

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

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

For The Year Ended  
December 31, 2006

**MR. KIP MOLENAAR, DIRECTOR OF FINANCE**





Mary Taylor, CPA  
Auditor of State

Members of 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, 2006 through December 31, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 18, 2007

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**CITY OF MENTOR-ON-THE-LAKE  
 BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate 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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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, Ohio as of December 31, 2006, and the respective changes in financial position, and the respective budgetary comparison for the general fund, safety forces levy, police levy and fire levy special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the results of our audit.

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

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

Julian & Grube, Inc  
May 30, 2007



## CITY OF MENTOR-ON-THE-LAKE, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (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, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$502,159.
- General revenues accounted for \$3,391,130 or 74.06% of total governmental activities revenue. Program specific revenues accounted for \$1,187,682 or 25.94% of total governmental activities revenue of \$4,578,812.
- The City had \$4,076,653 in expenses related to governmental activities; \$1,187,682 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,888,971 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,391,130.
- The City had five major funds consisting of the General fund, Safety Forces Levy special revenue fund, Police Levy special revenue fund, Fire Levy special revenue fund, and Andrews Road Construction capital projects fund.
- The general fund had revenues and other financing sources of \$2,526,884 in 2006. This represents an increase of \$211,400 from 2005 revenues. The expenditures and other financing uses of the general fund, which totaled \$2,333,724 in 2006, increased \$37,234 from 2005. The net increase in fund balance for the general fund was \$193,160 or 47.58%.
- The Safety Forces Levy fund had revenues of \$643,551 in 2006, which is a decrease of \$8,159 from 2005 revenues. The expenditures in the safety forces levy fund totaled \$651,351 in 2006, which increased \$11,872 from 2005. The net decrease in fund balance was \$7,800, resulting in an ending fund deficit of \$9,649.
- The Police Levy fund had revenues of \$430,131, which is a decrease of \$2,667 from 2005 revenues. The expenditures totaled \$483,936 in 2006, which increased \$73,770 from 2005 expenditures. The net decrease in fund balance was \$53,805, resulting in an ending fund deficit of \$14,639.
- The Fire Levy fund had revenues of \$344,134, which is a decrease of \$785 from 2005 revenues. The expenditures totaled \$360,239 in 2006, which increased \$12,069 from 2005 expenditures. The net decrease in fund balance was \$16,105, resulting in an ending fund deficit of \$5,282.
- The Andrews Road Construction fund had revenues and other financing sources of \$134,960, which is an increase of \$126,160 from 2005 revenues. The expenditures totaled \$531,262 which is an increase of \$477,579 from 2005 expenditures. The net decrease in fund balance was \$396,302, resulting in an ending fund deficit of \$701,303.
- In the general fund, the actual revenues came in \$65,486 higher than they were in the final budget and actual expenditures were \$166,634 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. The final budget revenues came in \$137,299 higher than they were in the original budget and final budget expenditures were \$16,000 lower than the amount in the original budget.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**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.

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 2006?" 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

***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.

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, fire 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 - 28 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 29 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 30 - 53 of this report.

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2006 and 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Net Assets**

	2006	2005
	Governmental	Governmental
	<u>Activities</u>	<u>Activities</u>
<u>Assets</u>		
Current and other assets	\$ 3,879,218	\$ 3,558,644
Capital assets, net	<u>3,661,778</u>	<u>2,986,929</u>
Total assets	<u>7,540,996</u>	<u>6,545,573</u>
<u>Liabilities</u>		
Other liabilities	3,288,092	2,756,375
Long-term liabilities outstanding	<u>721,072</u>	<u>759,525</u>
Total liabilities	<u>4,009,164</u>	<u>3,515,900</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,264,185	2,491,963
Restricted	315,734	301,947
Unrestricted (deficit)	<u>(48,087)</u>	<u>235,763</u>
Total net assets	<u>\$ 3,531,832</u>	<u>\$ 3,029,673</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$3,531,832. At year-end, unrestricted net assets were a deficit of \$48,087 which is a decrease of \$283,850 from 2005.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 48.56% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$3,264,185 for 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.

A portion of the City's net assets, \$315,734 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 is a deficit of \$48,087.

The table below shows the changes in net assets for fiscal year 2006 and 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)

**Change in Net Assets**

	2006 Governmental Activities	2005 Governmental Activities
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 575,104	\$ 610,144
Operating grants and contributions	525,351	493,133
Capital grants and contributions	<u>87,227</u>	<u>3,082</u>
Total program revenues	<u>1,187,682</u>	<u>1,106,359</u>
General revenues:		
Property taxes	1,686,364	1,688,131
Income taxes	770,140	674,981
Unrestricted grants and entitlements	860,077	686,591
Investment earnings	57,411	39,275
Miscellaneous	<u>17,138</u>	<u>5,036</u>
Total general revenues	<u>3,391,130</u>	<u>3,094,014</u>
Total revenues	<u>4,578,812</u>	<u>4,200,373</u>
Expenses:		
General government	646,641	682,041
Security of persons and property	2,416,836	2,317,593
Public health and welfare	71,136	59,319
Transportation	546,309	413,661
Leisure time activity	56,406	56,950
Refuse services	297,774	286,325
Other	3,841	4,810
Interest and fiscal charges	<u>37,710</u>	<u>29,535</u>
Total expenses	<u>4,076,653</u>	<u>3,850,234</u>
Change in net assets	502,159	350,139
Net assets at beginning of year	<u>3,029,673</u>	<u>2,679,534</u>
Net assets at end of year	<u>\$ 3,531,832</u>	<u>\$ 3,029,673</u>

**Governmental Activities**

Governmental activities net assets increased \$502,159 in 2006. This increase is a result of increased municipal income taxes and unrestricted grants and entitlements versus amounts reported in the prior year still being more than increased expenditures.

Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,416,836 which accounted for 59.28% of the total expenses of the City. These expenses were partially funded by \$149,416 in direct charges to users of the services, \$5,500 in operating grants and contributions and \$5,873 in capital grants and contributions. General government expenses totaled \$646,641 which was partially funded by \$98,286 in direct charges to users of the services and \$15,175 in operating grants and contributions.

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

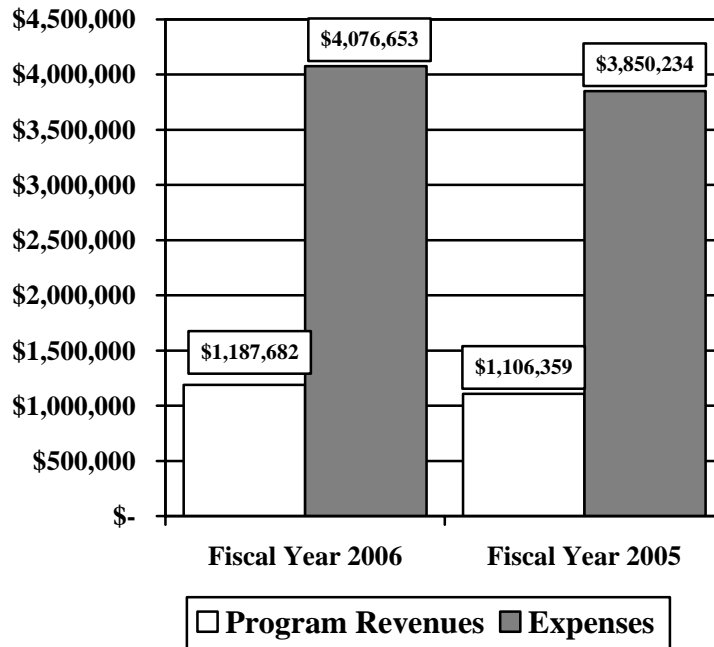
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

The state, federal and local government contributed to the City a total of \$525,351 in operating grants and contributions and \$87,227 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received \$81,354 subsidized transportation programs.

General revenues totaled \$3,391,130, and amounted to 74.06% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,456,504. 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 \$860,077.

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.

**Governmental Activities – Program Revenues vs. Total Expenses**



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

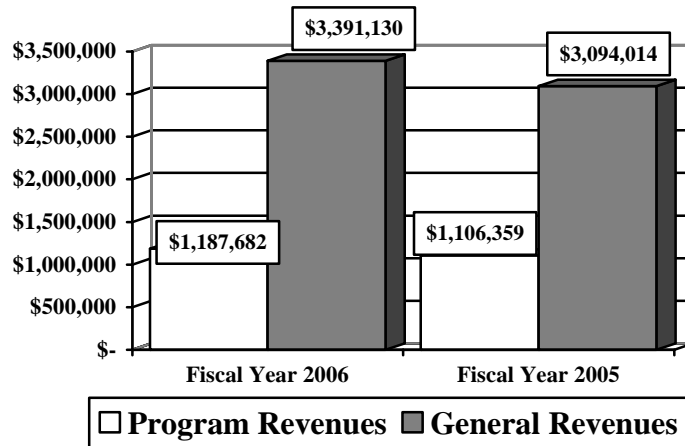
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 646,641	\$ 533,180	\$ 682,041	\$ 525,273
Security of persons and property	2,416,836	2,256,047	2,317,593	2,062,125
Public health and welfare	71,136	46,222	59,319	4,969
Transportation	546,309	(42,506)	413,661	71,879
Leisure time activity	56,406	54,366	56,950	55,525
Refuse services	297,774	111	286,325	(10,241)
Other	3,841	3,841	4,810	4,810
Interest and fiscal charges	<u>37,710</u>	<u>37,710</u>	<u>29,535</u>	<u>29,535</u>
<b>Total Expenses</b>	<b><u>\$ 4,076,653</u></b>	<b><u>\$ 2,888,971</u></b>	<b><u>\$ 3,850,234</u></b>	<b><u>\$ 2,743,875</u></b>

The dependence upon general revenues for governmental activities is apparent, with 70.87% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

***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 deficit of \$111,098 which is \$164,501 less than last year's total of \$53,403. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	<u>Fund Balances/ Deficits 12/31/06</u>	<u>Fund Balances/ Deficits 12/31/05</u>	<u>Increase (Decrease)</u>
Major funds:			
General	\$ 599,155	\$ 405,995	\$ 193,160
Safety forces levy	(9,649)	(1,849)	(7,800)
Police levy	(14,639)	39,166	(53,805)
Fire levy	(5,282)	10,823	(16,105)
Andrews Road construction	(701,303)	(305,001)	(396,302)
Other nonmajor governmental funds	<u>20,620</u>	<u>(95,731)</u>	<u>116,351</u>
Total	<u>\$ (111,098)</u>	<u>\$ 53,403</u>	<u>\$ (164,501)</u>

***General Fund***

The City's general fund balance increased \$193,160, primarily due to a higher increase in revenues, than in expenditures. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 1,118,849	\$ 1,050,107	6.55 %
Charges for services	465,315	468,827	(0.75) %
Licenses, permits and fees	11,105	10,567	5.09 %
Fines and forfeitures	36,854	34,742	6.08 %
Intergovernmental	736,954	674,719	9.22 %
Investment income	48,614	30,308	60.40 %
Rental income	51,900	-	100.00 %
Other	<u>56,258</u>	<u>46,214</u>	21.73 %
Total	<u>\$ 2,525,849</u>	<u>\$ 2,315,484</u>	9.09 %

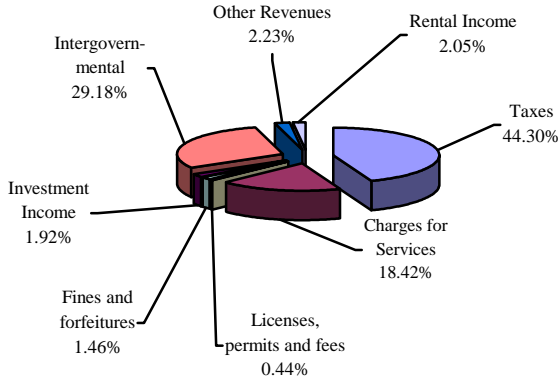
Tax revenue represents 44.30% of all general fund revenue. Income tax revenues increased during 2006. Investment income increased due to an increase in interest rates in 2006. Intergovernmental revenue increased primarily due to an increase in local governmental revenues and estate taxes. Rental income was new in 2006 due to the rental of a cell phone tower. All other revenue remained comparable to 2005.



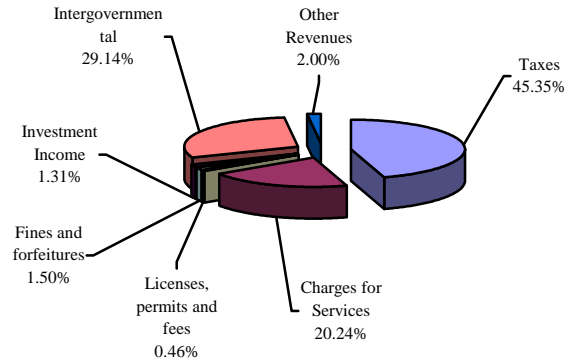
**CITY OF MENTOR-ON-THE-LAKE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Revenues - Fiscal Year 2006**



**Revenues - Fiscal Year 2005**



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

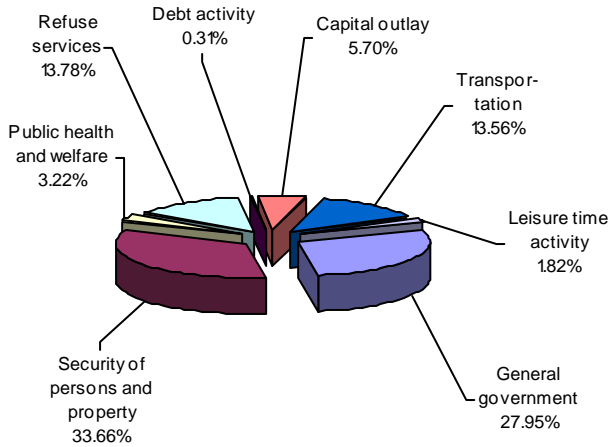
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 604,014	\$ 639,209	(5.51) %
Security of persons and property	727,430	751,613	(3.22) %
Public health and welfare	69,667	57,840	20.45 %
Transportation	292,962	250,226	17.08 %
Leisure time activity	39,456	43,897	(10.12) %
Refuse services	297,774	286,325	4.00 %
Capital outlay	123,160	62,325	97.61 %
Debt activity	6,631	8,025	(17.37) %
<b>Total</b>	<u>\$ 2,161,094</u>	<u>\$ 2,099,460</u>	2.94 %

The most significant increase was in the area of capital outlay. This increase is primarily due to a purchase of equipment. Transportation expenditures increased in the general fund due to a increase in road maintenance expended from the general fund. All other expenditures remained comparable to 2005.

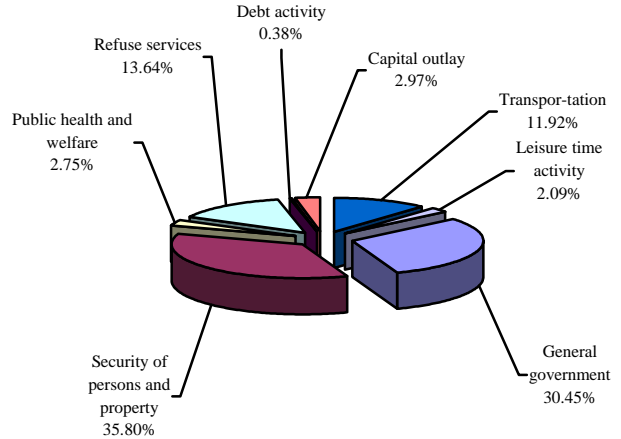
**CITY OF MENTOR-ON-THE-LAKE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Expenditures - Fiscal Year 2006**



**Expenditures - Fiscal Year 2005**



***Safety Forces Levy Fund***

The City's safety forces levy fund, fund balance decreased \$7,800, primarily due to decreased revenues. Revenues decreased from \$651,170 in 2005 to \$643,551 in 2006. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures increased slightly from \$639,479 in 2005 to \$651,351, in 2006.

***Police Levy Fund***

The City's police levy fund's fund balance decreased \$53,805, primarily due to increased expenditures. Revenues decreased from \$432,798 in 2005 to \$430,131 in 2006. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased slightly from \$410,166 in 2005 to \$483,936 in 2006.

***Fire Levy Fund***

The City's fire levy fund's fund balance decreased \$16,105 primarily due to increased expenditures. Revenues decreased from \$344,919 in 2005 to \$344,134 in 2006. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased from \$348,170 in 2005 to \$360,239, in 2006, due to increases in wages and benefits.

***Andrews Road Construction Fund***

The City's Andrews Road construction fund's fund deficit increased \$396,302, due to construction expenditures funded by note proceeds. Revenues increased \$126,160 from 2005 due to a project partially funded by Lake County. Expenditures increased from \$53,683 in 2005 to \$531,262, in 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

***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, police levy fund and fire levy fund. In the General Fund actual revenues and other financing sources of \$2,460,976 were more than final budgeted revenues and other financing sources by \$65,486. Actual expenditures and other financing uses of \$2,358,779 came in \$166,634 lower than the final budgeted amounts. Appropriations were decreased by \$16,000 during the year.

**Capital Assets and Debt Administration**

***Capital Assets***

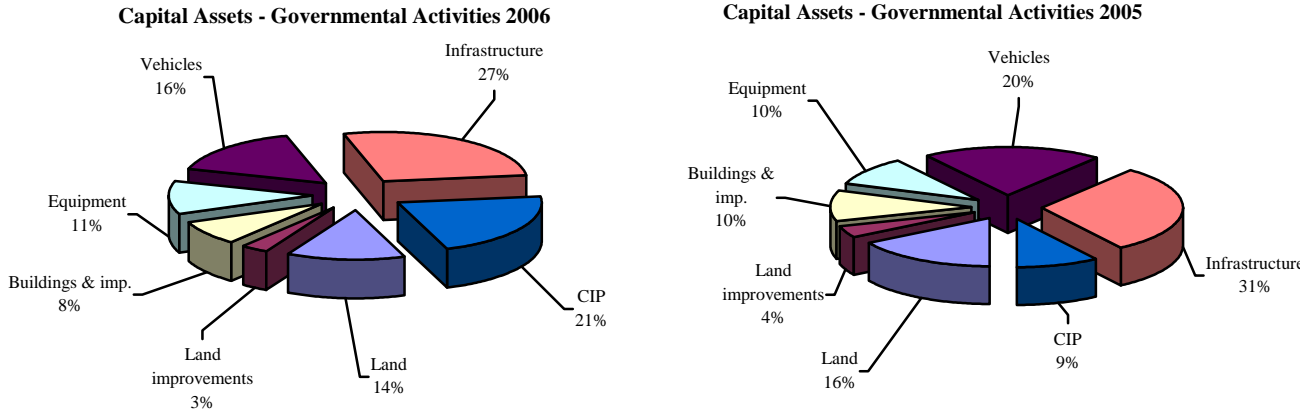
At the end of fiscal 2006, the City had \$3,661,778 (net of accumulated depreciation) invested in land, buildings and improvements, improvements, equipment, vehicles, infrastructure and construction in progress. The following table shows fiscal 2006 balances compared to 2005:

	<b>Capital Assets at December 31 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 495,279	\$ 492,579
Construction-in-progress	786,671	282,002
Land improvements	106,959	113,190
Buildings and improvements	297,203	311,036
Equipment	394,050	285,656
Vehicles	575,364	611,249
Infrastructure	<u>1,006,252</u>	<u>891,217</u>
Totals	<u>\$ 3,661,778</u>	<u>\$ 2,986,929</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

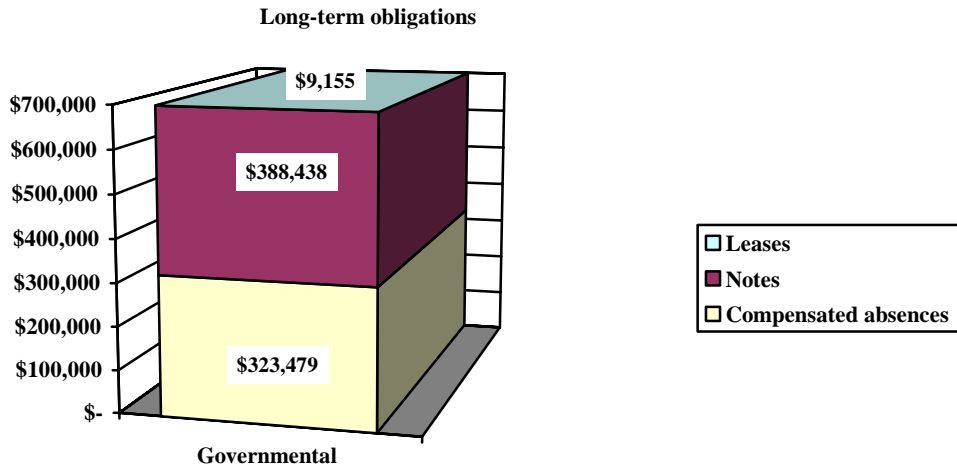


**Debt Administration**

The City had the following long-term obligations outstanding at December 31, 2006 and 2005. See Note 10 for details regarding the City's long-term liabilities.

	<u>2006</u>	<u>2005</u>
Special assessment bonds payable	\$ -	\$ 55,000
Compensated absences	323,479	264,559
Capital lease obligation payable	9,155	15,563
OPWC notes	<u>388,438</u>	<u>424,403</u>
<b>Total long-term obligations</b>	<u>\$ 721,072</u>	<u>\$ 759,525</u>

A comparison of the long-term obligations of 2006 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, 2006 (UNAUDITED)**

#### **Economic Conditions and Outlook**

The City of Mentor-on-the-Lake is a bedroom community with only 18% 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 2006, the City was fortunate that the State of Ohio decided not to cut the Local Government Funds for cities and counties. The Local Government Funds represent approximately 23% of the revenues to the City's General Fund. The State General Assembly established a commission to review the Local Government Fund history and funding formula and it appears that the new government elected to office in January 2007 will make recommendations to increase the Local Government Fund by 3% for FY 2007 and a small increase for FY 2008. Continued work will be done on the Local Government Fund by the General Assembly and the current consensus is that the LGF will not be cut in future fiscal years. Until the General Assembly finalizes the Local Government Fund formula, the City of Mentor-on-the-Lake will continue to budget very conservatively.

The City of Mentor-on-the-Lake has been working since 1994 to reconstruct State Route 283, the City's main roadway artery (Andrews Rd. and Lakeshore Blvd.), and we are nearing the completion of that quest. The City has secured the necessary funding for the Ohio Department of Transportation (ODOT), to proceed with bidding the project in May 2007. Due to the increase cost of asphalt and concrete, the estimated project total has increased from an estimated \$5.3 million in FY 2006 to an estimated \$7.8 million for FY 2007. The City continued to be very aggressive in raising the necessary funds to see the project come to fruition. Hoping the bids come in as planned, the reconstruction project which will provide a turning lane for the City's business district, concrete paving with curbs and storm sewers, will take approximately two years to complete.

The next few fiscal years will continue to be very conservative as mentioned above due to the State of Ohio trying to stabilize its budget, but also, due to the additional debt the City has incurred to get the SR 283 Project going. The City will have a better feel for future finances when the final costs are know for SR 283 Project.

#### **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, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 1,085,282
Receivables (net of allowances for uncollectibles):	
Property taxes . . . . .	1,963,621
Income taxes . . . . .	187,589
Accounts . . . . .	31,153
Special assessments . . . . .	6,257
Intergovernmental . . . . .	589,217
Prepayments . . . . .	16,099
Capital assets:	
Land and construction-in-progress . . . . .	1,281,950
Depreciable capital assets, net. . . . .	2,379,828
Total capital assets, net . . . . .	3,661,778
 Total assets. . . . .	 7,540,996
 <b>Liabilities:</b>	
Accounts payable. . . . .	52,404
Accrued wages and benefits . . . . .	114,185
Due to other governments . . . . .	21,615
Pension obligation . . . . .	66,053
Deferred revenue. . . . .	2,012,584
Accrued interest payable. . . . .	21,251
Bond anticipation notes payable. . . . .	1,000,000
Long-term liabilities:	
Due within one year . . . . .	163,989
Due in more than one year . . . . .	557,083
Total long-term liabilities . . . . .	721,072
Total liabilities . . . . .	4,009,164
 <b>Net assets:</b>	
Invested in capital assets, net of related debt . . . . .	3,264,185
Restricted for:	
Debt service . . . . .	54,448
Street construction, maintenance and repairs. . . . .	218,821
Fire and safety services. . . . .	20,745
Other purposes . . . . .	21,720
Unrestricted (deficit). . . . .	(48,087)
Total net assets . . . . .	\$ 3,531,832

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 646,641	\$ 98,286	\$ 15,175	\$ -
Security of persons and property . . . . .	2,416,836	149,416	5,500	5,873
Public health and welfare. . . . .	71,136	24,914	-	-
Transportation . . . . .	546,309	2,785	504,676	81,354
Leisure time activity . . . . .	56,406	2,040	-	-
Refuse services . . . . .	297,774	297,663	-	-
Other . . . . .	3,841	-	-	-
Interest and fiscal charges. . . . .	37,710	-	-	-
<b>Total governmental activities . . . . .</b>	<b>\$ 4,076,653</b>	<b>\$ 575,104</b>	<b>\$ 525,351</b>	<b>\$ 87,227</b>

**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. . . . .	
<b>Total general revenues . . . . .</b>	
<b>Change in net assets . . . . .</b>	
<b>Net assets at beginning of year. . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

\$	(533,180)
	(2,256,047)
	(46,222)
	42,506
	(54,366)
	(111)
	(3,841)
	(37,710)
	<hr/>
	(2,888,971)
	<hr/>

352,666  
224  
1,333,474

770,140  
860,077  
57,411  
17,138

---

3,391,130

502,159

---

3,029,673

\$ 3,531,832

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 635,882	\$ 23,851	\$ 5,610	\$ 42,868
Receivables (net of allowance for uncollectibles):				
Property taxes . . . . .	426,526	711,178	433,522	344,804
Income taxes . . . . .	187,589	-	-	-
Accounts . . . . .	30,833	-	-	-
Intergovernmental . . . . .	302,307	-	-	-
Special assessments . . . . .	-	-	-	-
Prepayments . . . . .	11,687	-	3,092	1,214
Total assets . . . . .	<u>\$ 1,594,824</u>	<u>\$ 735,029</u>	<u>\$ 442,224</u>	<u>\$ 388,886</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 48,049	\$ -	\$ 351	\$ 991
Accrued wages and benefits . . . . .	35,922	33,500	20,131	24,062
Due to other governments . . . . .	11,627	-	-	7,454
Pension obligation . . . . .	42,026	-	2,859	16,857
Deferred revenue . . . . .	858,045	711,178	433,522	344,804
Accrued interest payable . . . . .	-	-	-	-
Bond anticipation notes payable . . . . .	-	-	-	-
Total liabilities . . . . .	<u>995,669</u>	<u>744,678</u>	<u>456,863</u>	<u>394,168</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	55,346	-	1,728	8,702
Reserved for prepayments . . . . .	11,687	-	3,092	1,214
Reserved for debt service . . . . .	-	-	-	-
Unreserved, undesignated (deficit) reported in:				
General fund . . . . .	532,122	-	-	-
Special revenue funds . . . . .	-	(9,649)	(19,459)	(15,198)
Capital projects funds . . . . .	-	-	-	-
Total fund balances (deficits) . . . . .	<u>599,155</u>	<u>(9,649)</u>	<u>(14,639)</u>	<u>(5,282)</u>
Total liabilities and fund balances . . . . .	<u>\$ 1,594,824</u>	<u>\$ 735,029</u>	<u>\$ 442,224</u>	<u>\$ 388,886</u>

-- continued

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Andrews Road Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 7,810	\$ 369,261	\$ 1,085,282
-	47,591	1,963,621
-	-	187,589
-	320	31,153
80,000	206,910	589,217
-	6,257	6,257
-	106	16,099
<u>\$ 87,810</u>	<u>\$ 630,445</u>	<u>\$ 3,879,218</u>
\$ 2,750	\$ 263	\$ 52,404
-	570	114,185
-	2,534	21,615
-	4,311	66,053
-	367,259	2,714,808
16,363	4,888	21,251
770,000	230,000	1,000,000
<u>789,113</u>	<u>609,825</u>	<u>3,990,316</u>
26,788	3,055	95,619
-	106	16,099
-	48,191	48,191
-	-	532,122
-	142,003	97,697
<u>(728,091)</u>	<u>(172,735)</u>	<u>(900,826)</u>
<u>(701,303)</u>	<u>20,620</u>	<u>(111,098)</u>
<u>\$ 87,810</u>	<u>\$ 630,445</u>	<u>\$ 3,879,218</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, 2006

<b>Total governmental fund balances (deficit)</b>		\$ (111,098)
<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.		3,661,778
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 86,170	
Income taxes	140,444	
Charges for services	37,948	
Special assessments	6,257	
Intergovernmental revenues	431,405	
Total		702,224
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The City's long-term liabilities are:		
Compensated absences	(323,479)	
OPWC Notes	(388,438)	
Capital lease payable	(9,155)	
		(721,072)
<b>Net assets of governmental activities</b>		\$ 3,531,832

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, 2006

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
<b>Revenues:</b>				
Property taxes . . . . .	\$ 346,026	\$ 576,904	\$ 389,236	\$ 309,550
Municipal income taxes . . . . .	772,823	-	-	-
Charges for services . . . . .	465,315	-	-	-
Licenses and permits. . . . .	11,105	-	-	-
Fines and forfeitures . . . . .	36,854	-	-	-
Intergovernmental . . . . .	736,954	64,472	38,759	30,840
Special assessments . . . . .	-	-	-	-
Investment income . . . . .	48,614	2,175	2,136	2,979
Rental income . . . . .	51,900	-	-	-
Other . . . . .	56,258	-	-	765
Total revenues . . . . .	<u>2,525,849</u>	<u>643,551</u>	<u>430,131</u>	<u>344,134</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	604,014	-	-	-
Security of persons and property . . . . .	727,430	651,351	483,936	357,889
Public health and welfare . . . . .	69,667	-	-	-
Transportation. . . . .	292,962	-	-	-
Leisure time activity. . . . .	39,456	-	-	-
Refuse services . . . . .	297,774	-	-	-
Other . . . . .	-	-	-	-
Capital outlay . . . . .	123,160	-	-	2,350
Debt service:				
Principal retirement . . . . .	6,408	-	-	-
Interest and fiscal charges . . . . .	223	-	-	-
Total expenditures . . . . .	<u>2,161,094</u>	<u>651,351</u>	<u>483,936</u>	<u>360,239</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>364,755</u>	<u>(7,800)</u>	<u>(53,805)</u>	<u>(16,105)</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	1,035	-	-	-
Transfers in . . . . .	-	-	-	-
Transfers out . . . . .	<u>(172,630)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses). . . . .	<u>(171,595)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances . . . . .	193,160	(7,800)	(53,805)	(16,105)
<b>Fund balances (deficits) at beginning of year . .</b>	<u>405,995</u>	<u>(1,849)</u>	<u>39,166</u>	<u>10,823</u>
<b>Fund balances (deficits) at end of year . . . . .</b>	<u>\$ 599,155</u>	<u>\$ (9,649)</u>	<u>\$ (14,639)</u>	<u>\$ (5,282)</u>

--continued

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



<b>Andrews Road Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 38,684	\$ 1,660,400
-	-	772,823
-	2,040	467,355
-	-	11,105
-	22,697	59,551
80,000	470,771	1,421,796
-	55,254	55,254
-	1,507	57,411
-	5,873	57,773
-	5,295	62,318
<u>80,000</u>	<u>602,121</u>	<u>4,625,786</u>
-	8,245	612,259
-	51,922	2,272,528
-	-	69,667
309,364	327,768	930,094
-	6,631	46,087
-	-	297,774
-	3,841	3,841
198,055	100,092	423,657
-	90,965	97,373
23,843	13,976	38,042
<u>531,262</u>	<u>603,440</u>	<u>4,791,322</u>
<u>(451,262)</u>	<u>(1,319)</u>	<u>(165,536)</u>
-	-	1,035
54,960	131,589	186,549
-	(13,919)	(186,549)
<u>54,960</u>	<u>117,670</u>	<u>1,035</u>
(396,302)	116,351	(164,501)
(305,001)	(95,731)	53,403
<u>\$ (701,303)</u>	<u>\$ 20,620</u>	<u>\$ (111,098)</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, 2006

**Net change in fund balances - total governmental funds** \$ (164,501)

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

Government funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets are allocated their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$963,867) exceeded depreciation expense (\$157,716) in the current period. 806,151

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (131,302)

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

Property taxes	\$ 25,964	
Income taxes	(2,683)	
Charges for services	(59,987)	
Special assessments	(53,900)	
Intergovernmental revenues	<u>43,632</u>	
Total		(46,974)

Repayment of bond, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 97,373

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditures is reported when due. This amount represents the decrease in accrued interest payable. 332

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (58,920)

**Change in net assets of governmental activities** \$ 502,159

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 377,400	\$ 346,000	\$ 346,026	\$ 26
Municipal income taxes . . . . .	730,000	750,000	771,743	21,743
Charges for services . . . . .	392,131	394,524	404,773	10,249
Licenses and permits. . . . .	8,400	8,050	11,110	3,060
Fines and forfeitures. . . . .	40,000	40,000	37,863	(2,137)
Intergovernmental . . . . .	576,081	716,980	730,282	13,302
Investment income . . . . .	35,000	40,000	48,614	8,614
Rental income . . . . .	50,279	50,586	51,900	1,314
Other . . . . .	47,800	47,250	46,294	(956)
Total revenues. . . . .	<u>2,257,091</u>	<u>2,393,390</u>	<u>2,448,605</u>	<u>55,215</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	674,262	673,262	601,785	71,477
Security of persons and property . . . . .	771,760	755,760	716,571	39,189
Public health and welfare. . . . .	69,670	69,670	69,667	3
Transportation . . . . .	313,099	313,099	283,820	29,279
Leisure time activity . . . . .	45,970	45,970	39,037	6,933
Refuse services . . . . .	282,667	282,667	276,450	6,217
Capital outlay. . . . .	174,185	175,185	173,192	1,993
Total expenditures . . . . .	<u>2,331,613</u>	<u>2,315,613</u>	<u>2,160,522</u>	<u>155,091</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(74,522)</u>	<u>77,777</u>	<u>288,083</u>	<u>210,306</u>
<b>Other financing sources (uses):</b>				
Other financing sources . . . . .	1,100	2,100	12,371	10,271
Other financing uses. . . . .	(27,170)	(27,170)	(25,627)	1,543
Transfers out . . . . .	(182,630)	(182,630)	(172,630)	10,000
Total other financing sources (uses) . . . . .	<u>(208,700)</u>	<u>(207,700)</u>	<u>(185,886)</u>	<u>21,814</u>
Net change in fund balance . . . . .	(283,222)	(129,923)	102,197	232,120
<b>Fund balance at beginning of year . . . . .</b>	377,526	377,526	377,526	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>99,868</u>	<u>99,868</u>	<u>99,868</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 194,172</u>	<u>\$ 347,471</u>	<u>\$ 579,591</u>	<u>\$ 232,120</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, 2006

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 629,380	\$ 576,830	\$ 576,904	\$ 74
Intergovernmental . . . . .	-	64,450	64,472	22
Investment income . . . . .	1,800	1,800	2,175	375
Total revenues. . . . .	<u>631,180</u>	<u>643,080</u>	<u>643,551</u>	<u>471</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	<u>648,950</u>	<u>651,950</u>	<u>637,256</u>	<u>14,694</u>
Total expenditures . . . . .	<u>648,950</u>	<u>651,950</u>	<u>637,256</u>	<u>14,694</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(17,770)</u>	<u>(8,870)</u>	<u>6,295</u>	<u>15,165</u>
<b>Other financing uses:</b>				
Other financing uses . . . . .	<u>(6,050)</u>	<u>(8,050)</u>	<u>(7,139)</u>	<u>911</u>
Total other financing uses . . . . .	<u>(6,050)</u>	<u>(8,050)</u>	<u>(7,139)</u>	<u>911</u>
Net change in fund balance . . . . .	(23,820)	(16,920)	(844)	16,076
<b>Fund balance at beginning of year . . . . .</b>	<u>24,694</u>	<u>24,694</u>	<u>24,694</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 874</u>	<u>\$ 7,774</u>	<u>\$ 23,850</u>	<u>\$ 16,076</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 415,200	\$ 389,200	\$ 389,236	\$ 36
Intergovernmental . . . . .	-	38,700	38,759	59
Investment income . . . . .	1,400	1,750	2,136	386
Total revenues. . . . .	<u>416,600</u>	<u>429,650</u>	<u>430,131</u>	<u>481</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	466,178	479,178	475,785	3,393
Total expenditures . . . . .	<u>466,178</u>	<u>479,178</u>	<u>475,785</u>	<u>3,393</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(49,578)</u>	<u>(49,528)</u>	<u>(45,654)</u>	<u>3,874</u>
<b>Other financing sources (uses):</b>				
Other financing sources. . . . .	-	350	455	105
Other financing uses . . . . .	(5,300)	(5,300)	(5,982)	(682)
Total other financing sources (uses) . . . . .	<u>(5,300)</u>	<u>(4,950)</u>	<u>(5,527)</u>	<u>(577)</u>
Net change in fund balance . . . . .	(54,878)	(54,478)	(51,181)	3,297
<b>Fund balance at beginning of year . . . . .</b>	49,572	49,572	49,572	-
<b>Prior year encumbrances appropriated . . . . .</b>	5,478	5,478	5,478	-
<b>Fund balance at end of year. . . . .</b>	<u>\$ 172</u>	<u>\$ 572</u>	<u>\$ 3,869</u>	<u>\$ 3,297</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)  
 FIRE LEVY  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 330,230	\$ 309,430	\$ 309,550	\$ 120
Intergovernmental . . . . .	-	30,800	30,840	40
Investment income . . . . .	1,500	2,340	2,979	639
Other . . . . .	-	760	765	5
Total revenues. . . . .	<u>331,730</u>	<u>343,330</u>	<u>344,134</u>	<u>804</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	<u>381,086</u>	<u>379,086</u>	<u>360,259</u>	<u>18,827</u>
Total expenditures . . . . .	<u>381,086</u>	<u>379,086</u>	<u>360,259</u>	<u>18,827</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(49,356)</u>	<u>(35,756)</u>	<u>(16,125)</u>	<u>19,631</u>
<b>Other financing uses:</b>				
Other financing uses . . . . .	<u>(4,700)</u>	<u>(4,700)</u>	<u>(5,012)</u>	<u>(312)</u>
Total other financing uses . . . . .	<u>(4,700)</u>	<u>(4,700)</u>	<u>(5,012)</u>	<u>(312)</u>
Net change in fund balance . . . . .	(54,056)	(40,456)	(21,137)	19,319
<b>Fund balance at beginning of year . . . . .</b>	44,493	44,493	44,493	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>9,786</u>	<u>9,786</u>	<u>9,786</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 223</u>	<u>\$ 13,823</u>	<u>\$ 33,142</u>	<u>\$ 19,319</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2006

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 94,199
Total assets. . . . .	<u>\$ 94,199</u>
<b>Liabilities:</b>	
Undistributed monies . . . . .	\$ 94,199
Total liabilities . . . . .	<u>\$ 94,199</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**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, 2006

**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 expenditures.

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

***Fire Levy Fund*** - The fire levy fund accounts for all transactions relating to the fire tax levy and related expenditures.

***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 expenditures.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**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; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

***Revenues - Exchange and Non-exchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, 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.

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, 2006, but which were levied to finance year 2007 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

**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.

***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 2006.

***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 legal level of control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**G. Cash and Cash Equivalents**

Cash balances of the City's funds are pooled and invested in investments maturing within five 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 as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2006, 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, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$48,614, which included \$19,933 assigned from other funds of the City.

For purpose of presentation on the financial statements, 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 maintained a capitalization threshold of \$3,500. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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:

Description	Governmental Activities Estimated Lives
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.

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, 2006. 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, 2006, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**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.

**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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of income tax distributions.

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

**P. Extraordinary and/or Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

**B. Deficit Fund Balances**

Fund balances at December 31, 2006, included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
Safety Forces Levy	\$ 9,649
Police Levy	14,639
Fire Levy	5,282
Andrews Road Reconstruction	701,303
<u>Nonmajor Funds</u>	
OPWC - Holly Drive	153,188
OPWC - Weber Area	81,700

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 in the Andrews Road Construction, OPWC – Holly Drive and OPWC – Weber Area funds resulted from bond anticipation notes being reported as fund liabilities rather than as an other financing source. The deficit fund balances in the Safety Forces Levy, Police Levy and Fire Levy funds were due to accrued liabilities.

**C. Noncompliance**

The City had expenditures in excess of appropriations in the Andrews Road Construction fund in the amount of \$22,728, in noncompliance with Ohio Revised Code Section 5705.41(B).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement 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; and
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 Director of Finance or, if the securities are not represented by a certificate, upon receipt of confirmation of the transfer from the custodian.

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At December 31, 2006, the carrying amount of all City deposits was \$798,850. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$559,530 of the City's bank balance of \$855,439 was exposed to custodial risk as discussed below, while \$295,909 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

**C. Investments**

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		6 months or less
STAR Ohio	\$ 379,921	\$ 379,921

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 379,921</u>	<u>100.00%</u>

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 798,850
Investments	379,921
Cash on hand	<u>710</u>
Total	<u>\$ 1,179,481</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,085,282
Agency funds	<u>94,199</u>
Total	<u>\$ 1,179,481</u>

**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 six years with updates every three years. The last reappraisal was completed in tax year 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 5 - TAXES - (Continued)**

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2004. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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.

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, 2006, was \$24.00 per \$1,000 of assessed value. The assessed value for 2006 was \$154,187,063. This amount constitutes \$147,768,900 in real property assessed value, \$4,230,270 in public utility assessed value and \$2,187,893 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, 2006. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 5 - TAXES - (Continued)**

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 is credited to the general fund. Income tax revenue for 2006 was \$772,823 as reported in the fund financial statements.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

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

**Governmental Activities:**

Property taxes	\$1,963,621
Income taxes	187,589
Accounts	31,153
Special assessments	6,257
Intergovernmental	589,217

Receivables have been disaggregated on the face of the BFS. All receivables are expected to be collected within the subsequent year.

**NOTE 7 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental Funds from:	
General Fund	\$ 117,670
Nonmajor Governmental funds	13,919
Transfers to Andrews Road Reconstruction fund from:	
General Fund	54,960
Total	<u>\$ 186,549</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 or to the funds that report the debt obligations as debt service payments 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.

Transfers between governmental funds are eliminated on the statement of activities.

All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance			Balance
<b><u>Governmental Activities:</u></b>	<u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 492,579	\$ 112,700	\$ (110,000)	\$ 495,279
Construction in progress	<u>282,002</u>	<u>504,669</u>	<u>-</u>	<u>786,671</u>
Total capital assets, not being depreciated	<u>774,581</u>	<u>617,369</u>	<u>(110,000)</u>	<u>1,281,950</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	124,613	-	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	390,110	140,851	-	530,961
Vehicles	1,100,092	62,494	(66,315)	1,096,271
Infrastructure:				
Roads	326,687	143,153	-	469,840
Storm sewers	<u>598,789</u>	<u>-</u>	<u>-</u>	<u>598,789</u>
Total capital assets, being depreciated	<u>3,140,391</u>	<u>346,498</u>	<u>(66,315)</u>	<u>3,420,574</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(11,423)	(6,231)	-	(17,654)
Buildings	(289,064)	(13,833)	-	(302,897)
Furniture, fixtures and equipment	(104,454)	(32,457)	-	(136,911)
Vehicles	(488,843)	(77,077)	45,013	(520,907)
Infrastructure:				
Roads	(19,398)	(23,078)	-	(42,476)
Storm sewers	<u>(14,861)</u>	<u>(5,040)</u>	<u>-</u>	<u>(19,901)</u>
Total accumulated depreciation	<u>(928,043)</u>	<u>(157,716)</u>	<u>45,013</u>	<u>(1,040,746)</u>
Total capital assets, being depreciated, net	<u>2,212,348</u>	<u>188,782</u>	<u>(21,302)</u>	<u>2,379,828</u>
Governmental activities capital assets, net	<u>\$2,986,929</u>	<u>\$ 806,151</u>	<u>\$ (131,302)</u>	<u>\$ 3,661,778</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 8 - CAPITAL ASSETS - (Continued)**

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

**Governmental activities:**

General government	\$ 8,228
Security of persons and property	84,986
Transportation	55,151
Leisure time activities	<u>9,351</u>
Total depreciation expense - governmental activities	<u>\$157,716</u>

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

In previous years, the City entered into capitalized lease agreements for the acquisition of a skid steer and 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. Accumulated depreciation as of December 31, 2006 was \$10,552, leaving a current book value of \$27,823. A corresponding liability of \$9,155 was recorded in the statement of net assets. Principal payments in fiscal year 2006 totaled \$6,408 in the general fund. The final payment was made on the 911 Recording System which retired the lease obligation.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2006:

<u>Year Ending</u> <u>December 31,</u>	<u>Skid Steer</u>
2007	\$ 4,677
2008	<u>4,677</u>
Total future minimum lease payments	9,354
Less: amount representing interest	<u>(199)</u>
Present value of net minimum lease payments	<u>\$ 9,155</u>



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2006, the following changes occurred in the City's governmental activities long-term obligations:

<b>Governmental Activities:</b>	<u>Interest Rate</u>	<u>Balance at 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/06</u>	<u>Amounts Due in One Year</u>
<u>Special Assessment Bonds:</u>						
Lakeway Street Improvement	7.25%	\$ 55,000	\$ -	\$ (55,000)	\$ -	\$ -
Total special assessment bonds		<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>OPWC Notes:</u>						
1996 - 15 years						
OPWC 93 (Salida Rd.)	0%	\$ 55,080	\$ -	\$ (11,017)	\$ 44,063	\$ 11,016
1996 - 20 years						
OPWC 94 (Harbor Creek)	0%	90,367	-	(8,608)	81,759	8,607
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	108,750	-	(7,500)	101,250	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	125,123	-	(6,586)	118,537	6,585
2005 - 20 years						
OPWC 05 (Weber Area)	0%	45,083	-	(2,254)	42,829	2,254
Total OPWC notes		<u>\$ 424,403</u>	<u>\$ -</u>	<u>\$ (35,965)</u>	<u>\$ 388,438</u>	<u>\$ 35,962</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences	N/A	\$ 264,559	\$ 192,173	\$ (133,253)	\$ 323,479	\$ 123,484
Capital lease obligations		15,563	-	(6,408)	9,155	4,543
Total other long-term obligations		<u>\$ 280,122</u>	<u>\$ 192,173</u>	<u>\$ (139,661)</u>	<u>\$ 332,634</u>	<u>\$ 128,027</u>
Total governmental activities long-term obligations		<u>\$ 759,525</u>	<u>\$ 192,173</u>	<u>\$ (230,626)</u>	<u>\$ 721,072</u>	<u>\$ 163,989</u>

Special Assessment Bonds: The City issued special assessment bonds in 1986 in the amount of \$1,010,000. The bonds are direct obligations of the City and will be paid from the debt service fund using special assessment revenues. The special assessment bonds were retired during 2006.

Compensated Absences: Compensated absences reported in the "compensated absences payable" account will be paid from the funds from which the employees' salaries are paid, which are primarily the general, Policy Levy, Fire Levy and Special Forces funds.

Capital Lease Obligation: See Note 9 for details about capital leases.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

*OPWC Notes:* The City has entered into five debt financing arrangements through the Ohio Public Works Commission (OPWC). These notes are to fund various street improvements. The amounts due to the OPWC are payable solely from operating revenues. The loan agreements function similar to a line-of-credit agreement. Each of the OPWC loans are being repaid from debt service fund. The loan agreements require semi-annual payments based on the actual amount loaned. The OPWC loans are interest free.

Principal requirements to retire long-term note obligations outstanding at December 31, 2006 are as follows:

<u>Year</u>	<u>OPWC Notes</u> <u>Principal</u>
2007	\$ 35,962
2008	35,963
2009	35,962
2010	35,962
2011	24,946
2012 - 2016	120,422
2017 - 2021	70,448
2022 - 2025	<u>28,773</u>
Total	<u>\$ 388,438</u>

**B. Legal Debt Margin**

The City's voted and unvoted legal debt margins were \$16,237,833 and \$8,528,479, respectively, at December 31, 2006.

**NOTE 11 - NOTES PAYABLE**

The City had the following outstanding bond anticipation notes at December 31, 2006:

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>
Various Purpose Improvements					
Bond Anticipation Notes	3.40%	\$ 740,000	\$ -	\$ (740,000)	\$ -
Various Purpose Improvements					
Bond Anticipation Notes	4.25%	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total Notes Payable		<u>\$ 740,000</u>	<u>\$ 1,000,000</u>	<u>\$ (740,000)</u>	<u>\$ 1,000,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 11 - NOTES PAYABLE - (Continued)**

During 2006, the City retired the \$740,000 in bond anticipation notes that were due at December 31, 2005 and issued \$1,000,000 in bond anticipation notes to finance the following projects: \$770,000 was issued for the State Route 283 project, \$150,000 for the Holly Drive Project and \$80,000 for the Weber Road Project. The proceeds of the bond anticipation notes were recorded in the Andrews Road Construction fund and the Capital Projects funds (other governmental funds). On the fund financial statements, these bond anticipation notes have been reported as fund liabilities of the funds which received the proceeds. The notes have a 4.25% interest rate and are scheduled to mature on June 26, 2007.

**NOTE 12 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$141,730, \$139,840, and \$134,508, respectively; 93% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$10,114, is recorded as a liability. Contributions to the member-directed plan for 2006 were \$3,640 made by the City and \$2,391 made by plan members.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 12 - PENSION PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions for pension obligations to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$174,848, \$176,672, and \$154,520, respectively; 72% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$48,969, is recorded as a liability.

**NOTE 13 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$46,554. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$14,647 for police and \$42,791 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 14 - 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 firefighters.

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.

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 15 - CONTINGENCIES**

**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, 2006.

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**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, dental, life 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 and major special revenue funds 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 are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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>	Fire <u>Levy</u>
Budget basis	\$ 102,197	\$ (844)	\$ (51,181)	\$ (21,137)
Net adjustment for revenue accruals	77,244	-	-	-
Net adjustment for expenditure accruals	(56,863)	(14,095)	(9,892)	(9,707)
Net adjustment for other sources/uses	14,291	7,139	5,527	5,012
Adjustment for encumbrances	<u>56,291</u>	<u>-</u>	<u>1,741</u>	<u>9,727</u>
GAAP basis	<u>\$ 193,160</u>	<u>\$ (7,800)</u>	<u>\$ (53,805)</u>	<u>\$ (16,105)</u>





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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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 Andrews Road  
Mentor-On-The-Lake, Ohio 44060

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, as of and for the year ended December 31, 2006, which collectively comprise the City of Mentor-On-The-Lake's basic financial statements and have issued our report thereon dated May 30, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mentor-On-The-Lake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mentor-On-The-Lake's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Mentor-On-The-Lake's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Mentor-On-The-Lake's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Mentor-On-The-Lake's financial statements that is more than inconsequential will not be prevented or detected by the City of Mentor-On-The-Lake's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Mentor-On-The-Lake's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 of Mentor-On-The-Lake'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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2006-MOL-001.

We noted certain matters that we reported to management of the City of Mentor-On-The-Lake in a separate letter dated May 30, 2007.

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

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

Julian & Grube, Inc.  
May 30, 2007

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

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006**

<b>FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2006-MOL-001

Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.

It was noted during the audit that for the year ended December 31, 2006, the City had expenditures in excess of appropriations in the following fund:

<u>Major fund</u>	<u>Excess</u>
Andrews Road Construction	\$ 22,728

With expenditures exceeding appropriations, the City is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget and certify the amendments to the County Budget Commission or County Auditor prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: While only one fund was in noncompliance, the Director of Finance is going to prepare amendments throughout the year and certify them to the County Budget Commission or County Auditor.





**Mary Taylor, CPA**  
Auditor of State

**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  
JUNE 28, 2007**