



Dave Yost • Auditor of State



**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio, as of December 31, 2014, and the respective changes in financial position and the respective budgetary comparisons for the General and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 23, 2015

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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The discussion and analysis of the City of Pepper Pike's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the notes thereof.

### **Financial Highlights**

Key financial highlights for 2014 are as follows:

- The City's net position decreased slightly due mainly to a drop in income taxes receivable resulting from a reduction in income tax withholding amounts and to a drop in intergovernmental receivable resulting from the elimination of the estate tax. The decrease in net position was partially offset by an increase in net capital assets resulting from current year additions outpacing annual depreciation as well as by a reduction in long-term liabilities.
- The City previously implemented a series of cost cutting or cost containment measures to keep expenses from exceeding revenues. Due to unsuccessful attempt for a .5 percent tax increase in August of 2010, the majority of these measures are still in place.
- In 2014, capital asset additions consisted of land, construction in progress for the Meadowlark Street reconstruction project, buildings and improvements, the purchase of various equipment and vehicles, road construction and repairs to Rolling Hills and other major road repairs. Also, the Lander Road reconstruction project and the park restrooms were completed in 2014.
- Outstanding bonded debt decreased during 2014 due to annual debt payments.

### **Using this Annual Financial Report**

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

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

#### *Statement of Net Position and the Statement of Activities*

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

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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***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 8. Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds for 2014 are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund.

*Governmental Funds*

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

*Fiduciary Funds*

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

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

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net position for 2014 as compared to 2013.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

Table 1  
Net Position

	Governmental Activities		
	2014	2013	Change
<b>Assets</b>			
Current and Other Assets	\$23,496,364	\$24,919,773	(\$1,423,409)
Capital Assets, Net	21,157,946	20,015,753	1,142,193
<i>Total Assets</i>	<u>44,654,310</u>	<u>44,935,526</u>	<u>(281,216)</u>
<b>Liabilities</b>			
Current Liabilities and Other Liabilities	729,858	752,590	22,732
Long-term Liabilities			
Due Within One Year	593,031	534,769	(58,262)
Due In More Than One Year	8,111,793	8,273,882	162,089
<i>Total Liabilities</i>	<u>9,434,682</u>	<u>9,561,241</u>	<u>126,559</u>
<b>Deferred Inflows of Resources</b>	<u>3,348,154</u>	<u>3,273,803</u>	<u>(74,351)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	12,872,751	11,693,272	1,179,479
Restricted for:			
Capital Projects	539,109	2,706,673	(2,167,564)
Debt Service	5,879,198	6,157,994	(278,796)
Other Purpose	2,232,154	1,767,175	464,979
Unrestricted	10,348,262	9,775,368	572,894
<i>Total Net Position</i>	<u>\$31,871,474</u>	<u>\$32,100,482</u>	<u>(\$229,008)</u>

Total current and other assets for governmental activities decreased due mainly to a drop in income taxes receivable resulting from a reduction in income tax withholding amounts and to a drop in intergovernmental receivable resulting from the elimination of the estate tax. Net investment in capital assets increased due to additions of land, building and improvements, the purchase of various equipment and vehicles, construction work for the completion of the park restrooms and the Lander Road reconstruction project as well as major road repairs. This increase was partially offset by annual depreciation. The decrease in long-term liabilities was due to the continued pay-down of long-term bonds and OPWC loans. The decrease in long-term liabilities was partially offset by the issuance of OPWC loans during 2014.

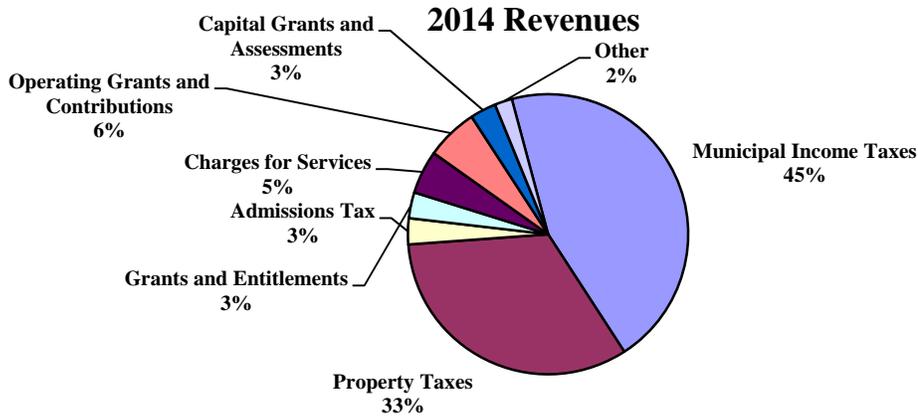
**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2014  
Unaudited

Table 2  
Changes in Net Position

	Governmental Activities		
	2014	2013	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$560,874	\$609,864	(\$48,990)
Operating Grants and Contributions	594,538	556,505	38,033
Capital Grants and Assessments	298,878	1,983,397	(1,684,519)
<i>Total Program Revenues</i>	<u>1,454,290</u>	<u>3,149,766</u>	<u>(1,695,476)</u>
<b>General Revenues</b>			
Property Taxes	3,404,657	3,347,792	56,865
Income Taxes	4,671,127	5,968,424	(1,297,297)
Estate Taxes	0	996,829	(996,829)
Admissions Tax	280,791	289,302	(8,511)
Franchise Tax	80,227	45,896	34,331
Grants and Entitlements	344,737	295,048	49,689
Investment Earnings	10,966	11,349	(383)
Gain on Sale of Capital Assets	38,570	24,596	13,974
Other	148,346	208,012	(59,666)
<i>Total General Revenues</i>	<u>8,979,421</u>	<u>11,187,248</u>	<u>(2,207,827)</u>
<i>Total Revenues</i>	<u>10,433,711</u>	<u>14,337,014</u>	<u>(3,903,303)</u>
<b>Program Expenses</b>			
General Government	1,388,655	1,198,548	(190,107)
Security of Persons and Property	5,087,280	4,185,266	(902,014)
Public Health Services	29,051	28,595	(456)
Community Environment	283,008	282,169	(839)
Basic Utility Services	1,570,186	1,147,862	(422,324)
Transportation	2,001,636	1,944,416	(57,220)
Interest and Fiscal Charges	302,903	321,143	18,240
<i>Total Program Expenses</i>	<u>10,662,719</u>	<u>9,107,999</u>	<u>(1,554,720)</u>
<i>Change in Net Position</i>	(229,008)	5,229,015	(5,458,023)
Net Position Beginning of Year	<u>32,100,482</u>	<u>26,871,467</u>	<u>5,229,015</u>
Net Position End of Year	<u><u>\$31,871,474</u></u>	<u><u>\$32,100,482</u></u>	<u><u>(\$229,008)</u></u>

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

*Governmental Activities*



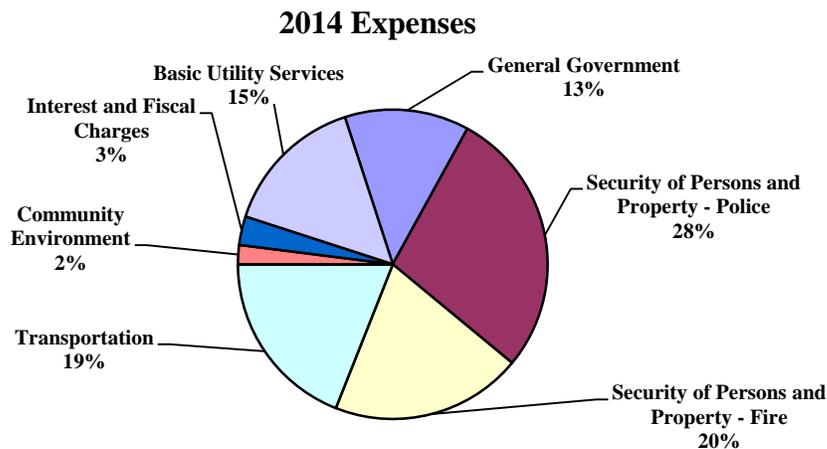
Funding for the governmental activities comes from several different sources, with the most significant being the municipal income tax. Other prominent sources of revenue are property taxes and grants.

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

Charges for services decreased due to lower licenses and permits, fines and forfeitures and charges for services revenues.

Capital grants and assessments decreased significantly in 2014 mainly due to almost \$1,539,000 in intergovernmental monies that were received in 2013 from the City of Cleveland for a waterline project.

Estate taxes were eliminated for 2014.



Expenses increased from 2013 levels. The City's largest program expenditure is security of persons and property which is composed of police and fire. Security of persons and property increased in 2014 mainly due to a greater amount of infrastructure costs being expensed rather than capitalized in 2014.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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General government, basic utility services and transportation expenditures all increased due to changes in collective bargaining along with increases in healthcare provisions.

**The City's Funds**

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

The City's major governmental funds are the general fund, fire levy special revenue fund, bond retirement debt service fund and the capital improvement capital projects fund. Despite a decrease in revenues due to the elimination of estate tax, the general fund had an increase in fund balance during the year as revenues and other financing sources continued to exceed expenditures and other financing uses. The fire levy special revenue fund had an increase in fund balance due to an increase in property taxes and intergovernmental revenue. The City continues to seek out additional sources of revenues to maintain the current level of services. The bond retirement fund had a slight increase in fund balance as revenues continued to outpace expenditures. The capital improvement fund had a significant decrease in fund balance due mainly to a major increase in capital outlay expenditures, as the City continues to make improvements.

*General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted at an object level by City Council. Within each object, appropriations can be transferred between line items with the approval of the Finance Director and the respective department head. Council must approve any revisions in the budget that alter the object level totals or the total appropriations for any department or fund. During the course of 2014, the City amended its general fund budget several times. The Finance Department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

In 2014, the general fund's actual revenue plus other financing sources exceeded the final revenue estimate due to higher than estimated intergovernmental revenue which was partially offset by a drop in municipal income and property taxes. Actual expenditures plus other financing uses were under the final budget due mainly to lower general government expenditures and transfers out to other funds.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

**Capital Assets and Long-term Obligations**

*Capital Assets*

Table 3 shows 2014 balances of Capital Assets as compared to 2013:

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

	Governmental Activities	
	2014	2013
Land	\$770,789	\$751,350
Construction in Progress	28,733	1,380,474
Improvements to Land	136,468	149,007
Buildings and Improvements	2,954,987	2,909,030
Vehicles	747,454	649,615
Furniture, Fixtures and Equipment	642,091	341,508
Infrastructure		
Streets	6,358,937	4,071,111
Bridges and Culverts	75,720	78,302
Sanitary Sewer System	9,442,767	9,685,356
Total Capital Assets	\$21,157,946	\$20,015,753

Governmental capital assets, net of depreciation, increased due to current year additions outpacing annual depreciation. For 2014, primary additions included land, construction in progress for the Meadowlark Street reconstruction project, building and improvements, the purchase of various equipment and vehicles, road construction and repairs to Rolling Hills and other major road repairs. Also, the Lander Road reconstruction project and the park restrooms were completed in 2014. Vehicles such as fire trucks, ambulances, rubbish trucks, etc. are planned for in advance by the respective department heads and a scheduled maintenance and replacement time table is followed to provide peak performance for the life of the asset. Police cars are usually replaced when they have been driven approximately 80,000 miles. The older vehicles are either traded in to the dealers or sold to the highest bidder in the open market.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on one of the main arteries in the City, as mentioned, the City has effectively pursued external sources of funding twenty to thirty percent of the project in the form of grants and loan assistance programs from State Issue II funds thereby reducing the total amount to be borrowed to provide the matching funds. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

**City of Pepper Pike, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

***Outstanding Long-term Obligations***

Table 4 summarizes the long-term obligations outstanding.

Table 4  
 Outstanding Long-term Liabilities at Year End

	Governmental Activities	
	2014	2013
General Obligation Bonds	\$145,000	\$195,000
Special Assessment Bonds	6,603,462	6,960,026
OPWC Loans	1,757,803	1,466,394
Compensated Absences	198,559	187,231
Total	\$8,704,824	\$8,808,651

The bonds and OPWC loans in governmental activities are to finance various improvement projects and will be paid from the bond retirement fund with property taxes and special assessments. The compensated absences category represents accrued sick leave payable to employees and will be paid from the general and fire levy special revenue funds. Additional information concerning the City's long-term obligations can be found in Note 14 to the basic financial statements.

Also, the City has manuscript notes which represent three separate water and sewer improvement issues in the form of manuscript notes issued by the City. Manuscript notes are notes issued and purchased by the City and held until maturity as an investment vehicle whereby the City pays interest to the general fund from the debt service fund. This form of issue avoids the underwriting and insurance costs and is used primarily in projects which require minimal funding. These notes are shown on the balance sheet as interfund receivables/payables between the general fund and the various capital project funds. At year end, the outstanding special assessment manuscript notes were \$92,893. Additional information concerning the City's manuscript debt can be found in Note 15 to the basic financial statements.

**Current Related Financial Activities**

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

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

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

**City of Pepper Pike, Ohio**

*Statement of Net Position*

*December 31, 2014*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,984,401
Accounts Receivable	198,956
Intergovernmental Receivable	462,840
Prepaid Items	44,389
Materials and Supplies Inventory	121,602
Income Taxes Receivable	1,392,990
Property Taxes Receivable	3,474,869
Special Assessments Receivable	5,816,317
Nondepreciable Capital Assets	799,522
Depreciable Capital Assets, Net	<u>20,358,424</u>
<i>Total Assets</i>	<u>44,654,310</u>
<b>Liabilities</b>	
Accounts Payable	41,046
Contracts Payable	167,155
Accrued Wages	72,788
Intergovernmental Payable	224,660
Accrued Interest Payable	24,155
Vacation Benefits Payable	200,054
Long-Term Liabilities:	
Due Within One Year	593,031
Due In More Than One Year	<u>8,111,793</u>
<i>Total Liabilities</i>	<u>9,434,682</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	<u>3,348,154</u>
<b>Net Position</b>	
Net Investment in Capital Assets	12,872,751
Restricted for:	
Capital Projects	539,109
Debt Service	5,879,198
Other Purposes	2,232,154
Unrestricted	<u>10,348,262</u>
<i>Total Net Position</i>	<u><u>\$31,871,474</u></u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2014

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Assessments	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General Government	\$1,388,655	\$74,371	\$0	\$6,050	(\$1,308,234)
Security of Persons and Property:					
Police	2,969,826	157,329	14,591	0	(2,797,906)
Fire	2,117,454	165,100	266,255	0	(1,686,099)
Public Health Services	29,051	2,043	0	0	(27,008)
Community Environment	283,008	15,888	5,101	37,599	(224,420)
Basic Utility Services	1,570,186	64,135	0	0	(1,506,051)
Transportation	2,001,636	82,008	308,591	255,229	(1,355,808)
Interest and Fiscal Charges	302,903	0	0	0	(302,903)
<i>Total Governmental Activities</i>	<u>\$10,662,719</u>	<u>\$560,874</u>	<u>\$594,538</u>	<u>\$298,878</u>	<u>(9,208,429)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	1,546,798
Debt Service	215,832
Fire	1,534,111
Police	107,916
Municipal Income Taxes Levied for General Purposes	4,671,127
Admissions Taxes	280,791
Franchise Taxes	80,227
Grants and Entitlements not Restricted to Specific Programs	344,737
Interest	10,966
Gain on Sale of Capital Asset	38,570
Miscellaneous	148,346

*Total General Revenues* 8,979,421

Change in Net Position (229,008)

*Net Position Beginning of Year* 32,100,482

*Net Position End of Year* \$31,871,474

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2014*

	<u>General</u>	<u>Fire Levy</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and						
Cash Equivalents	\$8,974,138	\$951,555	\$180,773	\$449,012	\$1,428,923	\$11,984,401
Property Taxes Receivable	1,577,189	1,457,535	220,073	0	220,072	3,474,869
Income Taxes Receivable	1,392,990	0	0	0	0	1,392,990
Accounts Receivable	86,261	112,695	0	0	0	198,956
Intergovernmental Receivable	143,630	96,626	14,594	0	207,990	462,840
Interfund Receivable	405,473	0	0	0	0	405,473
Materials and Supplies Inventory	3,390	406	0	0	117,806	121,602
Prepaid Items	44,389	0	0	0	0	44,389
Special Assessments Receivable	0	0	5,723,424	0	92,893	5,816,317
<i>Total Assets</i>	<u>\$12,627,460</u>	<u>\$2,618,817</u>	<u>\$6,138,864</u>	<u>\$449,012</u>	<u>\$2,067,684</u>	<u>\$23,901,837</u>
<b>Liabilities</b>						
Accounts Payable	\$29,839	\$5,163	\$0	\$6,044	\$0	\$41,046
Contracts Payable	13,296	0	0	153,859	0	167,155
Accrued Wages	47,913	24,875	0	0	0	72,788
Intergovernmental Payable	116,243	54,343	0	0	54,074	224,660
Accrued Interest Payable	0	0	0	0	402	402
Interfund Payable	0	0	0	0	405,473	405,473
<i>Total Liabilities</i>	<u>207,291</u>	<u>84,381</u>	<u>0</u>	<u>159,903</u>	<u>459,949</u>	<u>911,524</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	1,519,680	1,404,377	212,049	0	212,048	3,348,154
Unavailable Revenue	1,237,709	249,764	5,746,042	0	240,921	7,474,436
<i>Total Deferred Inflows of Resources</i>	<u>2,757,389</u>	<u>1,654,141</u>	<u>5,958,091</u>	<u>0</u>	<u>452,969</u>	<u>10,822,590</u>
<b>Fund Balances</b>						
Nonspendable	117,414	406	0	0	117,806	235,626
Restricted	0	879,889	180,773	289,109	1,204,070	2,553,841
Assigned	3,910	0	0	0	0	3,910
Unassigned (Deficit)	9,541,456	0	0	0	(167,110)	9,374,346
<i>Total Fund Balances</i>	<u>9,662,780</u>	<u>880,295</u>	<u>180,773</u>	<u>289,109</u>	<u>1,154,766</u>	<u>12,167,723</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$12,627,460</u>	<u>\$2,618,817</u>	<u>\$6,138,864</u>	<u>\$449,012</u>	<u>\$2,067,684</u>	<u>\$23,901,837</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2014*

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**Total Governmental Fund Balances** \$12,167,723

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

Capital assets used in governmental activities are not financial resources and  
 therefore are not reported in the funds. 21,157,946

Other long-term assets are not available to pay for current-period expenditures  
 and therefore are reported as unavailable revenue in the funds:

Delinquent Property Taxes	126,715
Income Taxes	1,047,757
Special Assessments	5,816,317
Intergovernmental	383,667
Charges for Services	99,980

Total 7,474,436

In the statement of activities, interest is accrued on outstanding bonds, whereas  
 in governmental funds, an interest expenditure is reported when due. (23,753)

Vacation benefits payable is not expected to be paid with expendable available  
 financial resources and therefore not reported in the funds. (200,054)

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

General Obligation Bonds	(145,000)
Special Assessment Bonds	(6,603,462)
OPWC Loans	(1,757,803)
Compensated Absences	(198,559)

Total (8,704,824)

*Net Position of Governmental Activities* \$31,871,474

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2014*

	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$1,553,516	\$1,432,286	\$216,770	\$0	\$216,770	\$3,419,342
Municipal Income Taxes	5,344,744	0	0	0	0	5,344,744
Admissions Taxes	280,791	0	0	0	0	280,791
Charges for Services	4,862	152,081	0	0	0	156,943
Fees, Licenses and Permits	281,336	0	0	0	0	281,336
Fines and Forfeitures	31,253	0	0	0	5,000	36,253
Intergovernmental	410,583	251,626	29,179	0	376,141	1,067,529
Special Assessments	0	0	555,465	0	28,628	584,093
Interest	10,622	0	0	0	344	10,966
Rentals	73,347	0	0	0	0	73,347
Contributions and Donations	0	0	0	0	101	101
Franchise Tax	80,227	0	0	0	0	80,227
Other	139,892	0	0	8,454	0	148,346
<i>Total Revenues</i>	<u>8,211,173</u>	<u>1,835,993</u>	<u>801,414</u>	<u>8,454</u>	<u>626,984</u>	<u>11,484,018</u>
<b>Expenditures</b>						
Current:						
General Government	1,055,215	0	8,754	0	0	1,063,969
Security of Persons and Property:						
Police	2,166,700	0	0	0	250,807	2,417,507
Fire	335	1,590,234	0	0	154,389	1,744,958
Public Health Services	29,051	0	0	0	0	29,051
Community Environment	225,924	0	0	0	7,484	233,408
Basic Utility Services	1,170,580	0	0	0	0	1,170,580
Transportation	905,052	0	0	0	96,331	1,001,383
Capital Outlay	0	0	0	3,603,009	226,265	3,829,274
Debt Service:						
Principal Retirement	0	0	473,408	0	0	473,408
Interest and Fiscal Charges	0	0	299,745	0	5,948	305,693
<i>Total Expenditures</i>	<u>5,552,857</u>	<u>1,590,234</u>	<u>781,907</u>	<u>3,603,009</u>	<u>741,224</u>	<u>12,269,231</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,658,316</u>	<u>245,759</u>	<u>19,507</u>	<u>(3,594,555)</u>	<u>(114,240)</u>	<u>(785,213)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	38,570	0	0	0	0	38,570
OPWC Loans Issued	0	0	0	0	359,817	359,817
Transfers In	0	0	0	1,176,991	555,233	1,732,224
Transfers Out	(1,732,224)	0	0	0	0	(1,732,224)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,693,654)</u>	<u>0</u>	<u>0</u>	<u>1,176,991</u>	<u>915,050</u>	<u>398,387</u>
<i>Net Change in Fund Balances</i>	964,662	245,759	19,507	(2,417,564)	800,810	(386,826)
<i>Fund Balances Beginning of Year</i>	<u>8,698,118</u>	<u>634,536</u>	<u>161,266</u>	<u>2,706,673</u>	<u>353,956</u>	<u>12,554,549</u>
<i>Fund Balances End of Year</i>	<u>\$9,662,780</u>	<u>\$880,295</u>	<u>\$180,773</u>	<u>\$289,109</u>	<u>\$1,154,766</u>	<u>\$12,167,723</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2014*

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**Net Change in Fund Balances - Total Governmental Funds** (\$386,826)

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

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

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

Capital Asset Additions	2,373,254	
Current Year Depreciation	<u>(1,225,054)</u>	
Total		1,148,200

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,007)

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

Delinquent Property Taxes	(14,685)	
Income Taxes	(673,617)	
Special Assessments	(322,814)	
Intergovernmental	(90,756)	
Charges for Services	<u>12,995</u>	
Total		(1,088,877)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 473,408

OPWC loans issued are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net position. (359,817)

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

Accrued Interest on Bonds	1,226	
Amortization of Bond Premium	<u>1,564</u>	
Total		2,790

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	(11,328)	
Vacation Benefits Payable	<u>(551)</u>	
Total		<u>(11,879)</u>

*Change in Net Position of Governmental Activities* (\$229,008)

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$1,517,298	\$1,598,298	\$1,553,516	(\$44,782)
Municipal Income Taxes	5,453,439	5,744,569	5,361,357	(383,212)
Admissions Taxes	265,000	279,147	291,035	11,888
Charges for Services	2,000	2,107	4,862	2,755
Fees, Licenses and Permits	333,150	350,935	281,336	(69,599)
Fines and Forfeitures	34,355	36,189	31,011	(5,178)
Intergovernmental	248,548	261,817	690,776	428,959
Interest	11,000	11,587	10,622	(965)
Rentals	60,000	63,203	73,347	10,144
Franchise Tax	65,000	68,470	80,869	12,399
Other	115,100	121,245	140,011	18,766
<i>Total Revenues</i>	<u>8,104,890</u>	<u>8,537,567</u>	<u>8,518,742</u>	<u>(18,825)</u>
<b>Expenditures</b>				
Current:				
General Government	1,130,605	1,091,105	1,060,865	30,240
Security of Persons and Property:				
Police	2,017,527	2,173,027	2,164,617	8,410
Public Health Services	29,238	29,438	29,351	87
Community Environment	238,628	232,128	230,401	1,727
Basic Utility Services	1,120,928	1,195,928	1,192,313	3,615
Transportation	1,108,293	926,493	912,096	14,397
<i>Total Expenditures</i>	<u>5,645,219</u>	<u>5,648,119</u>	<u>5,589,643</u>	<u>58,476</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,459,671</u>	<u>2,889,448</u>	<u>2,929,099</u>	<u>39,651</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	38,570	38,570
Transfers Out	(1,615,000)	(1,792,832)	(1,769,823)	23,009
<i>Total Other Financing Sources (Uses)</i>	<u>(1,615,000)</u>	<u>(1,792,832)</u>	<u>(1,731,253)</u>	<u>61,579</u>
<i>Net Change in Fund Balance</i>	844,671	1,096,616	1,197,846	101,230
<i>Fund Balance Beginning of Year</i>	7,801,232	7,801,232	7,801,232	0
Prior Year Encumbrances Appropriated	45,521	45,521	45,521	0
<i>Fund Balance End of Year</i>	<u>\$8,691,424</u>	<u>\$8,943,369</u>	<u>\$9,044,599</u>	<u>\$101,230</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Levy Fund*  
*For the Year Ended December 31, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$1,397,276	\$1,432,755	\$1,432,286	(\$469)
Charges for Services	150,000	153,809	145,311	(8,498)
Intergovernmental	231,996	237,887	251,626	13,739
Other	0	0	2,961	2,961
<i>Total Revenues</i>	1,779,272	1,824,451	1,832,184	7,733
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	1,639,073	1,600,573	1,593,818	6,755
<i>Net Change in Fund Balance</i>	140,199	223,878	238,366	14,488
<i>Fund Balance Beginning of Year</i>	660,045	660,045	660,045	0
Prior Year Encumbrances Appropriated	42,293	42,293	42,293	0
<i>Fund Balance End of Year</i>	<u>\$842,537</u>	<u>\$926,216</u>	<u>\$940,704</u>	<u>\$14,488</u>

See accompanying notes to the basic financial statements

**City of Pepper Pike, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2014*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$278,381</u></u>
<b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$278,381</u></u>

See accompanying notes to the basic financial statements

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**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

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

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

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

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

The City participates in the Ohio Municipal League Workers’ Compensation Group Rating Program, the Buckeye Ohio Risk Management Agency, the Northeast Ohio Public Energy Council and the Valley Enforcement Regional Council of Governments, which are defined as public entity pools and jointly governed organizations. These organizations are discussed in Notes 16 and 17 to the basic financial statements.

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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***Basis of Presentation***

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

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

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

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

***Fund Accounting***

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

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

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

***Measurement Focus***

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

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

***Basis of Accounting***

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represent receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, intergovernmental grants and ambulance charges. These amounts are deferred and recognized as an inflow of resources in the period the amounts became available.

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

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

***Budgetary Process***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

***Cash and Cash Equivalents***

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

During 2014, the City invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer’s Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s net asset value per share, which is the price the investment could be sold for on December 31, 2014.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2014 amounted to \$10,622, which includes \$2,410 assigned from other City funds.

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

***Inventory***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The

**City of Pepper Pike, Ohio**  
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City maintains a capitalization threshold of two thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

***Interfund Balances***

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

***Compensated Absences***

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

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

***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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***Accrued Liabilities and Long-Term Obligations***

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

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

***Fund Balance***

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

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the

**City of Pepper Pike, Ohio**  
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general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State Statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

***Net Position***

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

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

***Interfund Activity***

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

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

***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.

**City of Pepper Pike, Ohio**  
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**Note 3 - Fund Balances**

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

Fund Balances	General	Fire Levy	Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>						
Inventory	\$3,390	\$406	\$0	\$0	\$117,806	\$121,602
Prepays	44,389	0	0	0	0	44,389
Interfund Loans	69,635	0	0	0	0	69,635
<b><i>Total Nonspendable</i></b>	<b>117,414</b>	<b>406</b>	<b>0</b>	<b>0</b>	<b>117,806</b>	<b>235,626</b>
<b><i>Restricted for</i></b>						
Street Construction, Maintenance and Repair	0	0	0	0	798,459	798,459
Recycle Ohio	0	0	0	0	22,706	22,706
Fire Department	0	879,889	0	0	0	879,889
Police Pension	0	0	0	0	44,840	44,840
Fire Pension	0	0	0	0	18,081	18,081
Beautification	0	0	0	0	10,602	10,602
Law Enforcement	0	0	0	0	6,361	6,361
Emergency Assistance	0	0	0	0	11,727	11,727
Municipal Emergency	0	0	0	0	41,276	41,276
Urban Forestry	0	0	0	0	18	18
Debt Service	0	0	180,773	0	0	180,773
Capital Improvements	0	0	0	289,109	250,000	539,109
<b><i>Total Restricted</i></b>	<b>0</b>	<b>879,889</b>	<b>180,773</b>	<b>289,109</b>	<b>1,204,070</b>	<b>2,553,841</b>
<b><i>Assigned to</i></b>						
Purchases on Order: Purchased/Contracted Services	3,910	0	0	0	0	3,910
<b><i>Unassigned (Deficit)</i></b>	<b>9,541,456</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(167,110)</b>	<b>9,374,346</b>
<b><i>Total Fund Balances</i></b>	<b>\$9,662,780</b>	<b>\$880,295</b>	<b>\$180,773</b>	<b>\$289,109</b>	<b>\$1,154,766</b>	<b>\$12,167,723</b>

**Note 4 – Fund Deficits**

Fund balances at December 31, 2014, included the following individual fund deficits:

***Capital Projects Funds***

Pepper Pike Waste Water Treatment Plant	\$47,334
Northwest Quadrant	24,000
Thornapple Waterline	2,481
Brainard Road Sewerline	25,900
Lander/Emerson Waterline	20,094
Kersdale Road Waterline	47,301

**City of Pepper Pike, Ohio**  
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The Pepper Pike waste water treatment plant, northwest quadrant and Thornapple waterline capital projects funds deficits are caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and fire levy fund.

Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	\$964,662	\$245,759
Net Adjustment for Revenue Accruals	307,569	(3,809)
Net Adjustment for Expenditure Accruals	(51,953)	7,267
Encumbrances	(22,432)	(10,851)
Budget Basis	\$1,197,846	\$238,366

**City of Pepper Pike, Ohio**  
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**Note 6 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

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

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

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$6,008,383 of the City's bank balance of \$11,576,756 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

### **Investments**

At December 31, 2014, the City had \$874,658 invested in STAR Ohio with an average maturity of 50.1 days.

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

### **Note 7 - Receivables**

Receivables at December 31, 2014, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts.

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

**City of Pepper Pike, Ohio**  
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All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$5,383,963 in the bond retirement fund. At December 31, 2014 the amount of delinquent special assessments was \$31,295.

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2014 for real and public utility property taxes represents collections of 2013 taxes.

2014 real property taxes are levied after October 1, 2014 on the assessed value as of January 1, 2014 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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

Public utility personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes which became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$9.50 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2014 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$370,379,560
Other Real Estate	34,442,180
Public Utility Property	<u>7,273,740</u>
Total Assessed Values	<u><u>\$412,095,480</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which are measurable as of December 31, 2014 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2014 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collective delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

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

***Intergovernmental Receivables***

A summary of intergovernmental receivables as of December 31, 2014 follows:

Homestead and Rollback	\$230,405
Gasoline Tax	112,360
Permissive Tax	38,437
Nature Works Grant	37,599
Local Government	33,404
Recycle Ohio Grant	5,000
Shaker Heights Municipal Court	2,115
Ohio Attorney General	1,360
Ohio Bureau of Workers' Compensation	1,298
Cuyahoga County Library	461
IRS	401
Total	<u><u>\$462,840</u></u>

**Note 8 - Contingencies**

***Litigation***

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

***Grants***

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2014.

**City of Pepper Pike, Ohio**  
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**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
<b><i>Capital Assets not being Depreciated</i></b>				
Land	\$751,350	\$19,439	\$0	\$770,789
Construction in Progress	1,380,474	254,997	(1,606,738)	28,733
<b><i>Total Capital Assets not being Depreciated</i></b>	<b><u>2,131,824</u></b>	<b><u>274,436</u></b>	<b><u>(1,606,738)</u></b>	<b><u>799,522</u></b>
<b><i>Capital Assets being Depreciated</i></b>				
Improvements to Land	329,047	0	0	329,047
Buildings and Improvements	4,455,540	138,925	(8,483)	4,585,982
Vehicles	3,420,606	338,023	(204,425)	3,554,204
Furniture, Fixtures and Equipment	1,770,568	406,473	(82,707)	2,094,334
Infrastructure				
Streets	29,675,086	2,822,135	(717,185)	31,780,036
Bridges and Culverts	258,189	0	0	258,189
Sanitary Sewers	12,129,440	0	0	12,129,440
<b><i>Total Capital Assets being Depreciated</i></b>	<b><u>52,038,476</u></b>	<b><u>3,705,556</u></b>	<b><u>(1,012,800)</u></b>	<b><u>54,731,232</u></b>
<b><i>Less: Accumulated Depreciation</i></b>				
Improvements to Land	(180,040)	(12,539)	0	(192,579)
Buildings and Improvements	(1,546,510)	(89,943)	5,458	(1,630,995)
Vehicles	(2,770,991)	(240,184)	204,425	(2,806,750)
Furniture, Fixtures and Equipment	(1,429,060)	(102,908)	79,725	(1,452,243)
Infrastructure				
Streets	(25,603,975)	(534,309)	717,185	(25,421,099)
Bridges and Culverts	(179,887)	(2,582)	0	(182,469)
Sanitary Sewers	(2,444,084)	(242,589)	0	(2,686,673)
<b><i>Total Accumulated Depreciation</i></b>	<b><u>(34,154,547)</u></b>	<b><u>(1,225,054) *</u></b>	<b><u>1,006,793</u></b>	<b><u>(34,372,808)</u></b>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<b><u>17,883,929</u></b>	<b><u>2,480,502</u></b>	<b><u>(6,007)</u></b>	<b><u>20,358,424</u></b>
<b><i>Total Capital Assets, Net</i></b>	<b><u>\$20,015,753</u></b>	<b><u>\$2,754,938</u></b>	<b><u>(\$1,612,745)</u></b>	<b><u>\$21,157,946</u></b>

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

General Government	\$99,829
Security of Persons and Property:	
Police	42,556
Fire	134,135
Community Development	4,937
Basic Utility Services	160,701
Transportation	782,896
<b>Total Depreciation Expense</b>	<b><u>\$1,225,054</u></b>

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

***Compensated Absences***

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

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

***Insurance***

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

Life insurance is provided to full-time employees through Symetra. Full-time employees receive \$20,000 term life coverage. The City pays the total monthly premium.

**Note 11 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which 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 visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

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Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2014, members in state and local classifications contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2014, 2013 and 2012 was \$204,023, \$254,199 and \$220,916, respectively. For 2014, 90.90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. Contributions to the member-directed plan for 2014 were \$1,148 made by the City and \$820 made by plan members.

***Ohio Police and Fire Pension Fund***

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2014, the portion of the City's contribution used to fund pension benefits was 19 percent of covered payroll for police officers and 23.5 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$241,017 and \$149,698 for the year ended December 31, 2014, \$190,495 and \$127,409 for the year ended December 31, 2013, and \$160,520 and \$141,754 for the year ended December 31, 2012. For 2014, 88.63 percent for police and 87.36 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

***Social Security***

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2014, three members of the Architectural Review Board and nine part-time firefighters are covered by Social Security. The City's liability is 6.2 percent of wages paid.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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**Note 12 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS actuary.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2014, 2013 and 2012 was \$34,004, \$19,554 and \$88,367, respectively. For 2014, 90.90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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Changes to the health care plan were adopted by the OPERS Board of Trustees on September 9, 2012, with a transition plan commencing on January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contribution toward the health care fund after the end of the transition period.

***Ohio Police and Fire Pension Fund***

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at [www.opf.org](http://www.opf.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$6,343 and \$3,185 for the year ended December 31, 2014, \$43,376 and \$22,607 for the year ended December 31, 2013, and \$84,981 and \$55,469 for the year ended December 31, 2012. For 2014,

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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88.63 percent for police and 87.36 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

**Note 13 - Risk Management**

*Property and Liability*

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

Type	Deductible	Coverage
Property and Equipment	\$1,000	\$8,503,390
Boiler and Machinery	1,000	8,503,390
Inland Marine	500	483,995
Vehicle	500	1,000,000
General Liability	N/A	1,000,000
EMT Liability	N/A	1,000,000
Law Enforcement	5,000	1,000,000
Public Officials Liability	5,000	1,000,000
Umbrella Liability	N/A	10,000,000
Leased/Rented Equipment	500	75,000
Employee Dishonesty	N/A	100,000
Vehicle Physical Damage	500/1,000	Actual cash value

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

*Workers' Compensation*

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

**Note 14 - Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2014 follows:

	Principal Outstanding 12/31/2013	Additions	Deletions	Principal Outstanding 12/31/2014	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1997 5.35% Brookwood Water Serial Bonds	\$195,000	\$0	(\$50,000)	\$145,000	\$50,000
<b>Special Assessment Bonds</b>					
2007 4.00 - 5.00% Various Purpose Serial Bonds	980,000	0	(155,000)	825,000	155,000
Term Bonds	1,770,000	0	0	1,770,000	0
2008 3.00 - 5.00% Street Improvement Serial Bonds	400,000	0	(50,000)	350,000	50,000
Term Bonds	640,000	0	0	640,000	0
2009 2.00 - 4.13% Street Improvement Serial Bonds	2,930,000	0	(140,000)	2,790,000	145,000
Premium on Bonds	25,026	0	(1,564)	23,462	0
2010 Windy Hill Bonds Serial Bonds	133,000	0	(5,000)	128,000	5,000
2010 Thornapple Bonds Serial Bonds	82,000	0	(5,000)	77,000	5,000
<i>Total Special Assessment Bonds</i>	<u>6,960,026</u>	<u>0</u>	<u>(356,564)</u>	<u>6,603,462</u>	<u>360,000</u>
<b>OPWC Loans</b>					
1996 0% Pinetree Water	78,913	0	(26,305)	52,608	26,304
2007 0% Brainard Road	568,391	0	(42,103)	526,288	42,103
2013 0% Lander Road	819,090	359,817	0	1,178,907	29,473
<i>Total OPWC Loans</i>	<u>1,466,394</u>	<u>359,817</u>	<u>(68,408)</u>	<u>1,757,803</u>	<u>97,880</u>
<b>Other Long-term Obligations</b>					
Compensated Absences	187,231	49,310	(37,982)	198,559	85,151
<i>Total Governmental Activities</i>	<u>\$8,808,651</u>	<u>\$409,127</u>	<u>(\$512,954)</u>	<u>\$8,704,824</u>	<u>\$593,031</u>

General obligation bonds are the direct obligation of the City and will be paid from the bond retirement fund using property tax revenues. Special assessment bonds are paid from the bond retirement fund with special assessments levied against benefited property owners. The Ohio Public Works Commission (OPWC) projects are being paid from the bond retirement debt service fund. Compensated absences will be paid from the general and fire levy special revenue fund.

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

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

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

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

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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

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

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

On April 4, 2007, the City entered into \$842,061 in an OPWC loan to help finance the Brainard Road Relocation project. The loan is a twenty year interest free with a final maturity on January 1, 2027.

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

As of December 31, 2014, the City's overall legal debt margin was \$41,547,995. The unvoted legal debt margin was \$20,943,221. Principal and interest requirements to retire the long-term general obligation bonds, special assessment bonds and the OPWC loans as of December 31, 2014 are as follows:

	General Obligation Bonds		OPWC Loan
	Serial		
	Principal	Interest	
2015	\$50,000	\$7,757	\$97,880
2016	50,000	5,083	127,352
2017	45,000	2,407	101,049
2018	0	0	101,048
2019	0	0	101,048
2020-2024	0	0	505,242
2025-2029	0	0	399,985
2030-2034	0	0	294,726
2035	0	0	29,473
Total	\$145,000	\$15,247	\$1,757,803

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

	Special Assessment Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2015	\$360,000	\$159,750	\$0	\$117,525
2016	375,000	147,226	0	117,525
2017	385,000	133,563	0	117,525
2018	405,000	119,362	0	117,525
2019	410,000	104,207	0	117,525
2020-2024	1,040,000	361,888	1,325,000	476,475
2025-2029	1,182,000	11,175	1,085,000	119,500
2030	13,000	553	0	0
<b>Total</b>	<b>\$4,170,000</b>	<b>\$1,037,724</b>	<b>\$2,410,000</b>	<b>\$1,183,600</b>

**Note 15 - Interfund Transfers and Balances**

*Interfund Transfers*

Transfer To	Transfer From
	General
Major Funds:	
Capital Improvement	\$1,176,991
Other Governmental Funds:	
Police Pension	165,000
Emergency Capital Improvement	250,000
Nature Works	62,529
Lander Road	77,704
Total Other Governmental Funds	555,233
Total	\$1,732,224

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

***Interfund Balances***

On the fund financial statements interfund balances at December 31, 2014 were:

	Receivable		Payable	
	Manuscript Notes	Advances To Other Funds	Manuscript Notes	Advances From Other Funds
General	\$92,893	\$312,580	\$0	\$0
Lander Road	0	0	0	0
Nature Works	0	0	0	37,599
Pepper Pike Wastewater Treatment Plant and East Road	0	0	0	248,500
Brainard Road Sewer	0	0	25,776	0
Lander/Emerson Waterline	0	0	20,000	0
Kersdale Road Waterline	0	0	47,117	0
Northwest Quadrant	0	0	0	24,000
Thornapple Water Main	0	0	0	2,481
<b>Totals</b>	<b>\$92,893</b>	<b>\$312,580</b>	<b>\$92,893</b>	<b>\$312,580</b>

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

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

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

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

The interfund balance in the nature works capital projects fund is due to the timing of the grant receivable for the nature works fund.

The remaining interfund balances at December 31, 2014 were made to support projects in the Pepper Pike wastewater treatment plant and East Road, northwest quadrant and thornapple water main capital projects funds' pending the receipt of assessments and grant monies that will be used to repay the loans.

**Note 16 – Public Entity Pool**

***Insurance Purchasing Pool***

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

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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***Shared Risk Pool***

***Buckeye Ohio Risk Management Agency (BORMA)*** The City participates in the Buckeye Ohio Risk Management Agency (BORMA), a public entity shared risk pool among several cities in Northern Ohio. BORMA was formed as an Ohio not-for-profit corporation and operates a health insurance program. Each member appoints one person to represent the city on the Board of Directors for a term of one year for participation in the health insurance program and three years for participation in the property, crime, and liability insurance program. Each member city's control over the budgeting and financing of BORMA is limited to its voting authority and any representation it may have on the Board of Directors. Participation in BORMA is by written application subject to approval of the Board of Directors and the payment of premiums. Member cities must remain members for cycles of three years. A member may withdraw from a program by giving a forty day notice prior to the beginning of the next cycle. BORMA did not have any outstanding debt obligations as of December 31, 2014. Financial information may be obtained from Arthur J. Gallagher Risk Management Services, Inc., 1500 West Third Street, Suite 405, Cleveland, Ohio 44113.

**Note 17 – Jointly Governed Organizations**

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

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Pepper Pike did not contribute to NOPEC during 2014. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

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

The City is a member of Valley Enforcement Regional Council of Governments ("VERCOG"), a jointly governed organization. VERCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. The operation of the VERCOG is controlled by a general policy board which consists of a representative from each participant. Each member's degree of control is limited to its representation on the board. The City of Pepper Pike did not contribute to VERCOG during 2014.

**City of Pepper Pike, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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**Note 18 – Significant Commitments**

***Contractual Commitments***

As of December 31, 2014, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid to Date	Remaining Contract
Trax Construction	\$1,735,928	\$1,533,928	\$202,000
Ronyak Paving Inc.	493,950	418,191	75,759
	<u>\$2,229,878</u>	<u>\$1,952,119</u>	<u>\$277,759</u>

Remaining commitments were encumbered at year end.

***Encumbrances***

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

<i>Governmental Funds:</i>	
General	\$22,432
Fire Levy	10,851
Capital Improvement	416,477
Other Governmental Funds	143,752
Total	<u>\$593,512</u>

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# Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pepper Pike, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated December 23, 2015.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2014-001 to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

***Entity's Response to Findings***

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 23, 2015

**CITY OF PEPPER PIKE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2014-001</b>
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**Significant Deficiency and Material Noncompliance Finding – Unallowable Transfer**

Ohio Rev. Code § 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Revised Code Section 5705.14, transfers from funds other than the General fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Revised Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Revised Code Section 5705.15.

Included in the 2014 final appropriation measure approved by Council, Ordinance No. 2014-27, was a \$75,000 cash transfer from the Fire Levy Fund to the Fire Pension Fund that was booked in the accounting records and reflected in the financial statements. However, this fund cash transfer is not one of the exceptions that are allowable pursuant to the above requirements. As a result, this fund cash transfer was reversed in the City's accounting records and financial statements.

We recommend the City review the aforementioned Ohio Revised Code provisions on transfers from funds that are allowable and establish procedures to ensure compliance.

**City's Response**

During the 2014 audit, this particular restriction for a transfer from the Fire Levy to the Fire Pension Fund was brought to the attention of City officials by the Auditor of State. While this restriction may seem illogical it is prohibited by state law and was properly corrected. This type of transfer will not occur in 2015 or future years.

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**CITY OF PEPPER PIKE  
 CUYAHOGA COUNTY  
 SCHEDULE OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED DECEMBER 31, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Two funds had negative cash fund balances, contrary to Ohio Rev. Code § 5705.10(l).	Yes	

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# Dave Yost • Auditor of State

CITY OF PEPPER PIKE

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 7, 2016