

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO**

***BASIC
FINANCIAL STATEMENTS
(Audited)***

For The Year Ended
December 31, 2004

MR. KIP MOLENAAR, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Members of City Council and Mayor
City of Mentor-on-the-Lake
5860 Andrews Road
Mentor-on-the-Lake, Ohio 44060

We have reviewed the *Independent Auditor's Report* of the City of Mentor-on-the-Lake, Lake County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Mentor-on-the-Lake is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 7, 2005

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CITY OF MENTOR-ON-THE-LAKE, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Westerville, OH 43802

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Independent Auditor's Report

Members of Council and Mayor
City of Mentor-On-The-Lake
5860 Andrew Road
Mentor-On-The-Lake, Ohio 44060

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County, as of December 31, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and safety forces levy and police levy special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the year ended December 31, 2003. As disclosed in Note 2H., the City increased its capitalization threshold for capital assets.

Members of Council and Mayor
City of Mentor-On-The-Lake
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion in the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The management's discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 1, 2005

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The management's discussion and analysis of the City of Mentor-on-the-Lake's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$724,012.
- General revenues accounted for \$3,124,799 of total governmental activities revenue. Program specific revenues accounted for \$1,076,150 or 25.62% of total governmental activities revenue.
- The City had \$3,476,937 in expenses related to governmental activities; \$1,076,150 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,400,787 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,124,799.
- The City had four major funds consisting of the General fund, Safety Forces Levy special revenue fund, Police Levy special revenue fund, and Andrews Road Construction capital projects fund.
- The general fund had revenues and other financing sources of \$2,301,096 in 2004. This represents an increase of \$148,157 from 2003 revenues. The expenditures and other financing uses of the general fund, which totaled \$2,222,144 in 2004, increased \$85,682 from 2003. The net increase in fund balance for the general fund was \$78,952 or 23.74%.
- The safety forces levy fund had revenues of \$622,523 in 2004, which is an increase of \$94,666 from 2003 revenues. The expenditures in the safety forces levy fund totaled \$641,076 in 2004, which increased \$115,072 from 2003. The net decrease in fund balance was \$18,553, resulting in an ending fund deficit of \$14,080.
- The police levy fund had revenues of \$401,081, which is a decrease of \$5,528 from 2003 revenues. The expenditures totaled \$411,239 increased \$5,309 from 2003 expenditures. The net decrease in fund balance was \$10,158, resulting in an ending fund balance of \$16,534.
- The Andrews Road construction fund revenues decreased \$75,000 from 2003 revenues. The expenditures totaled \$113,781 which is an increase of \$19,857 from 2003 expenditures. The net decrease in fund balance was \$113,781, resulting in an ending fund deficit of \$260,118.
- In the general fund, the actual revenues came in \$63,628 higher than they were in the final budget and actual expenditures were \$128,455 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. There was no change of the original to the final budgeted revenues.

The Basic Financial Statements

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes, special assessments, and intergovernmental revenues including federal and state grants and other shared revenues.

The City's statement of net assets and statement of activities can be found on pages 16-18 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds, and fiduciary funds.

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 focuses on the City's most significant funds. The analysis of the City's major governmental funds begins on page 10.

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 balances 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.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, safety forces levy fund, police levy fund, and Andrews Road construction fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19 - 27 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary is an agency fund. The basic fiduciary fund financial statement can be found on page 28 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29 - 52 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below provides a summary of the City's net assets for 2004:

	Net Assets
	<u>Governmental Activities</u>
<u>Assets</u>	
Current and other assets	\$ 3,708,554
Capital assets, net	<u>2,544,333</u>
Total assets	<u>6,252,887</u>
<u>Liabilities</u>	
Other liabilities	2,892,769
Long-term liabilities outstanding	<u>655,632</u>
Total liabilities	<u>3,548,401</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	2,129,937
Restricted	312,670
Unrestricted	<u>261,879</u>
Total net assets	<u>\$ 2,704,486</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$2,704,486. At year-end, unrestricted net assets were \$261,879.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 40.69% of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$2,129,937 governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

A portion of the City's net assets, \$312,670, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$261,879 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

	<u>Governmental Activities</u>
Revenues	
Program revenues:	
Charges for services	\$ 566,212
Operating grants and contributions	296,275
Capital grants and contributions	<u>213,663</u>
Total program revenues	<u>1,076,150</u>
General revenues:	
Property taxes	1,668,707
Income taxes	735,321
Unrestricted grants and entitlements	695,298
Investment earnings	16,378
Miscellaneous	<u>9,095</u>
Total general revenues	<u>3,124,799</u>
Total revenues	<u>4,200,949</u>
Expenses:	
General government	584,340
Security of persons and property	2,032,863
Public health and welfare	42,062
Transportation	422,517
Utility services	300,454
Leisure time activity	52,146
Other	9,268
Interest and fiscal charges	<u>33,287</u>
Total expenses	<u>3,476,937</u>
Change in net assets	724,012
Net assets at beginning of year (restated)	<u>1,980,474</u>
Net assets at end of year	<u><u>\$ 2,704,486</u></u>

CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$724,012 in 2004. This increase is a result in municipal income taxes and property taxes versus amounts reported in the prior year.

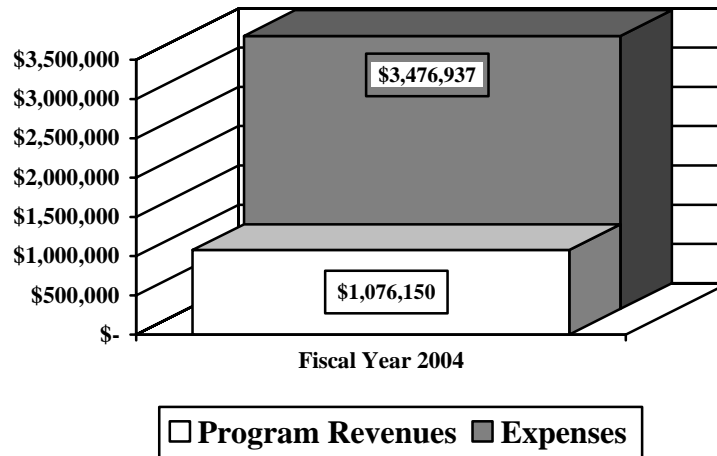
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,032,863 which accounted for 58.47% of the total expenses of the City. These expenses were partially funded by \$128,887 in direct charges to users of the services and \$8,755 in operating grants and contributions. General government expenses totaled \$584,340 which was partially funded by \$118,305 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$296,275 in operating grants and contributions and \$213,663 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received 100% subsidized transportation programs.

General revenues totaled \$3,124,799, and amounted to 74.38% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,404,028. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$695,298.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



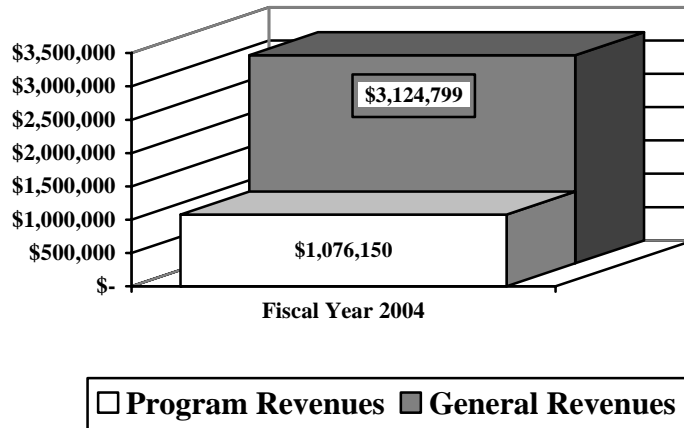
CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Program Expenses:		
General government	\$ 584,340	\$ 466,035
Security of persons and property	2,032,863	1,895,221
Public health and welfare	42,062	24,047
Transportation	422,517	(79,225)
Leisure time activity	52,146	50,891
Utility services	300,454	1,263
Other	9,268	9,268
Interest and fiscal charges	<u>33,287</u>	<u>33,287</u>
 Total Expenses	 <u>\$ 3,476,937</u>	 <u>\$ 2,400,787</u>

The dependence upon general revenues for governmental activities is apparent, with 69.05% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 19 - 20) reported a combined fund balance of \$127,819 which is \$17,397 below last year's total of \$145,216 (as restated). The December 31, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/04</u>	(Restated) Fund Balances <u>12/31/03</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 411,529	\$ 332,577	\$ 78,952
Safety forces levy	(14,080)	4,473	(18,553)
Police levy	16,534	26,692	(10,158)
Andrews Road construction	(260,118)	(146,337)	(113,781)
Other nonmajor governmental funds	<u>(26,046)</u>	<u>(72,189)</u>	<u>46,143</u>

General Fund

The City's general fund balance increased \$78,952, primarily due to increases in tax revenues. The table that follows assists in illustrating the revenues of the general fund.

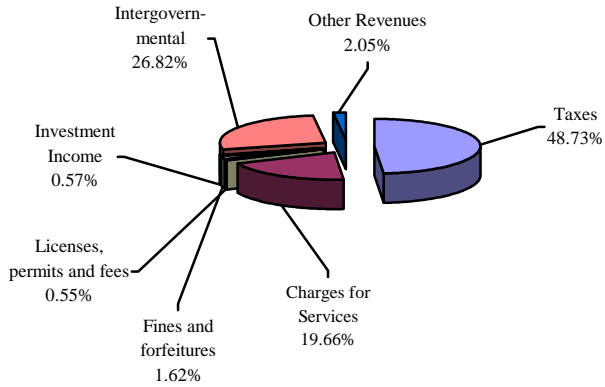
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,117,558	\$ 954,561	17.08 %
Charges for services	450,930	442,945	1.80 %
Licenses and permits	12,618	9,110	38.51 %
Fines and forfeitures	36,938	45,980	(19.67) %
Intergovernmental	615,016	615,276	(0.04) %
Investment income	13,098	11,362	15.28 %
Other	<u>46,987</u>	<u>45,083</u>	4.22 %
 Total	 <u>\$ 2,293,145</u>	 <u>\$ 2,124,317</u>	 7.95 %

Tax revenue represents 48.73% of all general fund revenue. Tax revenue increased due to reappraisal of properties by the County in 2003. All other revenue remained comparable to 2003.

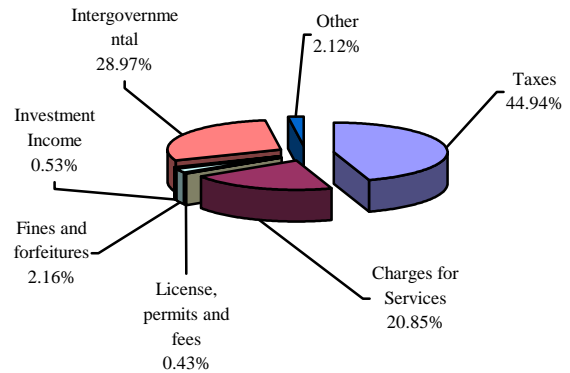
CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Revenues – Fiscal Year 2004



Revenues – Fiscal Year 2003



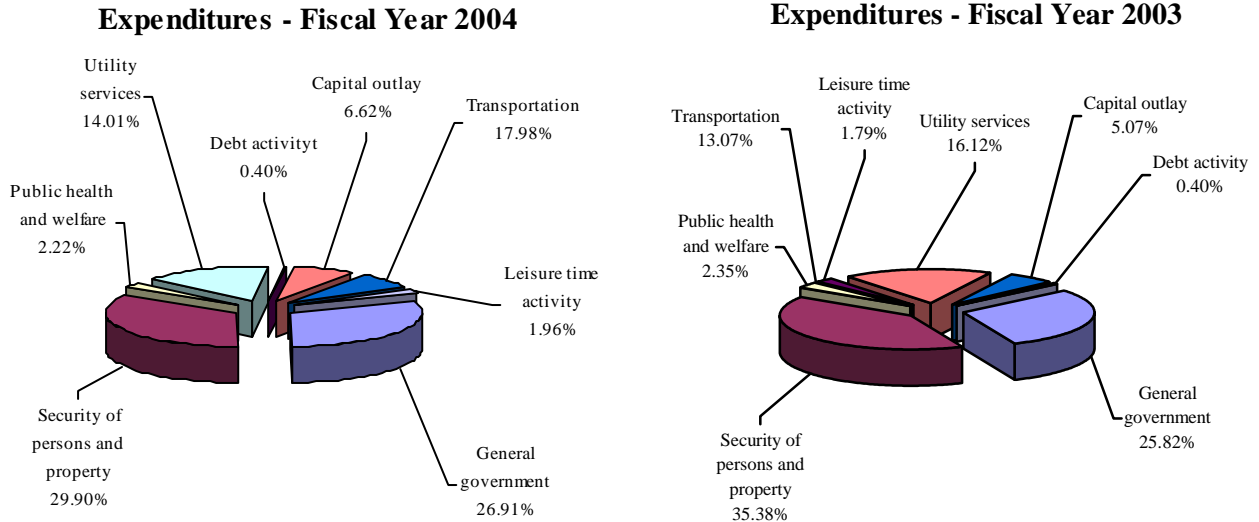
The table that follows assists in illustrating the expenditures of the general fund.

	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 577,276	\$ 519,225	11.18 %
Security of persons and property	641,332	711,536	(9.87) %
Public health and welfare	47,601	47,204	0.84 %
Transportation	385,566	262,887	46.67 %
Leisure time activity	42,095	35,976	17.01 %
Utility services	300,454	324,187	(7.32) %
Capital outlay	142,071	102,294	38.88 %
Debt activity	<u>8,595</u>	<u>7,989</u>	7.59 %
 Total	 <u>\$ 2,144,990</u>	 <u>\$ 2,011,298</u>	 6.65 %

The most significant increase was in the area of transportation. This increase is primarily due to the increase in road projects. All other expenditures remained comparable to 2003. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit controls and overall cost controls in purchased goods and services.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**



Safety Forces Levy Fund

The City's safety forces levy fund, fund balance decreased \$18,553, primarily due to increased expenditures. Revenues increased from \$527,857 in 2003 to \$622,523 in 2004. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures increased from \$526,004 in 2003 to \$641,076, in 2004, due to wage and benefit increases.

Police Levy Fund

The City's police levy fund's fund balance decreased \$10,158, primarily due to increased expenditures. Revenues decreased from \$406,609 in 2003 to \$401,081 in 2004. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$416,548 in 2003 to \$411,239, in 2004, due to decreases in wages and benefits.

Andrews Road Construction Fund

The City's Andrews Road construction fund's fund balance decreased \$113,781, due to construction expenditures funded by note proceeds. Expenditures increased from \$93,924 in 2003 to \$113,781, in 2004.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, safety forces levy fund and police levy fund. In the general fund, there were no significant changes between the original and final budgeted amounts. Actual revenues and other financing sources of \$2,303,158 were more than final budgeted revenues and other financing sources by \$63,628. Actual expenditures and other financing uses of \$2,287,084 came in \$128,455 lower than the final budgeted amounts.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

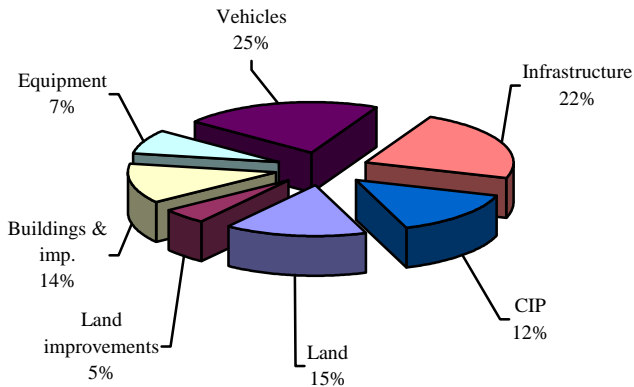
At the end of fiscal 2004, the City had \$2,544,333 (net of accumulated depreciation) invested in land, land improvements, buildings, furniture, fixtures and equipment, vehicles, infrastructure and construction in progress. The following table shows fiscal 2004 balances compared to 2003 (as restated in note 8 to the basic financial statements):

**Capital Assets at December 31
(Net of Depreciation)**

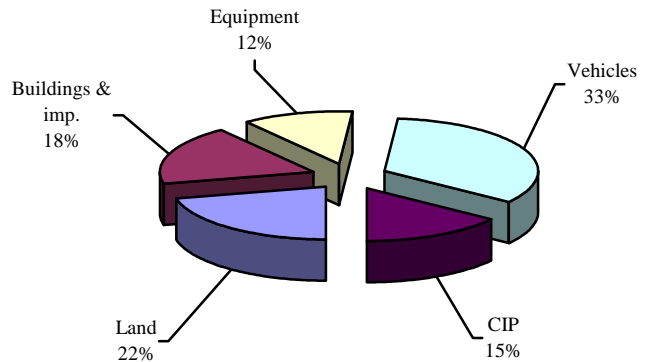
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 382,579	\$ 382,579
Construction-in-progress	349,417	265,018
Land improvements	119,421	-
Buildings	311,036	324,869
Furniture, fixtures and equipment	189,651	208,222
Vehicles	636,819	596,700
Infrastructure	<u>555,410</u>	<u>-</u>
Totals	<u>\$ 2,544,333</u>	<u>\$1,777,388</u>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

**Capital Assets - Governmental Activities
2004**



Capital Assets - Governmental Activities 2003



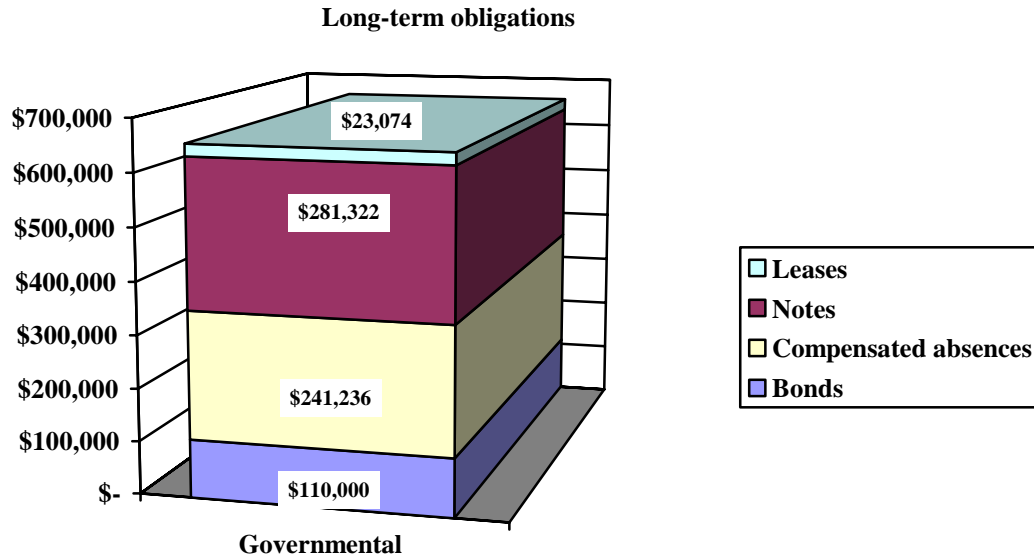
CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Special assessment bonds payable	\$ 110,000	\$ 160,000
Compensated absences	241,236	223,113
Capital lease obligation payable	23,074	27,943
OPWC notes	<u>281,322</u>	<u>308,447</u>
 Total long-term obligations	 <u>\$ 655,632</u>	 <u>\$ 719,503</u>

A comparison of the long-term obligations of 2004 by category is depicted in the chart below.



CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Economic Conditions and Outlook

The City of Mentor-on-the-Lake is a bedroom community with only 19% of our tax base being retail and commercial. We are located approximately twenty-five miles east of Cleveland and we enjoy a Lake Erie shoreline of two and one half miles. The City is 98% developed and all roads are paved with sanitary sewers and waterlines.

For 2004, the word in Columbus was that the State's next biennium budget which begins July 2005 was going to be extremely tight. Our City, as well as others around the State of Ohio, have already felt the affects of the General Assembly reducing the percentage formula due to local governments along with freezing any increases due from economic increases the State may have experienced. That previous position coupled with Mr. Ken Blackwell, Secretary of State, calling for an early termination of the 1% increase in the State's temporary sales tax was cause for concern. Local Government Funds (LGF), represent 25% of the City's general fund. Therefore, our 2004 budget was conservative in that we maintained basic services without any major projects or capital expenditures.

Next fiscal year will be another "provide the basic services" while the State of Ohio tries to bring their fiscal house to order. Much will depend on whether the State eliminates the temporary 1% sales tax, reduces it, or leaves the current revenue source intact. As for other major revenue sources of the City of Mentor-on-the-Lake, our income taxes should see some growth with the near completion of a new 100,000 square foot retail shopping complex which is anchored by a new Marc's store.

The City of Mentor-on-the-Lake was awarded a NOACA grant in 2002 to reconstruct Andrews Road and Lakeshore Blvd. (SR 283) which is the major North/South and East/West arteries in the City. The project is estimated at \$4 million and will provide concrete curb and gutters and storm sewers. Approximately 82% of the project costs have been pledged. Engineering design is currently underway with the Ohio Department of Transportation (ODOT) setting the bid date for December 2006. Upon completion of the project, the improvement should help the future development of approximately three to four acres of undeveloped land zoned for Office District.

The economic health of the State of Ohio will continue to be an important financial factor for the City of Mentor-on-the-Lake. State shared revenues comprise approximately 28% of our operations; so, the City will continue to be very conservative with our budgeting process until stability returns to the State's economic status.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 Mr. Kip Molenaar, Finance Director, City of Mentor-on-the-Lake, 5860 Andrews Road, Mentor-on-the-Lake, Ohio 44060.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities
Assets:	
Equity in pooled cash, cash equivalents and investments.	\$ 1,079,645
Receivables (net of allowances for uncollectibles):	
Property taxes	1,802,308
Income taxes	220,824
Accounts	56,759
Special assessments	120,760
Intergovernmental	412,445
Prepayments	15,813
Capital assets:	
Land and construction-in-progress	731,996
Depreciable capital assets, net.	1,812,337
Total capital assets, net	2,544,333
 Total assets.	 6,252,887
Liabilities:	
Accounts payable.	80,757
Accrued wages and benefits	87,304
Due to other governments	53,698
Deferred revenue.	1,781,545
Accrued interest payable.	9,465
Bond anticipation notes payable.	880,000
Long-term liabilities:	
Due within one year	186,414
Due in more than one year	469,218
Total long-term liabilities.	655,632
Total liabilities	3,548,401
Net assets:	
Invested in capital assets, net of related debt	2,129,937
Restricted for:	
Debt service	153,348
Street construction, maintenance and repairs.	30,691
Fire and safety services.	40,106
Other purposes	88,525
Unrestricted.	261,879
Total restricted net assets.	573,479
Total net assets	\$ 2,704,486

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 584,340	\$ 118,305	\$ -	\$ -
Security of persons and property	2,032,863	128,887	8,755	-
Public health and welfare.	42,062	18,015	-	-
Transportation	422,517	559	287,520	213,663
Leisure time activity	52,146	1,255	-	-
Utility services	300,454	299,191	-	-
Other	9,268	-	-	-
Interest and fiscal charges.	33,287	-	-	-
Total governmental activities	<u>\$ 3,476,937</u>	<u>\$ 566,212</u>	<u>\$ 296,275</u>	<u>\$ 213,663</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Debt service	
Special purposes.	
Income taxes levied for:	
General purposes.	
Grants and entitlements not restricted to specific programs	
Investment earnings.	
Miscellaneous.	
 Total general revenues	
 Change in net assets	
 Net assets at beginning of year (restated)	
 Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

\$	(466,035)
	(1,895,221)
	(24,047)
	79,225
	(50,891)
	(1,263)
	(9,268)
	(33,287)
	<hr/>
	(2,400,787)
	<hr/>

372,889
224
1,295,594

735,321
695,298
16,378
9,095

3,124,799

724,012

1,980,474

\$ 2,704,486

CITY OF MENTOR-ON-THE-LAKE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Andrews Road Construction</u>
Assets:				
Equity in pooled cash, cash equivalents and investments	\$ 411,681	\$ 21,331	\$ 27,362	\$ 212,616
Receivables (net of allowance for uncollectibles):				
Property taxes	382,232	637,429	412,129	-
Income taxes	220,824	-	-	-
Accounts	49,863	-	-	-
Due from other governments	299,087	-	-	-
Special assessments	-	-	-	-
Prepayments	13,205	-	2,465	-
Total assets	<u>\$ 1,376,892</u>	<u>\$ 658,760</u>	<u>\$ 441,956</u>	<u>\$ 212,616</u>
Liabilities:				
Accounts payable.	\$ 38,766	\$ -	\$ 3,008	\$ 28,334
Accrued wages and benefits	45,166	35,411	4,992	-
Due to other governments	6,506	-	5,293	-
Deferred revenue	874,925	637,429	412,129	-
Accrued interest payable	-	-	-	4,400
Bond anticipation notes payable	-	-	-	440,000
Total liabilities	<u>965,363</u>	<u>672,840</u>	<u>425,422</u>	<u>472,734</u>
Fund Balances:				
Reserved for encumbrances.	415,269	-	1,393	44,282
Reserved for prepayments	13,205	-	2,465	-
Reserved for debt service.	-	-	-	-
Unreserved, undesignated (deficit) reported in:				
General fund.	(16,945)	-	-	-
Special revenue funds.	-	(14,080)	12,676	-
Capital projects funds	-	-	-	(304,400)
Total fund balances (deficit).	<u>411,529</u>	<u>(14,080)</u>	<u>16,534</u>	<u>(260,118)</u>
Total liabilities and fund balances.	<u>\$ 1,376,892</u>	<u>\$ 658,760</u>	<u>\$ 441,956</u>	<u>\$ 212,616</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 406,655	\$ 1,079,645
370,518	1,802,308
-	220,824
6,896	56,759
113,358	412,445
120,760	120,760
143	15,813
<u>\$ 1,018,330</u>	<u>\$ 3,708,554</u>
\$ 10,649	\$ 80,757
1,735	87,304
5,524	17,323
582,068	2,506,551
4,400	8,800
440,000	880,000
<u>1,044,376</u>	<u>3,580,735</u>
103,564	564,508
143	15,813
44,013	44,013
-	(16,945)
149,511	148,107
(323,277)	(627,677)
<u>(26,046)</u>	<u>127,819</u>
<u>\$ 1,018,330</u>	<u>\$ 3,708,554</u>

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CITY OF MENTOR-ON-THE-LAKE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 127,819
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,544,333
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 31,104	
Income taxes	172,196	
Charges for services	63,995	
Special assessments	110,000	
Intergovernmental revenues	<u>347,711</u>	
Total		725,006
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Accrued interest payable	665	
Compensated absences	241,236	
Pension obligation	36,375	
Special assessment bonds	110,000	
OPWC Notes	281,322	
Capital lease payable	<u>23,074</u>	
		<u>(692,672)</u>
Net assets of governmental activities		<u><u>\$ 2,704,486</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Andrews Road Construction</u>
Revenues:				
Property taxes	\$ 372,835	\$ 549,835	\$ 356,881	\$ -
Municipal income taxes	744,723	-	-	-
Charges for services	450,930	-	-	-
Licenses and permits.	12,618	-	-	-
Fines and forfeitures	36,938	-	-	-
Intergovernmental	615,016	71,463	43,132	-
Special assessments	-	-	-	-
Investment income	13,098	1,225	598	-
Other	46,987	-	470	-
Total revenues	<u>2,293,145</u>	<u>622,523</u>	<u>401,081</u>	<u>-</u>
Expenditures:				
Current:				
General government	577,276	-	-	-
Security of persons and property	641,332	641,076	411,239	-
Public health and welfare	47,601	-	-	-
Transportation.	385,566	-	-	109,381
Leisure time activity.	42,095	-	-	-
Utility services	300,454	-	-	-
Other	-	-	-	-
Capital outlay	142,071	-	-	-
Debt service:				
Principal retirement.	4,869	-	-	-
Interest and fiscal charges	3,726	-	-	4,400
Total expenditures	<u>2,144,990</u>	<u>641,076</u>	<u>411,239</u>	<u>113,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>148,155</u>	<u>(18,553)</u>	<u>(10,158)</u>	<u>(113,781)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(77,154)	-	-	-
Sale of capital assets	7,951	-	-	-
Total other financing sources (uses).	<u>(69,203)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	78,952	(18,553)	(10,158)	(113,781)
Fund balances (deficit) at beginning of year (restated).				
	<u>332,577</u>	<u>4,473</u>	<u>26,692</u>	<u>(146,337)</u>
Fund balances (deficit) at end of year.	<u>\$ 411,529</u>	<u>\$ (14,080)</u>	<u>\$ 16,534</u>	<u>\$ (260,118)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 320,733	\$ 1,600,284
-	744,723
1,255	452,185
-	12,618
1,500	38,438
583,492	1,313,103
57,849	57,849
1,457	16,378
4,512	51,969
<u>970,798</u>	<u>4,287,547</u>
1,200	578,476
343,260	2,036,907
-	47,601
253,513	748,460
1,739	43,834
-	300,454
9,268	9,268
291,208	433,279
77,125	81,994
24,496	32,622
<u>1,001,809</u>	<u>4,312,895</u>
<u>(31,011)</u>	<u>(25,348)</u>
77,154	77,154
-	(77,154)
-	7,951
<u>77,154</u>	<u>7,951</u>
46,143	(17,397)
(72,189)	145,216
<u>\$ (26,046)</u>	<u>\$ 127,819</u>

CITY OF MENTOR-ON-THE-LAKE, 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, 2004

Net change in fund balances - total governmental funds	\$ (17,397)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$912,790) exceeded depreciation expense (\$129,894) in the current period.	782,896
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(15,951)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(86,598)
Repayment of bond, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	81,994
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(665)
Some expenses reported in the statement of activities, such as compensated absences and pension obligation, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(20,267)</u>
Change in net assets of governmental activities	<u><u>\$ 724,012</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 324,062	\$ 324,062	\$ 329,957	\$ 5,895
Municipal income taxes	730,000	730,000	744,643	14,643
Charges for services	462,900	462,900	453,692	(9,208)
Licenses and permits.	8,120	8,120	10,453	2,333
Fines and forfeitures.	45,000	45,000	38,485	(6,515)
Intergovernmental	614,078	614,078	657,892	43,814
Investment income	12,000	12,000	13,098	1,098
Other	42,320	42,320	50,825	8,505
Total revenues.	<u>2,238,480</u>	<u>2,238,480</u>	<u>2,299,045</u>	<u>60,565</u>
Expenditures:				
Current:				
General government	594,669	581,009	562,222	18,787
Security of persons and property	705,680	705,680	670,289	35,391
Public health and welfare.	49,560	49,560	47,601	1,959
Transportation	417,660	417,660	378,210	39,450
Leisure time activity	50,950	50,950	41,939	9,011
Utility services	304,540	304,540	303,931	609
Capital outlay.	206,630	206,630	190,443	16,187
Total expenditures	<u>2,329,689</u>	<u>2,316,029</u>	<u>2,194,635</u>	<u>121,394</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,209)</u>	<u>(77,549)</u>	<u>104,410</u>	<u>181,959</u>
Other financing sources (uses):				
Other financing uses	(22,350)	(22,350)	(15,295)	7,055
Other financing sources	1,050	1,050	4,113	3,063
Transfers out	(63,500)	(77,160)	(77,154)	6
Total other financing sources (uses)	<u>(84,800)</u>	<u>(98,460)</u>	<u>(88,336)</u>	<u>10,124</u>
Net change in fund balance	(176,009)	(176,009)	16,074	192,083
Fund balance at beginning of year (restated) . . .	352,311	352,311	352,311	-
Prior year encumbrances appropriated	<u>1,769</u>	<u>1,769</u>	<u>1,769</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 178,071</u>	<u>\$ 178,071</u>	<u>\$ 370,154</u>	<u>\$ 192,083</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 SAFETY FORCES LEVY
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 540,677	\$ 540,677	\$ 549,834	\$ 9,157
Intergovernmental	71,463	71,463	71,463	-
Investment income	400	400	1,225	825
Total revenues.	<u>612,540</u>	<u>612,540</u>	<u>622,522</u>	<u>9,982</u>
Expenditures:				
Current:				
Security of persons and property	<u>616,840</u>	<u>616,840</u>	<u>605,795</u>	<u>11,045</u>
Total expenditures	<u>616,840</u>	<u>616,840</u>	<u>605,795</u>	<u>11,045</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,300)</u>	<u>(4,300)</u>	<u>16,727</u>	<u>21,027</u>
Other financing uses:				
Other financing uses	<u>(6,050)</u>	<u>(6,050)</u>	<u>(5,768)</u>	<u>282</u>
Total other financing uses	<u>(6,050)</u>	<u>(6,050)</u>	<u>(5,768)</u>	<u>282</u>
Net change in fund balance	(10,350)	(10,350)	10,959	21,309
Fund balance at beginning of year	<u>10,371</u>	<u>10,371</u>	<u>10,371</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21,330</u>	<u>\$ 21,309</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE LEVY
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 348,276	\$ 355,276	\$ 356,881	\$ 1,605
Intergovernmental	43,132	43,132	43,132	-
Investment income	800	800	598	(202)
Total revenues.	392,208	399,208	400,611	1,403
Expenditures:				
Current:				
Security of persons and property	424,555	431,554	408,936	22,618
Total expenditures	424,555	431,554	408,936	22,618
Excess (deficiency) of revenues over (under) expenditures	(32,347)	(32,346)	(8,325)	24,021
Other financing sources (uses):				
Other financing sources.	-	-	470	470
Other financing uses	(4,000)	(4,000)	(3,668)	332
Total other financing sources (uses)	(4,000)	(4,000)	(3,198)	802
Net change in fund balance	(36,347)	(36,346)	(11,523)	24,823
Fund balance at beginning of year	33,957	33,957	33,957	-
Prior year encumbrances appropriated	2,554	2,554	2,554	-
Fund balance at end of year.	\$ 164	\$ 165	\$ 24,988	\$ 24,823

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 91,916
Total assets.	<u>\$ 91,916</u>
Liabilities:	
Undistributed monies	\$ 91,916
Total liabilities	<u>\$ 91,916</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Mentor-On-The-Lake, Ohio (the “City”) functions as a home-rule City in accordance with Article XVIII of the Constitution of the State of Ohio under a city charter originally adopted on January 1, 1967. The City operates under a Council-Mayor form of government. The City provides the following services: public safety, highways and streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City’s BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization’s governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s basic financial statements to be misleading or incomplete.

The primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, and planning and zoning. Council and the City Manager are directly responsible for these activities. The accompanying financial statements present the City, which has no component units.

B. Basis of Presentation - Fund Accounting

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

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, and the general administration of City functions.

Safety Forces Levy Fund - The safety forces levy fund accounts for all transactions relating to the tax levy revenues related to the safety forces tax levy and related expenses.

Police Levy Fund - The police levy fund accounts for all transactions relating to the police tax levy and related expenses.

Andrews Road Construction Fund - The Andrews Road construction fund accounts for all activity related to the Andrews Road construction project, including the bond anticipation note and construction expenses.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; and (b) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no proprietary funds.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund includes refundable deposit accounts.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue 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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. 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 certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund and department, (i.e. police) level, for the General fund and the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2004.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund and department level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund, department appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City's funds, except cash held by a fiscal agent, are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio).

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

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2004 amounted to \$13,098, which included \$7,800 assigned from other funds of the City.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For purpose of presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

For presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City changed the capitalization threshold from \$500 to \$3,500, see Note 8 for details. The City's infrastructure consists of roads and storm sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported 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>Governmental Activities Estimated Lives</u>
Improvements to land	20 years
Buildings	30 - 50 years
Equipment	10 - 40 years
Vehicles	6 - 25 years
Infrastructure	25 - 50 years

I. Compensated Absences

The City follows the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences". Vacation and compensatory time 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 City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time and compensatory time when earned for all employees with more than one year of service.

Sick leave benefits are accrued using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. There were no short term compensated absences payable at December 31, 2004. The noncurrent portion of the liability is not reported.

J. Prepaid Items

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

K. 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, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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/expenses to the funds that initially paid for them are not presented on the BFS.

M. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, and debt service in the governmental fund financial statements.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

P. Extraordinary Item

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41 and GASB Interpretation No. 6.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the government not being able to present budgetary comparison for the general and each major special revenue fund.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified from expendable trust and agency funds to general and special revenue funds to reflect their intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had no effect on fund balances as previously reported at December 31, 2003.

	<u>General</u>	Safety Forces <u>Levy</u>	Police <u>Levy</u>	Andrews <u>Road</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance						
December 31, 2003	\$ 313,768	\$ 4,473	\$ 26,692	\$(146,337)	\$ (75,510)	\$ 123,086
Fund reclassifications	<u>18,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,321</u>	<u>22,130</u>
Restated fund balance						
January 1, 2004	<u>\$ 332,577</u>	<u>\$ 4,473</u>	<u>\$ 26,692</u>	<u>\$(146,337)</u>	<u>\$ (72,189)</u>	<u>\$ 145,216</u>

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>Total</u>
Resated fund balance, December 31, 2003	\$ 145,216
GASB Statement No. 34 adjustments:	
Capital assets	1,777,388
Long-term liabilities	(753,734)
Long-term (deferred assets)	<u>811,604</u>
Governmental activities net assets, December 31, 2003	<u>\$ 1,980,474</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Retained Earnings

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

<u>Major Fund</u>	<u>Deficit</u>
Safety Forces Levy	\$ 14,080
<u>Nonmajor Funds</u>	
OPWC - Reynolds Road	141,400
Andrews Road Reconstruction	260,118
Recreation capital projects	21,982
OPWC - Holly Drive	171,700
OPWC - Weber Area	33,979

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classifications of funds held by the City into three categories.

Category 1 consists of active funds - those funds required to be kept in a cash or cash equivalent status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of inactive funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of interim funds - those funds that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency, or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, city, county, township, or other political subdivision of this State, as to which there is no default principal, interest or coupons;
3. Obligations to 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. Historically, the City has not purchased these types of investments or issued these types of notes. 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.

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

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 the transfer from the custodian.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Category 3 - Uncollateralized

Investments:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

A. Deposits

At year-end the carrying amount of the City's deposits were \$560,928 and the bank balance was \$667,054. Of the bank balances:

1. \$200,000 was covered by federal depository insurance; and
2. \$467,054 was uninsured and uncollateralized as defined by GASB 3. This was secured by collateral pools pledged by third-party trustees pursuant to Ohio Revised Code Section 135.181. Although all State statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Cash on Hand: At year-end, the County had \$710 in undeposited cash on hand which is included on the financial statements of the County as part of "Equity in Pooled Cash and Cash Equivalents."

B. Investments

Investments in the STAR Ohio are not evidenced by securities that exist in physical or book entry form and therefore, are not categorized as to the level of risk assumed by the City. The City's investments at December 31, 2004 are summarized below:

	<u>Carrying Amount</u>	<u>Fair Value</u>
STAR Ohio	\$ 609,923	\$ 609,923
Total investments	<u>\$ 609,923</u>	<u>\$ 609,923</u>

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,171,561	\$ -
Investments of the cash management pool:		
STAR Ohio	(609,923)	609,923
Cash on hand	<u>(710)</u>	<u>-</u>
 GASB Statement No. 3	 <u>\$ 560,928</u>	 <u>\$ 609,923</u>

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) are collected in one calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the county auditor at 35% of appraised market value. All property is required to be reappraised every three years. The last reappraisal was completed in 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at between 25% and 50% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 5 - TAXES - (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Mentor-On-The-Lake. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2004, was \$24.00 per \$1,000 of assessed value. The assessed value for 2003 was \$139,556,175. This amount constitutes \$133,534,900 in real property assessed value, \$3,960,580 in public utility assessed value and \$2,060,695 in tangible personal property assessed value.

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

B. Income Tax

The City levies a tax of 2% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes to residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee's compensation and remit the tax to the City either monthly or quarterly. Corporation and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2004 was \$744,723.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$1,802,308
Income taxes	220,824
Accounts	56,759
Special assessments	120,760
Due from other governments	412,445

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental Funds from:	
General Fund	<u>\$ 77,154</u>
Total	<u><u>\$ 77,154</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of infrastructure in governmental activities and due to an increase in the capital asset threshold from \$500 to \$3,500 and the reporting of errors and omissions in the prior year in governmental activities.

	Balance <u>12/31/03</u>	<u>Adjustments</u>	Restated Balance <u>12/31/03</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 393,758	\$ (11,179)	\$ 382,579
Construction in progress	<u>-</u>	<u>265,018</u>	<u>265,018</u>
Total capital assets, not being depreciated	<u>393,758</u>	<u>253,839</u>	<u>647,597</u>
<i>Capital assets, being depreciated:</i>			
Buildings	600,100	-	600,100
Furniture, fixtures and equipment	931,824	(580,918)	350,906
Vehicles	<u>1,050,936</u>	<u>-</u>	<u>1,050,936</u>
Total capital assets, being depreciated	<u>2,582,860</u>	<u>(580,918)</u>	<u>2,001,942</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(872,151)</u>	<u>(872,151)</u>
Governmental activities capital assets, net	<u><u>\$ 2,976,618</u></u>	<u><u>\$ (1,199,230)</u></u>	<u><u>\$ 1,777,388</u></u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	(Restated)			
	Balance			Balance
<u>Governmental Activities:</u>	<u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 382,579	\$ -	\$ -	\$ 382,579
Construction in progress	<u>265,018</u>	<u>231,373</u>	<u>(146,974)</u>	<u>349,417</u>
Total capital assets, not being depreciated	<u>647,597</u>	<u>231,373</u>	<u>(146,974)</u>	<u>731,996</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	-	124,613	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	350,906	6,620	(15,000)	342,526
Vehicles	1,050,936	131,565	(81,699)	1,100,802
Infrastructure:				
Roads	-	207,003	-	207,003
Storm sewers	<u>-</u>	<u>358,590</u>	<u>-</u>	<u>358,590</u>
Total capital assets, being depreciated	<u>2,001,942</u>	<u>828,391</u>	<u>(96,699)</u>	<u>2,733,634</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	-	(5,192)	-	(5,192)
Buildings	(275,231)	(13,833)	-	(289,064)
Furniture, fixtures and equipment	(142,684)	(23,567)	13,376	(152,875)
Vehicles	(454,236)	(77,119)	67,372	(463,983)
Infrastructure:				
Roads	-	(5,903)	-	(5,903)
Storm sewers	<u>-</u>	<u>(4,280)</u>	<u>-</u>	<u>(4,280)</u>
Total accumulated depreciation	<u>(872,151)</u>	<u>(129,894)</u>	<u>80,748</u>	<u>(921,297)</u>
Total capital assets, being depreciated, net	<u>1,129,791</u>	<u>698,497</u>	<u>(15,951)</u>	<u>1,812,337</u>
Governmental activities capital assets, net	<u>\$ 1,777,388</u>	<u>\$ 929,870</u>	<u>\$ (162,925)</u>	<u>\$ 2,544,333</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 5,056
Security of persons and property	80,806
Transportation	10,183
Leisure time activities	8,312
Public health	<u>25,537</u>
Total depreciation expense - governmental activities	<u>\$ 129,894</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2003, the City entered into a capitalized lease for the acquisition of a skid steer. In previous years, the City entered into a capitalized lease for the acquisition of a 911 Recording System. These leases met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the General fund. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized on the statement of net assets in the amount of \$38,375. This amount represents the present value of the minimum lease payments at the time of the acquisitions. A corresponding liability of \$23,074 was recorded in the statement of net assets. Principal payments in fiscal year 2004 totaled \$4,869 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum payments as of December 31, 2004:

<u>Year Ending</u> <u>December 31,</u>	<u>Skid Steer</u>	<u>911</u>
2005	\$ 4,677	\$ 3,348
2006	4,677	1,953
2007	4,677	-
2008	<u>4,677</u>	<u>-</u>
Total future minimum lease payments	18,708	5,301
Less: amount representing interest	<u>(565)</u>	<u>(370)</u>
Present value of net minimum lease payments	<u>\$ 18,143</u>	<u>\$ 4,931</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2004 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 9.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 12.70% was the portion used to fund pension obligations for 2004. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS to fund pensions for the years ended December 31, 2004, 2003, and 2002 were \$134,508, \$132,810, and \$129,285, respectively; 100% has been contributed for 2004, 2003, and 2002.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002 were \$154,520, \$155,762, and \$150,564, respectively; 76% has been contributed for 2004 and 100% for the years 2003 and 2002. \$36,375, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care.

The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$61,659.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2003 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively, at December 31, 2003 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2003 (the latest information available) was 369,885.

In December 2002, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage.

Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2004, Comprehensive Annual Financial Report.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), is 13,662 for police officers and 10,474 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters was \$61,659. OP&F's total health care expense for the year ending December 31, 2003 (the latest information available), was \$150.853 million, which was net of member contributions of \$17.207 million.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

City employees may participate in the Ohio Municipal League Master Deferred Compensation Plan, through The Ohio Public Employees Deferred Compensation Program, The Aetna Life Insurance and Annuity Company or The Equitable Financial Companies Deferred Compensation Plan, in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

B. Compensated Absences

Employees earn vacation and sick leave at varying rates depending on the duration of employment. Vacation leave can be carried over for use in the following year. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees in the paycheck for the period in which it was earned, or it may be taken in the form of compensatory time, not to exceed 48 hours for non-union employees, 60 hours for union employees and 50 hours for full-time firemen.

Upon retirement or death employees are paid one-half of their leave balance, not to exceed a maximum of 480 hours of sick leave, except fire department employees who can receive a maximum of 600 hours of sick leave pay. Upon retirement, termination, or death of the employee all accrued vacation and compensatory time is paid.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

The current portion of unpaid compensated absences, for governmental funds, is recorded as a current liability in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported on the statement of net assets.

NOTE 13 - LONG-TERM OBLIGATIONS

- A. The balance of the City's governmental activities long-term obligations at December 31, 2003 has been restated. Police and Fire pension is no longer included as a long-term liability. The effect on the total governmental activities long-term obligations at January 1, 2004 was an decrease of \$34,231 from \$753,734 to \$719,503. During the fiscal year 2004, the following changes occurred in the City's governmental long-term obligations:

Governmental Activities:	<u>Interest</u> <u>Rate</u>	<u>Balance at</u> <u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>12/31/04</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Special Assessment Bonds:</u>						
Lakeway Street Improvement	7.25%	\$ 160,000	\$ -	\$ (50,000)	\$ 110,000	\$ 55,000
Total special assessment bonds		<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 110,000</u>	<u>\$ 55,000</u>
<u>Notes:</u>						
1996 15 year OPWC 93 (Salida Rd.)	0%	\$ 77,114	\$ -	\$ (11,017)	\$ 66,097	\$ 11,017
1996 20 year OPWC 94 (Harbor Creek)	0%	107,583	-	(8,608)	98,975	8,608
1996 20 year OPWC 99 (Reynolds Rd.)	0%	<u>123,750</u>	<u>-</u>	<u>(7,500)</u>	<u>116,250</u>	<u>7,500</u>
Total general obligation debt		<u>\$ 308,447</u>	<u>\$ -</u>	<u>\$ (27,125)</u>	<u>\$ 281,322</u>	<u>\$ 27,125</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences	N/A	\$ 223,113	\$ 18,123	\$ -	\$ 241,236	101,255
Capital lease obligations		<u>27,943</u>	<u>-</u>	<u>(4,869)</u>	<u>23,074</u>	<u>3,034</u>
Total other long-term obligations		<u>\$ 251,056</u>	<u>\$ 18,123</u>	<u>\$ (4,869)</u>	<u>\$ 264,310</u>	<u>\$ 104,289</u>
Total governmental activities long-term obligations		<u>\$ 719,503</u>	<u>\$ 18,123</u>	<u>\$ (81,994)</u>	<u>\$ 655,632</u>	<u>\$ 186,414</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire long-term bond obligations and notes outstanding at December 31, 2004 are as follows:

<u>Year</u>	<u>Special Assessment</u>		<u>OPWC Notes</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ 55,000	\$ 7,975	\$ 27,125
2006	55,000	3,988	27,125
2007	-	-	27,124
2008	-	-	27,124
2009	-	-	27,124
2010 - 2014	-	-	91,540
2015 - 2019	-	-	50,410
2020	-	-	3,750
Total	<u>\$110,000</u>	<u>\$ 11,963</u>	<u>\$ 281,322</u>

B. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$14,697,411 and \$7,719,603, respectively, at December 31, 2004.

NOTE 14 - NOTES PAYABLE

The City had the following outstanding bond anticipation note at December 31, 2004:

	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>
	<u>Rate</u>	<u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>
Various Purpose Improvements					
Bond Anticipation Note	1.12%	\$ 845,000	\$ -	\$ (845,000)	\$ -
Various Purpose Improvements					
Bond Anticipation Note	2.0%	-	880,000	-	880,000
Total Notes Payable		<u>\$ 845,000</u>	<u>\$ 880,000</u>	<u>\$ (845,000)</u>	<u>\$ 880,000</u>

The City issued \$845,000 in bond anticipation notes during 2003 to fund a portion of the cost of improving state route 283, to pay a portion of the costs of acquiring certain real estate and to pay a portion of costs to improve Holly Drive. The proceeds were recorded in the Capital Projects funds. The notes have a 2.0% interest rate and are scheduled to mature on June 30, 2005.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 15 - CONTINGENT LIABILITIES

A. Grants

The City receives financial assistance from numerous 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

B. Litigation

The City has various matters that are pending, however, none of which will have a material adverse affect on the City as disclosed by the City's legal counsel.

NOTE 16 - RISK MANAGEMENT

The City is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the City to the commercial company. The City continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in insurance from prior year.

The City participates in the Ohio Municipal League public risk pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

CITY OF MENTOR-ON-THE-LAKE

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	<u>General</u>	Safety Forces <u>Levy</u>	Police <u>Levy</u>
Budget basis	\$ 16,074	\$ 10,959	\$ (11,523)
Net adjustment for revenue accruals	(5,900)	1	470
Net adjustment for expenditure accruals	8,119	(35,281)	(4,677)
Net adjustment for other sources/uses	19,133	5,768	3,198
Adjustment for encumbrances	<u>41,526</u>	<u>-</u>	<u>2,374</u>
GAAP basis	<u>\$ 78,952</u>	<u>\$ (18,553)</u>	<u>\$ (10,158)</u>

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road West
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of Council and Mayor
City of Mentor-On-The-Lake
5860 Andrew Road
Mentor-On-The-Lake, Ohio 44060

We have audited the financial statements consisting of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County (the “City”), as of and for the year ended December 31, 2004, which collectively comprise the City of Mentor-On-The-Lake’s basic financial statements and have issued our report thereon dated June 1, 2005. During the year ended December 31, 2004, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. As disclosed in Note 2.H., the City increased its capitalization threshold for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of Council and Mayor
City of Mentor-On-The-Lake

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the City of Mentor-On-The-Lake, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 1, 2005

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-MOL-001	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	Yes	N/A



**Auditor of State
Betty Montgomery**

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Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**CITY OF MENTOR-ON-THE-LAKE
LAKE 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
AUGUST 4, 2005**