18,000
Other	20,000	20,000	50,672	30,672
<i>Total Revenues</i>	<u>5,778,191</u>	<u>5,669,474</u>	<u>9,583,822</u>	<u>3,914,348</u>
Expenditures				
Current:				
General Government	1,464,653	1,379,047	1,253,597	125,450
Security of Persons and Property				
Police	2,624,278	2,689,214	2,587,194	102,020
Public Health Services	27,718	32,718	30,405	2,313
Transportation	2,000,925	1,911,314	1,536,290	375,024
Community Environment	207,720	231,023	192,891	38,132
Basic Utility Services	1,767,681	1,856,659	1,455,514	401,145
<i>Total Expenditures</i>	<u>8,092,975</u>	<u>8,099,975</u>	<u>7,055,891</u>	<u>1,044,084</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,314,784)</u>	<u>(2,430,501)</u>	<u>2,527,931</u>	<u>4,958,432</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	0	17,200	17,200
Advances In	0	103,589	103,589	0
Advances Out	0	0	(435,000)	(435,000)
Transfers Out	(1,425,000)	(1,425,000)	(567,958)	857,042
<i>Total Other Financing Sources (Uses)</i>	<u>(1,425,000)</u>	<u>(1,321,411)</u>	<u>(882,169)</u>	<u>439,242</u>
<i>Net Change in Fund Balance</i>	<u>(3,739,784)</u>	<u>(3,751,912)</u>	<u>1,645,762</u>	<u>5,397,674</u>
<i>Fund Balance Beginning of Year</i>	7,713,047	7,713,047	7,713,047	0
Prior Year Encumbrances Appropriated	347,364	347,364	347,364	0
<i>Fund Balance End of Year</i>	<u>\$4,320,627</u>	<u>\$4,308,499</u>	<u>\$9,706,173</u>	<u>\$5,397,674</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, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$1,119,958	\$1,119,958	\$1,117,191	(\$2,767)
Intergovernmental	145,526	145,526	146,656	1,130
Other	0	0	15,564	15,564
<i>Total Revenues</i>	1,265,484	1,265,484	1,279,411	13,927
Expenditures				
Current:				
Security of Persons and Property				
Fire	2,426,251	1,623,251	1,608,355	14,896
<i>Excess of Revenues Under Expenditures</i>	(1,160,767)	(357,767)	(328,944)	28,823
Other Financing Sources				
Transfers In	1,100,000	1,100,000	280,000	(820,000)
<i>Net Change in Fund Balance</i>	(60,767)	742,233	(48,944)	(791,177)
<i>Fund Balance Beginning of Year</i>	33,167	33,167	33,167	0
Prior Year Encumbrances Appropriated	32,751	32,751	32,751	0
<i>Fund Balance End of Year</i>	<u>\$5,151</u>	<u>\$808,151</u>	<u>\$16,974</u>	<u>(\$791,177)</u>

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Cuyahoga County
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$147,135</u></u>
--	-------------------------

Liabilities

Deposits Held and Due to Others	<u><u>\$147,135</u></u>
---------------------------------	-------------------------

See accompanying notes to the basic financial statements

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 1 – Description of the City and Reporting Entity

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

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

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

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

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

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.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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

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

B. Fund Accounting

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

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

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

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

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

involve measurement of results of operations. The City's agency funds account for tree planting and construction deposits.

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

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

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 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 in the amended certificate in effect at the time the final appropriations were enacted by Council.

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

F. Cash and Cash Equivalents

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

During 2003, investments were limited to federal home loan bank notes, federal home loan mortgage notes, federal national mortgage association notes, federal farm credit bank notes, STAROhio and special assessment manuscript bonds.

STAROhio is an investment pool managed by the State Treasurer's Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2003.

Interest distributed to the general fund. Interest revenue credited to the general fund during 2003 amounted to \$226,338, which includes \$38,719 assigned from other City funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

I. Capital Assets

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

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 maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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

J. Interfund Balances

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

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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. Net assets restricted for other purposes include street construction, maintenance and repair and the operation of the fire department.

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

O. Interfund Activity

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

P. Extraordinary and Special Items

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

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 – Restatement of Fund Balance/Net Assets

During 2003, it was determined that interfund receivable and interfund payable was overstated and special assessments receivable was understated at December 31, 2002. These restatements had the following effects on fund balance/net assets and net change as they were previously reported.

	General	Other Governmental	Governmental Activities
Fund Balance/Net Assets as reported December 31, 2002	\$8,583,988	\$1,531,263	\$22,432,314
Overstatement of Interfund Receivables	(123,664)	0	0
Overstatement of Interfund Payables	0	123,664	0
Understatement of Special Assessment Receivables	0	0	228,661
Restated Fund Balance/Net Assets as of December 31, 2002	<u>\$8,460,324</u>	<u>\$1,654,927</u>	<u>\$22,660,975</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

	General	Other Governmental	Governmental Activities
Net Change in Fund Balances/Net Assets for fiscal year ended December 31, 2002	\$104,904	(\$27,239)	(\$623,310)
Overstatement of Interfund Receivables	(123,664)	0	0
Overstatement of Interfund Payables	0	123,664	0
Understatement of Special Assessment Receivables	0	0	228,661
Adjusted Net Change in Fund Balances/Net Assets for fiscal year ended December 31, 2002	<u>(\$18,760)</u>	<u>\$96,425</u>	<u>(\$394,649)</u>

Note 4 - Budgetary Basis of Accounting

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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	\$2,817,412	\$55
Net Adjustment for Revenue Accruals	(728,403)	0
Beginning Fair Value Adjustments for Investments	77,574	0
Ending Fair Value Adjustment for Investments	(7,465)	0
Advances In	103,589	0
Advances Out	(435,000)	0
Net Adjustment for Expenditures Accruals	(22,804)	(3,370)
Encumbrances	(159,141)	(45,629)
Budget Basis	\$1,645,762	(\$48,944)

Note 5 - Accountability

A. Fund Deficits

Fund balances at December 31, 2003, included the following individual fund deficits:

Capital Projects Funds:	
Pepper Hills Waste Water Treatment Plant	\$98,919
SOM Center Road Sanitary Sewer	63,673
Lander Road Pump Station	197,868

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

Note 6 - Deposits and Investments

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

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits At year end, the carrying amount of the City's deposits was \$770,618 and the bank balance was \$858,525. Of the bank balance:

1. \$241,117 was covered by federal depository insurance.
2. \$617,408 was uncollateralized and uninsured. Although the securities were held by the pledging financial institution's trust department or agent in the financial institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 3	Fair Value
Manuscript Bonds	\$334,051	\$334,051
Federal Home Loan Bank Notes	7,248,065	7,248,065
Federal Home Loan Mortgage Notes	1,003,594	1,003,594
Federal National Mortgage Association Notes	1,001,700	1,001,700
Federal Farm Credit Bank Notes	503,950	503,950
STAROhio		1,048,242
Total Investments	\$10,091,360	\$11,139,602

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$11,576,169	\$334,051
Investments of Cash Management Pool:		
Federal Home Loan Bank Notes	(7,248,065)	7,248,065
Federal Home Loan Mortgage Notes	(1,003,594)	1,003,594
Federal National Mortgage Association Notes	(1,001,700)	1,001,700
Federal Farm Credit Bank Notes	(503,950)	503,950
STAROhio	(1,048,242)	1,048,242
<i>GASB Statement No. 3</i>	\$770,618	\$11,139,602

Note 7 - Receivables

Receivables at December 31, 2003, 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 \$481,886 in the special assessment bond retirement fund. At December 31, 2003 the amount of delinquent special assessments was \$5,777.

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 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

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. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of the true value of inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$9.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$320,521,320
Other Real Estate	31,287,960
Tangible Personal Property	
Public Utility	6,586,980
General Tangible Personal Property	3,055,592
Total Assessed Values	<u><u>\$361,451,852</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Pepper Pike. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2003 follows:

Estate Tax	\$854,350
Homestead and Rollback	189,544
Cents Per Gallon	37,116
Local Government	29,253
Permissive Motor Vehicle License Tax	22,843
Gasoline and Excise Tax	20,638
Auto Regulation	18,676
Liquor Permit Fees	1,100
Total	<u><u>\$1,173,520</u></u>

C. Income Taxes

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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

Note 8 - Interfund Transfers and Balances

Transfers made during the year ended December 31, 2003 were as follows:

Transfer To	Transfer From			Total
	General	South Woodland	Fairmont	
Fire Levy	\$280,000	\$0	\$0	\$280,000
Bond Retirement	0	576,328	524,938	1,101,266
Other Governmental Funds:				
Recycle Ohio Grant	7,958	0	0	7,958
Police Pension	140,000	0	0	140,000
Fire Pension	140,000	0	0	140,000
Total All Funds	\$567,958	\$576,328	\$524,938	\$1,669,224

The general fund transfer to the fire levy special revenue fund was to subsidize the revenue from the 4 mill fire levy which was not sufficient to cover the expenditures in the fire levy fund for 2003. The general fund transfer to the police pension special revenue fund was to subsidize the .3 mill police pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund. The general fund transfer to the fire pension special revenue fund was to subsidize the .3 mill fire pension levy which was not sufficient to cover the City's annual liability with regards to the City's contribution to the pension fund. The general fund transfer to the Recycle Ohio Grant special revenue fund was to pay for the City's share of the 2003 Recycle Ohio Grant used for promoting recycling efforts within the community. The South Woodland capital projects fund transfer to the bond retirement fund was the amount of unused money from the bond issue for the capital projects fund and will be used to cover all future debt service on the outstanding bonds. The Fairmont Boulevard capital projects fund transfer was the amount of unused money from the bond issue for the capital projects fund and will be used to cover all future debt service on outstanding bonds.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

On the fund financial statements interfund balances at December 31, 2003 were:

Interfund Payable	Interfund Receivable General
Nonmajor Capital Projects Funds:	
PepperHills Wasterwater Treatment Plant	\$100,000
SOM Center Road Sanitary Improvement	75,000
Lander Road Pump Station	260,000
<i>Totals</i>	\$435,000

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

Note 9- Contingencies

A. Litigation

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

B. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

Note 10 – Other Employee Benefits

A. Compensated Absences

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

B. Health Insurance

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

Note 11 – Jointly Governed Organization

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2003. Financial information can be obtained by contacting the Treasurer at 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Note 12 - Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

Governmental Activities	<u>Balance</u> 12/31/2002	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/2003
<i>Capital Assets not being Depreciated:</i>				
Land	\$271,350	\$0	\$0	\$271,350
Construction in Progress	0	109,000	0	109,000
Total Capital Assets not being Depreciated	<u>271,350</u>	<u>109,000</u>	<u>0</u>	<u>380,350</u>
<i>Capital Assets being Depreciated:</i>				
Improvements to Land	221,806	0	0	221,806
Buildings and Improvements	4,079,803	0	0	4,079,803
Vehicles	2,213,085	120,865	(172,229)	2,161,721
Furniture, Fixtures and Equipment	1,367,404	114,848	(26,269)	1,455,983
Infrastructure:				
Streets	24,948,429	265,772	0	25,214,201
Bridges	170,770	28,025	0	198,795
Sanitary Sewers	1,813,073	0	0	1,813,073
Total Capital Assets being Depreciated	<u>\$34,814,370</u>	<u>\$529,510</u>	<u>(\$198,498)</u>	<u>\$35,145,382</u>

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Governmental Activities	Balance 12/31/2002	Additions	Deductions	Balance 12/31/2003
Less Accumulated Depreciation:				
Improvements to Land	(\$77,571)	(\$13,238)	\$0	(\$90,809)
Buildings and Improvements	(648,364)	(74,416)	0	(722,780)
Vehicles	(1,613,591)	(240,452)	172,229	(1,681,814)
Furniture, Fixtures and Equipment	(1,010,551)	(232,791)	25,841	(1,217,501)
Infrastructure:				
Streets	(13,425,066)	(1,247,422)	0	(14,672,488)
Bridges	(102,463)	(1,708)	0	(104,171)
Sanitary Sewers	(906,536)	(36,261)	0	(942,797)
Total Accumulated Depreciation	<u>(17,784,142)</u>	<u>(1,846,288) *</u>	<u>198,070</u>	<u>(19,432,360)</u>
Total Capital Assets being Depreciated, Net	<u>17,030,228</u>	<u>(1,316,778)</u>	<u>(428)</u>	<u>15,713,022</u>
Governmental Activities Capital Assets, Net	<u><u>\$17,301,578</u></u>	<u><u>(\$1,207,778)</u></u>	<u><u>(\$428)</u></u>	<u><u>\$16,093,372</u></u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$118,934
Security of Persons and Property	
Police	69,855
Fire	140,568
Transportation	1,285,391
Basic Utility Services	230,598
Community Environment	942
Total Depreciation Expense	<u><u>\$1,846,288</u></u>

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$198,508 \$183,753 and \$178,966 respectively; 92.10 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$1,745 made by the City and \$1,095 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$320,196, \$306,680 and \$281,304 respectively equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 64.65 percent has been contributed for 2003 with the remainder being reported as a liability.

Note 14 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 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 annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$116,087. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund

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

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

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$98,780 for police and \$81,283 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 15 - Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of the City during 2003 follows:

	Principal Outstanding 12/31/2002	Additions	Deletions	Principal Outstanding 12/31/2003	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds					
1997 5.35%					
Brookwood Water	\$745,000	\$0	(\$50,000)	\$695,000	\$50,000
1996 4.00%					
Street Improvement	1,800,000	0	(300,000)	1,500,000	300,000
2001 2.50 %					
Road Improvement	2,695,000	0	(300,000)	2,395,000	300,000
<i>Total General Obligation Bonds</i>	<u>5,240,000</u>	<u>0</u>	<u>(650,000)</u>	<u>4,590,000</u>	<u>650,000</u>
Special Assessment Manuscript Bonds					
1996 5.05%					
Brainard Road Water	29,979	0	(6,950)	23,029	7,301
1996 5.75%					
Brainard Road Water	132,258	0	(6,405)	125,853	6,773
1999 5.75%					
Lander Emerson Road Sewer	68,000	0	(4,000)	64,000	4,000
2001 5.75%					
Kersdale Road Improvement	127,901	0	(6,732)	121,169	6,732
Total Special Assessment Manuscript Bonds	<u>358,138</u>	<u>0</u>	<u>(24,087)</u>	<u>334,051</u>	<u>24,806</u>
Other Long-Term Debt					
1995 0% OPWC Loan	368,258	0	(26,304)	341,954	26,304
Compensated Absences	188,383	30,709	(67,855)	151,237	3,025
<i>Total Governmental Activities</i>	<u>\$6,154,779</u>	<u>\$30,709</u>	<u>(\$768,246)</u>	<u>\$5,417,242</u>	<u>\$704,135</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 the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The Ohio Public Works Commission (OPWC) project is being paid from the bond retirement debt service fund. Compensated absences will be paid from the general fund.

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

On April 15, 1996, the City issued \$3,004,600 in general obligations bonds for the resurfacing of Shaker Boulevard (\$1,145,500) and the resurfacing of Gates Mills Boulevard (\$1,863,100). The bonds were issued for a twenty year period with a final maturity on December 1, 2008.

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

On November 8, 2001, the City issued \$2,995,000 in general obligations bonds for resurfacing Fairmount Boulevard. (\$1,335,000) and South Woodland (\$1,600,000). The bonds were issued for a ten year period with a final maturity on December 1, 2011.

On September 26, 1996, the City issued \$65,200 in manuscript special assessment bonds for the construction of a waterline on Brainard Road. The bonds were issued for a ten year period with a final maturity at September 26, 2006.

On September 26, 1996, the City issued \$164,000 in manuscript special assessment bonds for the construction of a sewer line on Brainard Road. The bonds were issued for a ten year period with a final maturity at September 26, 2006.

On September 1, 1999, the City issued \$79,500 in manuscript special assessment bonds for the construction of a water line on Lander Emerson Road. The bonds were issued for a twenty year period with a final maturity at December 31, 2019.

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

On January 1, 1995, the City issued \$526,579 in OPWC Loans for the installation of a waterline on Pinetree Road. The loan is a twenty year interest free with a final maturity on July 1, 2016.

As of December 31, 2003, the City's overall legal debt margin was \$37,693,473. The unvoted legal debt margin was \$19,620,881. Principal and interest requirements to retire the long-term general obligation bonds, special assessment manuscript bonds and the OPWC loan as of December 31, 2003 are as follows:

	General Obligation Bonds		Special Assessment Bonds		OPWC Loan	Totals
	Principal	Interest	Principal	Interest		
2004	\$650,000	\$188,109	\$24,806	\$17,470	\$26,304	\$906,689
2005	650,000	163,382	25,564	16,214	26,304	881,464
2006	650,000	138,358	26,364	14,912	26,304	855,938
2007	650,000	112,582	18,742	13,563	26,304	821,191
2008	650,000	86,057	19,202	12,593	26,304	794,156
2009-2013	1,145,000	162,488	103,902	47,264	131,521	1,590,175
2014-2018	195,000	25,680	91,276	18,418	78,913	409,287
2019-2021	0	0	24,195	2,125	0	26,320
Total	\$4,590,000	\$876,656	\$334,051	\$142,559	\$341,954	\$6,285,220

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 16 - Outstanding 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, 2003:

Project	Amount Remaining
Sanitary Sewer Point	\$62,832
Concrete Paving	25,702
Landerwood Culvert	6,561
SOM Center Road Sanitary Sewer	10,783
Lander Road Pump Station	53,655
	\$159,533

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 Selective Insurance Company for the following types of insurances:

Type	Deductible	Coverage
Property	\$1,000	\$9,332,072
Boiler and Machinery	1,000	9,332,072
Inland Marine	500	351,094
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement and Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	50,000

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

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

City of Pepper Pike, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 18 - Insurance Purchasing Pool

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

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, 2003, and have issued our report thereon dated May 24, 2004. 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 24, 2004.

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

Betty Montgomery
Auditor of State

May 24, 2004



**Auditor of State
Betty Montgomery**

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 13, 2004**