

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

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Members of City Council
City of Mentor-on-the-Lake
5860 Andrews Rd.
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 James G. Zupka, CPA, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 26, 2011

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of Mentor-on-the-Lake, Ohio

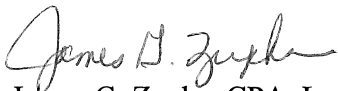
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Lake County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mentor-on-the-Lake, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Ohio as of December 31, 2010 and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund and the following major Special Revenue funds: the Safety Forces Levy Fund, the Police Levy Fund, and the Fire Levy Fund 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 March 22, 2011, on our consideration of the City of Mentor-on-the-Lake, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

March 22, 2011

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010. 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 2010 are as follows:

- The total net assets of the City increased \$147,982.
- General revenues accounted for \$3,244,738 or 73.65 percent of total governmental activities revenue. Program specific revenues accounted for \$1,160,883 or 26.35 percent of total governmental activities revenue of \$4,405,621.
- The City had \$4,257,639 in expenses related to governmental activities; \$1,160,883 of these expenses was offset by program specific charges for services, grants and contributions. The remaining expenses of the governmental activities of \$3,096,756 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,244,738.
- The City had five major funds consisting of the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, the Fire Levy Fund, and the Andrews Road Construction Fund.
- The General Fund had total revenues of \$2,369,549 in 2010. This represents a slight increase of \$3,955 from 2009 revenues. The expenditures of the General Fund, which totaled \$2,128,883 in 2010, decreased \$409,838 from 2009. The net increase in fund balance for the General Fund was \$14,166 or 10.17 percent.
- The Safety Forces Levy Fund had revenues of \$641,920 in 2010, which is a decrease of \$59,193 from 2009 revenues. The expenditures in the Safety Forces Levy Fund totaled \$662,696 in 2010, which decreased \$14,997 from 2009. The net decrease in fund balance was \$20,776, resulting in an ending fund balance deficit of \$19,169.
- The Police Levy Fund had revenues of \$431,992, which is an increase of \$1,229 from 2009 revenues. The expenditures totaled \$497,809 in 2010, which increased \$119,899 from 2009 expenditures. The net decrease in fund balance was \$65,817, resulting in an ending fund balance of \$36,612.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

- The Fire Levy Fund had revenues of \$342,197 in 2010, which is an increase of \$4,870 from 2009 revenues. The expenditures totaled \$360,191 in 2010, which increased \$43,013 from 2009 expenditures. The net decrease in fund balance was \$17,994, resulting in an ending fund balance of \$4,546.
- The Andrews Road Construction Fund had revenues of \$230,000 in 2010, which is a decrease of \$413,674 from 2009 revenues. The expenditures totaled \$63,475 in 2010, which is a decrease of \$683,077 from 2009 expenditures. The net increase in fund balance was \$256,568, resulting in an ending fund balance of \$1,535,067.
- In the General Fund, the actual revenues and other financing sources were \$10,698 higher than they were in the final budget and actual expenditures and other financing uses were \$84,366 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. The final budget revenues and other financing sources were \$63,910 higher than they were in the original budget and final budget expenditures and other financing were \$35,310 higher than they were in the original budget.

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 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 2010?" 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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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 - All 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, 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 19-21 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental funds begins on page 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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, the Safety Forces Levy Fund, the Police Levy Fund, the Fire Levy Fund, and the 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 22-31 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 funds. The basic fiduciary fund financial statement can be found on page 32 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 33-64 of this report.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

Government-wide Financial Analysis

The table below provides a summary of the City's net assets for 2010 and 2009.

	Net Assets	
	2010	2009
ASSETS		
Current and other assets	\$ 5,336,450	\$ 5,189,962
Capital assets, net	7,105,225	7,208,463
Total Assets	<u>12,441,675</u>	<u>12,398,425</u>
LIABILITIES		
Current liabilities	2,787,242	2,913,403
Long-term liabilities	3,225,508	3,204,079
Total Liabilities	<u>6,012,750</u>	<u>6,117,482</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,347,956	3,357,891
Restricted	2,685,509	2,533,720
Unrestricted	395,460	389,332
Total Net Assets	<u>\$ 6,428,925</u>	<u>\$ 6,280,943</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the City's assets exceeded liabilities by \$6,428,925. At year-end, unrestricted net assets were \$395,460.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 57.11 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$3,347,956 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, \$2,685,509, 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 \$395,460.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

The table below shows the changes in net assets for fiscal year 2010 and 2009.

	Changes in Net Assets	
	<u>2010</u>	<u>2009</u>
REVENUES		
Program Revenues:		
Charges for services	\$ 589,872	\$ 496,688
Operating grants and contributions	312,551	307,370
Capital grants and contributions	258,460	643,674
Total Program Revenues	<u>1,160,883</u>	<u>1,447,732</u>
General Revenues:		
Property taxes	1,614,756	1,696,119
Income taxes	819,833	818,833
Unrestricted grants and entitlements	779,226	739,660
Investment income	1,706	3,432
All other revenues	29,217	17,957
Total General Revenues	<u>3,244,738</u>	<u>3,276,001</u>
Total Revenues	<u>4,405,621</u>	<u>4,723,733</u>
EXPENSES		
Program Expenses:		
General government	718,371	710,630
Security of persons and property	2,469,591	2,566,112
Public health and welfare	65,189	63,684
Transportation	614,935	664,596
Leisure time activities	64,919	58,837
Refuse services	294,169	299,243
Other	11,943	2,724
Interest and fiscal charges	18,522	24,024
Total Expenses	<u>4,257,639</u>	<u>4,389,850</u>
Change in Net Assets	147,982	333,883
Net Assets - Beginning of Year	6,280,943	5,947,060
Net Assets - End of Year	<u>\$ 6,428,925</u>	<u>\$ 6,280,943</u>

Governmental Activities

Governmental activities net assets increased \$147,982 in 2010. This increase is primarily due to a reduction in expenses for 2010 versus 2009 coupled with revenues exceeding expenses for 2010.

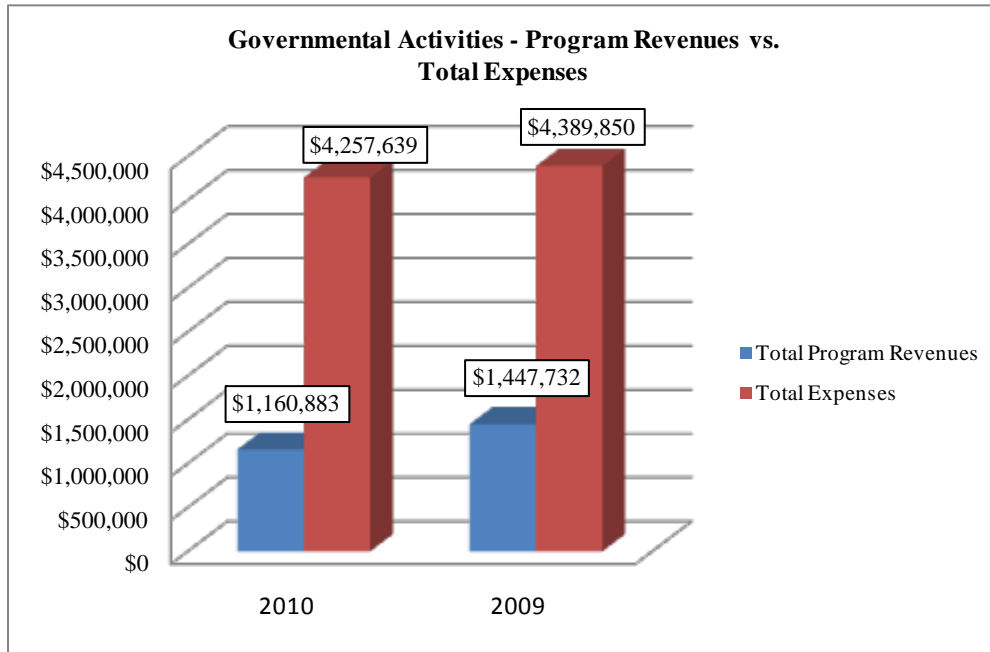
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,469,591, which accounted for 58.00 percent of the total expenses of the City. These expenses were partially funded by \$219,295 in direct charges to users of the services and capital grants and contributions. General government expenses totaled \$718,371, which was partially funded by \$97,996 in direct charges to users of the services.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

The state and federal government, along with similar agencies, contributed to the City a total of \$312,551 in operating grants and contributions, and \$258,460 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received, \$230,000 subsidized transportation programs.

General revenues totaled \$3,244,738 and amounted to 73.65 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,434,589. 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 \$779,226.

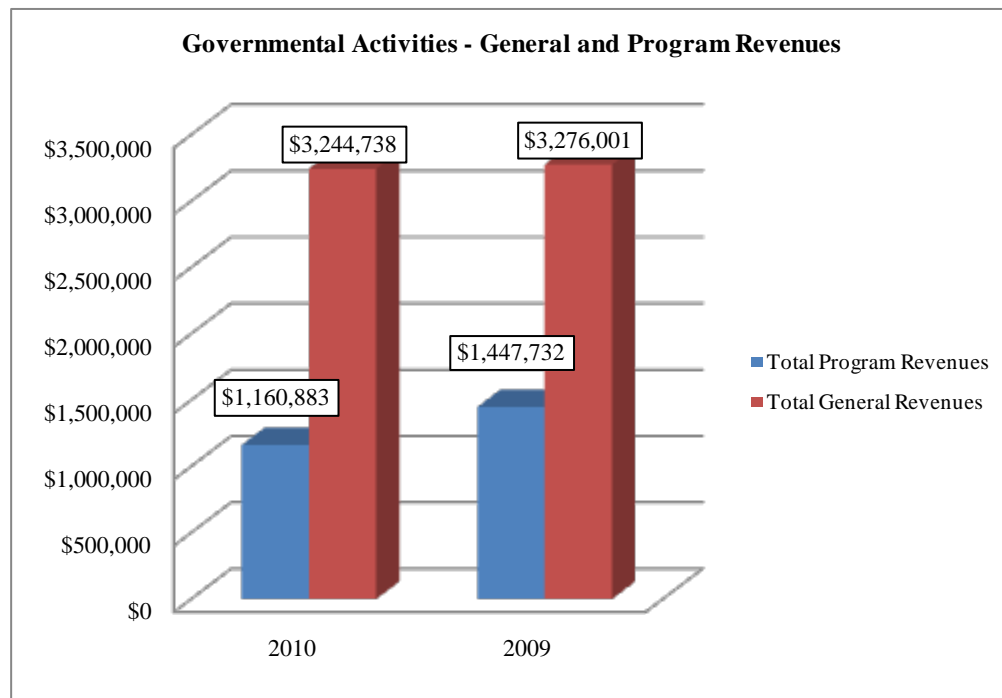
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported 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.



**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

	Total Cost of Services 2010	Governmental Activities		
		Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
General government	\$ 718,371	\$ 620,375	\$ 710,630	\$ 581,813
Security of persons and property	2,469,591	2,250,296	2,566,112	2,455,164
Public health and welfare	65,189	65,189	63,684	63,684
Transportation	614,935	72,384	664,596	(286,448)
Leisure time activities	64,919	62,304	58,837	56,357
Refuse services	294,169	(4,257)	299,243	44,800
Other	11,943	11,943	2,724	2,724
Interest and fiscal charges	18,522	18,522	24,024	24,024
Total cost of service	<u>\$ 4,257,639</u>	<u>\$ 3,096,756</u>	<u>\$4,389,850</u>	<u>\$ 2,942,118</u>

The dependence upon general revenues for governmental activities is apparent, with 72.73 percent of expenses supported through taxes and other general 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
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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 pages 22-23) reported a combined fund balance of \$1,878,526, which is \$297,487 greater than last year's fund balance total of \$1,581,039. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2010 for all major and nonmajor governmental funds.

	Fund Balances/ (Deficits) 12/31/2010	Fund Balances/ (Deficits) 12/31/2009	Increase (Decrease)
Major funds:			
General	\$ 153,419	\$ 139,253	\$ 14,166
Safety forces levy	(19,169)	1,607	(20,776)
Police levy	36,612	102,429	(65,817)
Fire levy	4,546	22,540	(17,994)
Andrews Road construction	1,535,067	1,278,499	256,568
Other nonmajor governmental funds	168,051	36,711	131,340
Total	<u>\$ 1,878,526</u>	<u>\$ 1,581,039</u>	<u>\$ 297,487</u>

General Fund

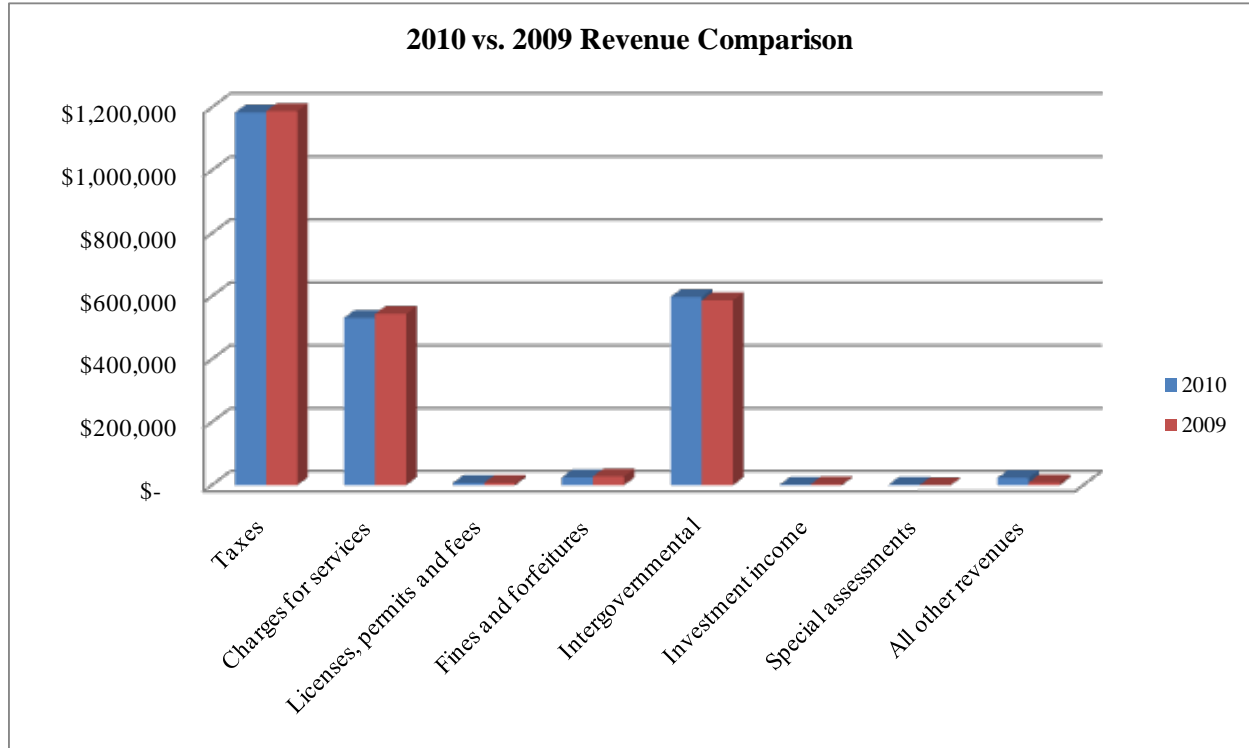
The City's General Fund balance increased \$14,166, primarily due to a decrease in expenditures. The table that follows assists in illustrating the revenues of the General Fund.

	2010 Amount	2009 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$ 1,183,832	\$ 1,188,109	-0.36%
Charges for services	531,036	544,216	-2.42%
Licenses, permits and fees	6,772	7,012	-3.42%
Fines and forfeitures	24,675	27,925	-11.64%
Intergovernmental	598,044	587,251	1.84%
Investment income	1,070	2,976	-64.05%
Special assessments	1,264	-	100.00%
All other revenues	22,856	8,105	182.00%
Total	<u>\$ 2,369,549</u>	<u>\$ 2,365,594</u>	<u>0.17%</u>

Tax revenue represents 49.96 percent of all General Fund revenue. Income and property tax revenues decreased slightly during 2010. Intergovernmental revenue increased primarily due to an increase in grants and local government revenues.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

The following graphs show the breakdown of General Fund revenues for 2010 and 2009:



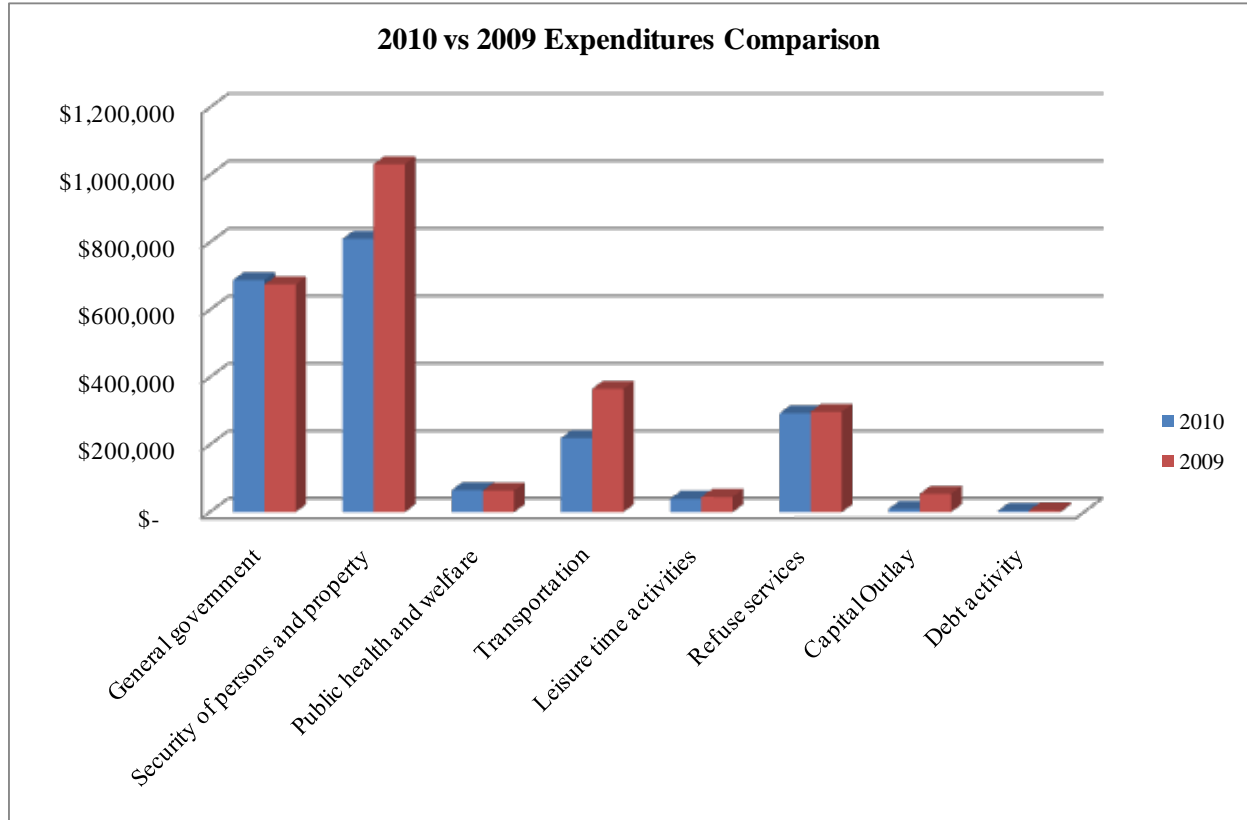
The table that follows assists in illustrating the expenditures of the General Fund.

<u>Expenditures</u>	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Percentage Change</u>
General government	\$ 688,530	\$ 675,159	1.98%
Security of persons and property	810,230	1,031,968	-21.49%
Public health and welfare	65,189	63,684	2.36%
Transportation	219,140	365,573	-40.06%
Leisure time activities	39,477	45,115	-12.50%
Refuse services	292,798	297,916	-1.72%
Capital Outlay	9,705	54,481	-82.19%
Debt activity	3,814	4,825	-20.95%
Total	<u>\$ 2,128,883</u>	<u>\$ 2,538,721</u>	<u>-16.14%</u>

The most significant decreases were in the areas of security of persons and property, transportation and capital outlay. These decreases are primarily due to the City's awareness of the current economic conditions along with a reduction of one police officer in 2010 and twenty-six pay periods in 2010 versus twenty-seven pay periods 2009. All other expenditures remained comparable to 2009.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(CONTINUED)**

The following graphs show the breakdown of General Fund expenditures for 2010 and 2009:



Safety Forces Levy Fund

The fund balance of the City's Safety Forces Levy Fund decreased \$20,776, primarily due to a decrease in property tax revenues. Revenues decreased from \$701,113 in 2009 to \$641,920 in 2010. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures decreased from \$677,693 in 2009 to \$662,696 in 2010.

Police Levy Fund

The fund balance of the City's Police Levy Fund decreased \$65,817, primarily due to an increase in expenditures. Revenues increased slightly from \$430,763 in 2009 to \$431,992 in 2010. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased from \$377,910 in 2009 to \$497,809 in 2010.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

Fire Levy Fund

The fund balance of the City's Fire Levy Fund decreased \$17,994 primarily due to increased expenditures. Revenues increased slightly from \$337,327 in 2009 to \$342,197 in 2010. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mills. Expenditures increased from \$317,178 in 2009 to \$360,191 in 2010.

Andrews Road Construction Fund

The City's Andrews Road Construction Fund's fund balance increased to \$1,535,067 in 2010. The Fund had decreased construction expenditures, intergovernmental revenues, and loan proceeds in 2010 versus 2009. Revenues and other financing sources decreased \$1,140,477 from 2009 due to continued drawdown of proceeds from the two State Infrastructure Bank (SIB) loans received in 2009, along with the recognition of an intergovernmental receivable from Northeast Ohio Areawide Coordinating Agency (NOACA) that will be reduced over the life of one of the SIB loans. Expenditures decreased from \$746,552 in 2009 to \$63,475 in 2010 as construction continued on the project.

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, the Safety Forces Levy Fund, the Police Levy Fund, and Fire Levy Fund. In the General Fund, actual revenues and other financing sources of \$2,342,360 were more than final budgeted revenues and other financing sources by \$10,698. Actual expenditures and other financing uses of \$2,445,241 were \$84,366 lower than the final budgeted amounts.

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

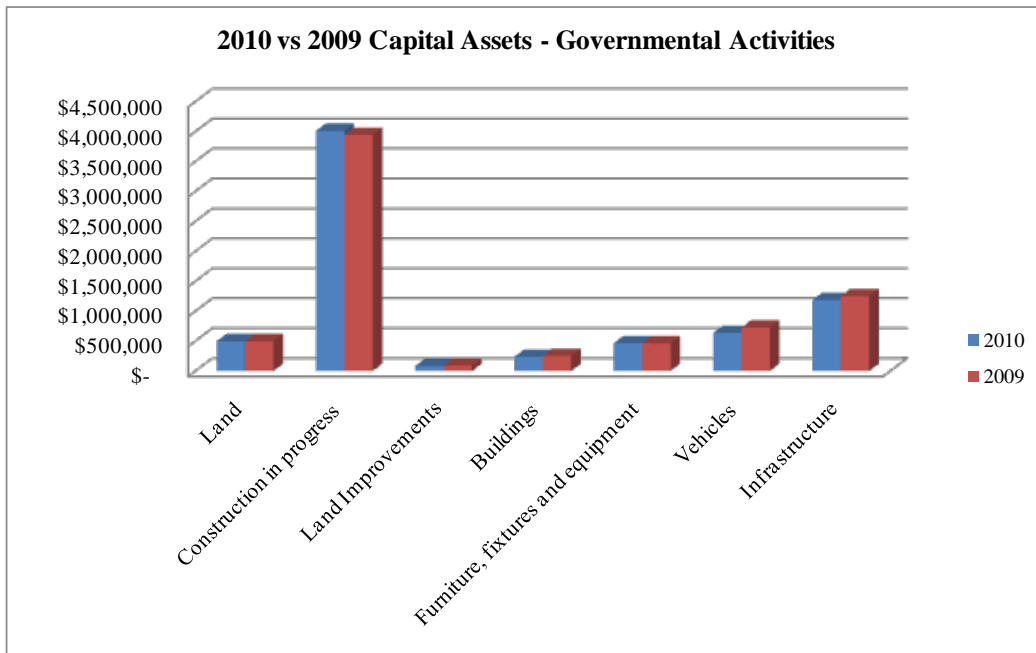
Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the City had \$7,105,225 (net of accumulated depreciation) invested in land, buildings, land improvements, furniture, fixtures and equipment, vehicles, infrastructure, and construction in progress. The following table shows fiscal year 2010 balances compared to 2009:

	Capital Assets at December 31, (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 495,279	\$ 495,279
Construction in progress	4,009,196	3,939,472
Land Improvements	82,035	88,266
Buildings	235,940	252,146
Furniture, fixtures and equipment	462,854	460,681
Vehicles	635,774	723,237
Infrastructure	1,184,147	1,249,382
Total Capital Assets	<u>\$ 7,105,225</u>	<u>\$ 7,208,463</u>

The following graphs show the breakdown of governmental capital assets by category for 2010 and 2009:



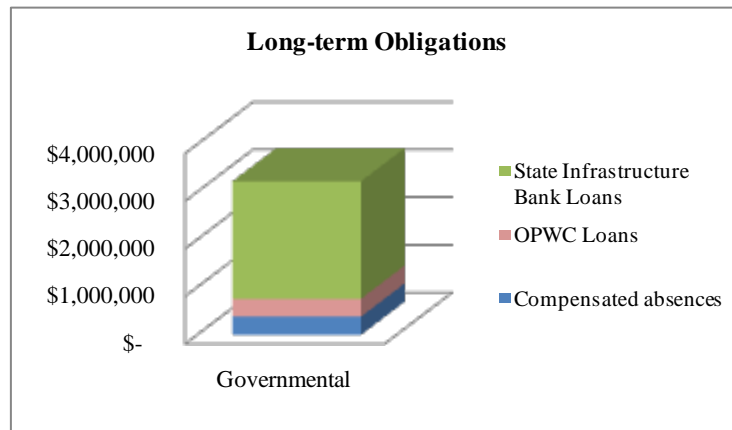
**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2010 and 2009. See Note 10 for details regarding the City's long-term liabilities.

	2010	2009
Compensated absences	\$ 383,239	\$ 368,507
OPWC Loans	375,845	419,309
State Infrastructure Bank Loans	2,466,424	2,416,263
Total outstanding debt	\$ 3,225,508	\$ 3,204,079

A comparison of the long-term obligations of 2010 by category is depicted in the chart below.



Economic Conditions and Outlook

The City of Mentor-on-the-Lake is a bedroom community with only 18 percent 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 percent developed and all roads are paved with sanitary sewers and waterlines.

The City's unreserved cash fund balances for the Operational Funds which include the General Fund, Police Pension Fund, Police Levy Fund, Fire Levy Fund, Safety Forces Fund, SCMR Fund and the State Highway Fund for the period ending December 31, 2010 decreased to \$432,650. This decrease is a direct result of the downturn in the national economy which has been ongoing for several years. As a result of the national economy downturn, the Lake County Auditor's triennial appraisal of real estate property for fiscal year 2009 resulted in a 9.6 percent reduction in assessed valuation. Applying the tax reduction factors for voted non-charter millage reduced our real estate tax revenues by approximately 4.8 percent for fiscal year 2010.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

The State of Ohio has several shared revenues with local municipalities; the most significant is the Local Government Fund. Three years ago, the Ohio General Assembly amended the distribution formula for the Local Government Fund so that the local municipalities now share in 3.86 percent of all the State's general revenues collected. The State of Ohio is one of the top five states in the country that has been hardest hit by the national economy. The Governor and the General Assembly are struggling with an \$8 billion deficit for their fiscal year beginning July 1, 2011. It is expected that our Local Government Fund will be reduced anywhere from 10 to 40 percent for the second half of our fiscal year. Other State Shared Revenues such as Gasoline and License Plate tax have been flat the last few years but may see a reduction for the last half our hour fiscal year 2011 depending on the final State budget. The State is also considering eliminating the State Estate tax which will have a negative effect on future capital expenditures. Finally, the State is passing legislation that will have sweeping changes to the Collective Bargaining Law; these changes may have a positive impact on our financial situation. It is expected that the changes to the Collective Bargaining Law will have a referendum filed that will end up on the November 2011 ballot for the citizens to decide.

To address the reduced revenues for fiscal year 2011, the City through attrition reduced one full time patrol officer and one full time fireman. This is the second time in over thirty years that the City of Mentor-on-the-Lake has had to reduce personnel. Numerous other departmental reductions have been made to make sure that our fiscal year 2011 budget is in balance and to provide the citizens of the City of Mentor-on-the-Lake with the basic services that they expect. There are some economists that say the national economy will begin to show signs of true recovery in the third quarter of fiscal year 2011 – we hope they are right.

Fiscal year 2011 will continue to be budgeted on a very conservative basis and a watchful eye will be kept on the condition of the economy for the State of Ohio.

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 Rd., Mentor-on-the-Lake, Ohio 44060.

BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 1,101,669
Accounts Receivable	13,223
Intergovernmental Receivable	2,382,201
Prepaid Items	14,868
Income Taxes Receivable	205,473
Property Taxes Receivable	1,616,304
Special Assessments Receivable	2,712
Nondepreciable Capital Assets	4,504,475
Depreciable Capital Assets	2,600,750
Total Assets	12,441,675
LIABILITIES	
Accounts Payable	19,433
Accrued Wages and Benefits	53,956
Intergovernmental Payable	63,579
Pension Obligation	64,684
Accrued Interest Payable	7,740
Unearned Revenue	1,662,850
Notes Payable	915,000
Long-term Liabilities:	
Due within one year	1,463,546
Due in more than one year	1,761,962
Total Liabilities	6,012,750
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,347,956
Restricted for:	
Debt Services	155,215
Capital Projects	2,251,606
Street Construction, Maintenance and Repair	151,241
Fire and Safety Services	61,749
Other Purposes	65,698
Unrestricted	395,460
Total Net Assets	\$ 6,428,925

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 2,469,591	\$ 190,835	\$ -	\$ 28,460
Public Health Services	65,189	-	-	-
Leisure Time Activities	64,919	2,615	-	-
Refuse Services	294,169	298,426	-	-
Transportation	614,935	-	312,551	230,000
General Government	718,371	97,996	-	-
Other	11,943	-	-	-
Interest and Fiscal Charges	18,522	-	-	-
Total Governmental activities	\$ 4,257,639	\$ 589,872	\$ 312,551	\$ 258,460

General Revenues:

Property and Other Local Taxes levied for:

General Purposes

Debt Service Purpose

Other Purposes

Income Taxes levied for:

General Purposes

Grants & Entitlements not restricted to specific programs

Investment Income

Gain on Sale of Capital Assets

All Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

Net (Expense) Revenue and Changes in Net Assets
Governmental Activities
\$ (2,250,296)
(65,189)
(62,304)
4,257
(72,384)
(620,375)
(11,943)
(18,522)
(3,096,756)
334,204
421
1,280,131
819,833
779,226
1,706
1,283
27,934
3,244,738
147,982
6,280,943
\$ 6,428,925

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 296,107	\$ 12,207	\$ 36,331
Accounts Receivable	12,133	-	-
Intergovernmental Receivable	299,436	40,331	23,178
Prepaid Items	10,644	-	3,082
Income Taxes Receivable	205,473	-	-
Property Taxes Receivable	334,993	558,623	381,695
Special Assessments Receivable	2,712	-	-
Total Assets	<u>\$ 1,161,498</u>	<u>\$ 611,161</u>	<u>\$ 444,286</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	13,734	-	2,092
Accrued Wages	15,509	31,376	709
Intergovernmental Payable	41,245	-	-
Pension Obligation Payable	44,785	-	-
Accrued Interest Payable	1,438	-	-
Deferred Revenue	378,661	75,096	45,316
Notes Payable	170,000	-	-
Unearned Revenue	342,707	523,858	359,557
Total Liabilities	<u>1,008,079</u>	<u>630,330</u>	<u>407,674</u>
Fund Balances:			
Reserved for:			
Encumbrances	9,995	-	2,534
Prepaid Items	10,644	-	3,082
Loans Receivable	-	-	-
Debt Service	-	-	-
Unreserved:			
Undesignated, Reported in:			
General Fund	132,780	-	-
Special Revenue Funds	-	(19,169)	30,996
Capital Projects Funds	-	-	-
Total Fund Balance	<u>153,419</u>	<u>(19,169)</u>	<u>36,612</u>
Total Liabilities and Fund Balance	<u>\$ 1,161,498</u>	<u>\$ 611,161</u>	<u>\$ 444,286</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2010
(CONTINUED)

<u>Fire Levy</u>	<u>Andrews Road Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 38,837	\$ 373,637	\$ 344,550	\$ 1,101,669
-	-	1,090	13,223
18,449	1,842,140	158,667	2,382,201
1,047	-	95	14,868
-	-	-	205,473
303,571	-	37,422	1,616,304
-	-	-	2,712
<u>\$ 361,904</u>	<u>\$ 2,215,777</u>	<u>\$ 541,824</u>	<u>\$ 5,336,450</u>
1,252	-	2,355	19,433
2,641	-	3,721	53,956
14,547	-	7,787	63,579
16,898	-	3,001	64,684
-	5,710	592	7,740
36,061	-	135,548	670,682
-	675,000	70,000	915,000
285,959	-	150,769	1,662,850
<u>357,358</u>	<u>680,710</u>	<u>373,773</u>	<u>3,457,924</u>
5,060	2,627	122,510	142,726
1,047	-	95	14,868
-	1,842,140	-	1,842,140
-	-	32,705	32,705
-	-	-	132,780
(1,561)	-	121,377	131,643
-	(309,700)	(108,636)	(418,336)
4,546	1,535,067	168,051	1,878,526
<u>\$ 361,904</u>	<u>\$ 2,215,777</u>	<u>\$ 541,824</u>	<u>\$ 5,336,450</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Total Governmental Funds Balance		\$ 1,878,526
<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.		7,105,225
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Property taxes	97,692	
Income taxes	126,525	
Intergovernmental revenues	446,465	
Total	670,682	670,682
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
OPWC loans	(375,845)	
Compensated absences	(383,239)	
SIB Loans	(2,466,424)	
Total	(3,225,508)	(3,225,508)
Net Assets of Governmental Activities		\$ 6,428,925

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund	Safety Forces Levy	Police Levy
REVENUES			
Property Taxes	\$ 336,368	\$ 561,237	\$ 383,206
Income Taxes	847,464	-	-
Intergovernmental	598,044	80,662	46,356
Interest	1,070	21	161
Licenses and Permits	6,772	-	-
Fines and Forfeitures	24,675	-	-
Charges for Services	531,036	-	-
Special Assessments	1,264	-	-
All Other Revenues	22,856	-	2,269
Total Revenues	2,369,549	641,920	431,992
EXPENDITURES			
Security of Persons and Property	810,230	662,696	497,809
Public Health	65,189	-	-
Leisure Time Activities	39,477	-	-
Refuse Services	292,798	-	-
Transportation	219,140	-	-
General Government	688,530	-	-
Capital Outlay	9,705	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	3,814	-	-
Other	-	-	-
Total Expenditures	2,128,883	662,696	497,809
Excess (Deficiency) of Revenues Over (Under) Expenditures	240,666	(20,776)	(65,817)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	1,283	-	-
SIB Loans Issued	-	-	-
Transfers In	59,767	-	-
Transfers Out	(287,550)	-	-
Total Other Financing Sources (Uses)	(226,500)	-	-
Net Change in Fund Balances	14,166	(20,776)	(65,817)
Fund Balances - Beginning of Year	139,253	1,607	102,429
Fund Balances - End of Year	\$ 153,419	\$ (19,169)	\$ 36,612

The notes to the financial statements are an integral part of this statement.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

Fire Levy	Andrews Road Construction	Other Governmental Funds	Total Governmental Funds
\$ 304,754	\$ -	\$ 37,818	\$ 1,623,383
-	-	-	847,464
36,897	230,000	346,858	1,338,817
94	-	361	1,707
-	-	-	6,772
-	-	1,900	26,575
-	-	24,225	555,261
-	-	-	1,264
452	-	2,357	27,934
<u>342,197</u>	<u>230,000</u>	<u>413,519</u>	<u>4,429,177</u>
360,191	-	43,263	2,374,189
-	-	-	65,189
-	-	1,350	40,827
-	-	-	292,798
-	160	320,218	539,518
-	-	3,600	692,130
-	50,161	44,687	104,553
-	-	43,464	43,464
-	13,154	1,555	18,523
-	-	11,943	11,943
<u>360,191</u>	<u>63,475</u>	<u>470,080</u>	<u>4,183,134</u>
<u>(17,994)</u>	<u>166,525</u>	<u>(56,561)</u>	<u>246,043</u>
-	-	-	1,283
-	50,161	-	50,161
-	39,882	309,470	409,119
-	-	(121,569)	(409,119)
-	90,043	187,901	51,444
<u>(17,994)</u>	<u>256,568</u>	<u>131,340</u>	<u>297,487</u>
22,540	1,278,499	36,711	1,581,039
<u>\$ 4,546</u>	<u>\$ 1,535,067</u>	<u>\$ 168,051</u>	<u>\$ 1,878,526</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, 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, 2010**

Net Change in Fund Balances--Total Governmental Funds \$ 297,487

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	104,235	
Depreciation	(205,581)	
Total		(101,346)

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. (1,892)

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

Property taxes	(8,627)	
Income taxes	(27,631)	
Intergovernmental revenues	11,420	
Total		(24,838)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of State Infrastructure Bank (SIB) loans. (50,161)

Repayment of OPWC loans are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 43,464

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	(14,732)	
Total		(14,732)

Change in Net Assets of Governmental Activities \$ 147,982

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Property Taxes	\$ 325,600	\$ 336,100	\$ 336,368	\$ 268
Income Taxes	820,000	830,000	832,477	2,477
Intergovernmental Revenues	522,110	551,810	571,315	19,505
Interest	3,000	3,000	1,070	(1,930)
Licenses and Permits	7,520	6,465	6,832	367
Fines and Forfeitures	30,000	27,000	25,998	(1,002)
Charges for Services	467,240	476,340	544,161	67,821
All Other Revenues	91,182	96,347	19,488	(76,859)
Total Revenues	<u>2,266,652</u>	<u>2,327,062</u>	<u>2,337,709</u>	<u>10,647</u>
EXPENDITURES				
Current:				
Security of Persons & Property	818,350	818,350	803,658	14,692
Public Health	65,000	65,000	65,189	(189)
Leisure Time Activities	47,740	47,740	39,213	8,527
Refuse Services	309,330	316,630	315,114	1,516
Transportation	241,177	241,177	225,216	15,961
General Government	677,200	692,700	656,061	36,639
Capital Outlay	17,900	26,900	19,770	7,130
Total Expenditures	<u>2,176,697</u>	<u>2,208,497</u>	<u>2,124,221</u>	<u>84,276</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>89,955</u>	<u>118,565</u>	<u>213,488</u>	<u>94,923</u>
OTHER FINANCES SOURCES (USES)				
Transfers - Out	(287,550)	(287,550)	(287,550)	-
Other Financing Sources	1,100	4,600	4,651	51
Other Financing Uses	(30,050)	(33,560)	(33,470)	90
Total Other Financing Sources (Uses)	<u>(316,500)</u>	<u>(316,510)</u>	<u>(316,369)</u>	<u>141</u>
Net Change in Fund Balance	(226,545)	(197,945)	(102,881)	95,064
Fund Balance - Beginning of Year	383,057	383,057	383,057	-
Prior Year Encumbrances Appropriated	4,946	4,946	4,946	-
Fund Balance - End of Year	<u>\$ 161,458</u>	<u>\$ 190,058</u>	<u>\$ 285,122</u>	<u>\$ 95,064</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SAFETY FORCES LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 543,020	\$ 561,220	\$ 561,237	\$ 17
Intergovernmental	72,568	80,668	80,662	(6)
Interest	100	30	21	(9)
Total Revenues	<u>615,688</u>	<u>641,918</u>	<u>641,920</u>	<u>2</u>
EXPENDITURES				
Current:				
Security of Persons & Property	631,800	646,800	646,263	537
Total Expenditures	<u>631,800</u>	<u>646,800</u>	<u>646,263</u>	<u>537</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(16,112)</u>	<u>(4,882)</u>	<u>(4,343)</u>	<u>539</u>
OTHER FINANCES SOURCES (USES)				
Other Financing Uses	(7,200)	(7,200)	(6,958)	242
Total Other Financing Sources (Uses)	<u>(7,200)</u>	<u>(7,200)</u>	<u>(6,958)</u>	<u>242</u>
Net change in Fund Balance	(23,312)	(12,082)	(11,301)	781
Fund Balance - Beginning of Year	23,508	23,508	23,508	-
Fund Balance - End of Year	<u>\$ 196</u>	<u>\$ 11,426</u>	<u>\$ 12,207</u>	<u>\$ 781</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
POLICE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 364,560	\$ 383,160	\$ 383,206	\$ 46
Intergovernmental	46,750	46,350	46,356	6
Investment Earnings	152	152	161	9
Total Revenues	<u>411,462</u>	<u>429,662</u>	<u>429,723</u>	<u>61</u>
EXPENDITURES				
Current:				
Security of Persons & Property	507,143	507,143	496,339	10,804
Total Expenditures	<u>507,143</u>	<u>507,143</u>	<u>496,339</u>	<u>10,804</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(95,681)</u>	<u>(77,481)</u>	<u>(66,616)</u>	<u>10,865</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Sources	-	1,500	2,269	769
Other Financing Uses	<u>(6,800)</u>	<u>(6,800)</u>	<u>(6,523)</u>	<u>277</u>
Total Other Financing Sources (Uses)	<u>(6,800)</u>	<u>(5,300)</u>	<u>(4,254)</u>	<u>1,046</u>
Net change in Fund Balance	(102,481)	(82,781)	(70,870)	11,911
Fund Balance - Beginning of Year	99,988	99,988	99,988	-
Prior Year Encumbrances Appropriated	<u>2,943</u>	<u>2,943</u>	<u>2,943</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 450</u>	<u>\$ 20,150</u>	<u>\$ 32,061</u>	<u>\$ 11,911</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 289,950	\$ 304,750	\$ 304,754	\$ 4
Intergovernmental Revenues	37,199	36,199	36,897	698
Interest	120	90	94	4
Total Revenues	<u>327,269</u>	<u>341,039</u>	<u>341,745</u>	<u>706</u>
EXPENDITURES				
Current:				
Security of Persons & Property	374,495	374,495	357,241	17,254
Total Expenditures	<u>374,495</u>	<u>374,495</u>	<u>357,241</u>	<u>17,254</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(47,226)</u>	<u>(33,456)</u>	<u>(15,496)</u>	<u>17,960</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Sources	-	450	452	2
Other Financing Uses	(6,000)	(6,000)	(5,607)	393
Total Other Financing Sources (Uses)	<u>(6,000)</u>	<u>(5,550)</u>	<u>(5,155)</u>	<u>395</u>
Net change in Fund Balance	<u>(53,226)</u>	<u>(39,006)</u>	<u>(20,651)</u>	<u>18,355</u>
Fund Balance - Beginning of Year	49,901	49,901	49,901	-
Prior Year Encumbrances Appropriated	3,394	3,394	3,394	-
Fund Balance - End of Year	<u>\$ 69</u>	<u>\$ 14,289</u>	<u>\$ 32,644</u>	<u>\$ 18,355</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 94,889
Cash and Cash Equivalents:	
in Segregated Accounts	9,340
Total Assets	\$ 104,229
 Liabilities	
Deposits Held and Due to Others	9,340
Undistributed Monies	94,889
Total Liabilities	\$ 104,229

The notes to the financial statements are an integral part of this statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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, fire and rescue protection, street maintenance and repair, parks, recreation, and planning and zoning. Council and the Mayor are directly responsible for these activities. The accompanying financial statements present the City, which has no component units.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

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.

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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

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.

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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

C. **Fund Accounting** (Continued)

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 funds include refundable deposit accounts and payroll related liabilities that have yet been disbursed to their respective taxing authorities.

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 reconciliations 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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

E. Basis of Accounting

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

Revenues - Exchange and 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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

E. **Basis of Accounting** (Continued)

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance year 2011 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2010, are recorded as deferred revenue.

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

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

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

F. **Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the Certificate of Estimated Resources, and the Appropriations Ordinance, 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, department, and object level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

F. **Budgetary Data** (Continued)

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 2010.

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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

F. **Budgetary Data** (Continued)

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

G. **Cash and Cash Equivalents**

Cash balances of the City's funds 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.

The City has a segregated bank account for monies held separate from the City's central bank accounts. This account is presented on the Statement of Fiduciary Net Assets as "Cash and Cash Equivalents in Segregated Accounts" since it is not required to be deposited into the City's treasury.

During 2010, investments were limited to State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shares price, which is the price the investment could be sold for on December 31, 2010.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the General Fund during 2010 amounted to \$1,070, which included \$648 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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

G. **Cash and Cash Equivalents** (Continued)

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 maintains 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.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 years
Buildings	30-50 years
Furniture, Fixtures, and Equipment	10-40 years
Vehicles	6-25 years
Infrastructure	25-50 years

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

I. Compensated Absences

The City follows the provisions of Governmental Accounting Standards Board (GASB) 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 was no short-term compensated absences payable at December 31, 2010.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, 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
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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 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 basic financial statements.

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 balance 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, prepaid items, loan receivable from Northeast Ohio Areawide Coordinating Agency (NOACA), and debt service in the governmental fund financial statements.

N. Estimates

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

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 grants from state or federal agencies.

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

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 2010.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. **Changes in Accounting Principles**

For fiscal year 2010, the City implemented GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 improves the quality of financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets.

GASB Statement No. 53 improves the quality of financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contract that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

A. **Changes in Accounting Principles** (Continued)

GASB Statement No. 58 improves the quality of financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy.

The implementation of the aforementioned GASB Statements did not affect the presentation of the financial statements of the City.

B. **Deficit Fund Balances**

Fund balances at December 31, 2010, included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
Safety Forces Levy	\$ 19,169
 <u>Nonmajor Funds</u>	
Fire Equipment	79,583
OPWC – Holly Drive	70,592

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 balance in the OPWC - Holly Drive Fund resulted primarily from bond anticipation notes being reported as fund liabilities rather than as other financing sources. The deficit fund balances in the Safety Forces Levy Fund and the Fire Equipment Fund were due to accrued liabilities.

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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

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

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Administrative Director 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, 2010, the carrying amount of all City deposits was \$901,409. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2010, \$342,134 of the City's bank balance of \$945,159 was exposed to custodial risk as discussed below, while \$603,025 was covered by the Federal Deposit Insurance Corporation.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

B. Deposits with Financial Institutions (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits in excess of coverage provided by the Federal Deposit Insurance Corporation (FDIC) are collateralized with eligible securities in amounts equal to at least 105 percent 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 but not in the name of the City, 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, 2010, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAROhio	<u>\$ 303,779</u>	<u>\$ 303,779</u>

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 STAROhio 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, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAROhio	<u>\$ 303,779</u>	<u>100.00 %</u>

**CITY OF MENTOR-ON-THE-LAKE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

D. Reconciliation of Cash and Investments 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, 2010:

<u>Cash and Investments per Footnote</u>	
Cash on Hand	\$ 710
Carrying Amount of Deposits	901,409
Investments	<u>303,779</u>
Total Cash and Investments per Footnote	<u>\$1,205,898</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental Activities	\$1,101,669
Agency Funds	<u>104,229</u>
Total Cash and Investments per Statement of Net Assets	<u>\$1,205,898</u>

NOTE 5: **TAXES**

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility 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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 5: **TAXES** (Continued)

A. **Property Taxes** (Continued)

Tangible personal property tax revenues received in 2010 (other than public utility property) represent the collection of 2010 taxes. Tangible personal property taxes received in 2010 were levied after October 1, 2009, on the true value as of December 31, 2009. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is zero percent for 2010. 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 2007-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing cities in the County, including the City. 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, 2010, was \$24.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property Tax	\$ 133,732,470
Public Utility Tangible Personal Property Tax	4,557,170
Tangible Personal Property Tax	<u>90,630</u>
Total Assessed Valuation	<u>\$ 138,380,270</u>

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LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 5: **TAXES** (Continued)

A. **Property Taxes** (Continued)

Property taxes receivables represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2010. 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 delinquencies 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 on the modified accrual basis of accounting.

B. **Income Taxes**

The City levies a tax of 2 percent on all salaries, wages, commissions, and other compensation and net profits earned within the City as well as incomes to residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed. Income tax revenue is credited to the General Fund and totaled \$847,464 for fiscal year 2010.

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2010, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue, and the amount NOACA will service the debt on the City's State Infrastructure Bank (SIB) loan. Receivables have been recorded to the extent that they are measurable at December 31, 2010.

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

Governmental Activities

Property Taxes	\$ 1,616,304
Income Taxes	205,473
Accounts	13,223
Intergovernmental	2,382,201
Special Assessments	2,712

Receivables have been disaggregated on the face of the BFS. All receivables are expected to be collected within the subsequent year, with the exception of special assessments, which will be collected over the life of the assessment and the NOACA intergovernmental receivable, which will be collected over the life of the SIB loan.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balances 12/31/2009	Additions	Disposals	Balances 12/31/2010
Governmental Activities				
Nondepreciable Assets:				
Land	\$ 495,279	\$ -	\$ -	\$ 495,279
Construction in progress	3,939,472	69,724	-	4,009,196
Total Nondepreciable Assets	<u>4,434,751</u>	<u>69,724</u>	<u>-</u>	<u>4,504,475</u>
Depreciable Assets:				
Land Improvements	124,613	-	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	646,337	34,511	(7,600)	673,248
Vehicles	1,316,339	-	(4,000)	1,312,339
Infrastructure:				
Roads	889,172	-	-	889,172
Storm sewers	598,789	-	-	598,789
Total Depreciable Assets	<u>4,175,350</u>	<u>34,511</u>	<u>(11,600)</u>	<u>4,198,261</u>
Less Accumulated Depreciation				
Land Improvements	(36,347)	(6,231)	-	(42,578)
Buildings	(347,954)	(16,206)	-	(364,160)
Furniture, fixtures and equipment	(185,656)	(27,072)	2,334	(210,394)
Vehicles	(593,102)	(90,837)	7,374	(676,565)
Infrastructure:				
Roads	(168,366)	(51,872)	-	(220,238)
Storm sewers	(70,213)	(13,363)	-	(83,576)
Total Accumulated Depreciation	<u>(1,401,638)</u>	<u>(205,581)</u>	<u>9,708</u>	<u>(1,597,511)</u>
Total Depreciable Assets, Net	<u>2,773,712</u>	<u>(171,070)</u>	<u>(1,892)</u>	<u>2,600,750</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,208,463</u>	<u>\$ (101,346)</u>	<u>\$ (1,892)</u>	<u>\$ 7,105,225</u>

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

Security of Persons and Property:	\$ 80,829
Leisure Time Activities	9,351
Transportation	93,060
General Government	22,341
Total Depreciation Expense	<u>\$ 205,581</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 8: INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers to:</u>	<u>Transfers from:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 59,767	\$ 59,767
Andrews Road Reconstruction Fund	-	39,882	39,882
Nonmajor Governmental Funds	<u>287,550</u>	<u>21,920</u>	<u>309,470</u>
	<u><u>287,550</u></u>	<u><u>121,569</u></u>	<u><u>409,119</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund 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.

NOTE 9: NOTES PAYABLE

The City had the following outstanding bond anticipation notes at December 31, 2010:

	<u>Interest Rate</u>	<u>Balance 12/31/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2010</u>
Various purpose improvements Bond anticipation notes	2.125%	\$ 1,015,000	\$ -	\$ (1,015,000)	-
Various purpose improvements Bond anticipation notes	1.650%	-	915,000	-	915,000
Total Notes Payable		<u><u>\$ 1,015,000</u></u>	<u><u>\$ 915,000</u></u>	<u><u>\$ (1,015,000)</u></u>	<u><u>\$ 915,000</u></u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 9: **NOTES PAYABLE** (Continued)

During 2010, the City retired the \$1,015,000 bond anticipation notes that were due on June 23, 2010, and issued \$915,000 in bond anticipation notes to finance the following projects: \$675,000 was issued for the State Route 283 project, \$70,000 was issued for the Holly Drive project, and \$170,000 was issued for the purchase of miscellaneous equipment in the General Fund. The proceeds of the bond anticipation notes were recorded in the Andrews Road Construction Fund, a major fund, and the OPWC Holly Drive Fund, a nonmajor governmental fund, and the General Fund, a major fund, respectively. 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 1.65 percent interest rate and are scheduled to mature on June 22, 2011.

NOTE 10: **LONG-TERM OBLIGATIONS**

A. **Changes in Governmental Activities' Long-Term Obligations**

During the fiscal year 2010, the following changes occurred in the City's governmental activities long-term obligations:

	Interest Rate	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Amounts Due in One Year
Governmental Activities:						
<u>OPWC Loans:</u>						
1996 - 15 years						
OPWC 93 (Salida Rd.)	0%	\$ 11,016	\$ -	\$ (11,016)	\$ -	\$ -
1996 - 20 years						
OPWC 94 (Harbor Creek)	0%	55,945	-	(8,608)	47,337	8,608
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	78,750	-	(7,500)	71,250	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	98,781	-	(6,586)	92,195	6,586
2005 - 20 years						
OPWC 05 (Weber Area)	0%	36,067	-	(2,254)	33,813	2,254
2007 - 20 years						
OPWC 07 (SR 283)	0%	138,750	-	(7,500)	131,250	7,500
Total OPWC Loans		<u>419,309</u>	<u>-</u>	<u>(43,464)</u>	<u>375,845</u>	<u>32,448</u>
<u>Other Long-Term Obligations:</u>						
SIB Loan # 070A10	0%-3%	1,842,140	-	-	1,842,140	1,209,856
SIB Loan # 070B10	0%-3%	574,123	50,161	-	624,284	85,276
Compensated absences		368,507	174,658	(159,926)	383,239	135,966
Total Other Long-Term Obligations		<u>2,784,770</u>	<u>224,819</u>	<u>(159,926)</u>	<u>2,849,663</u>	<u>1,431,098</u>
Total Governmental Activities						
Long-Term Obligations		<u>\$ 3,204,079</u>	<u>\$ 224,819</u>	<u>\$ (203,390)</u>	<u>\$3,225,508</u>	<u>\$1,463,546</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

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

A. **Changes in Governmental Activities Long-Term Obligations** (Continued)

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 Safety Forces Levy funds.

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

State Infrastructure Bank (SIB) Loans The City has entered into two SIB loans to assist in the funding of the Andrews Road reconstruction project. The loans were approved in fiscal year 2007 with zero percent interest rates on the first 12 months and 3.00 percent on months 13 through 120.

The first loan is in the amount of \$1,842,140. The City and NOACA have agreed that NOACA will service this debt using its STP funds. The City pledges its general obligation to repay 100 percent of the loan should there be a default by NOACA. As of December 31, 2010, the City has used \$1,842,140 of this loan for the project. Since the loan will be repaid by NOACA, the City has recorded an intergovernmental receivable in the amount of the loan used to date.

The second loan was in the amount of \$624,284. The City has pledged its general obligation to repay 100 percent of the loan. As of December 31, 2010, the City has used 100 percent of the loan proceeds of this loan for the project. The City’s Debt Service Fund will be used to repay the required debt service on this loan

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Principal requirements to retire the long-term loans outstanding at December 31, 2010, are as follows:

Year	OPWC Loans		NOACA Share SIB Loan # 070A10		City Share SIB Loan # 070B10	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 32,448	\$ -	\$ 1,209,856	\$ 131,724	\$ 85,276	\$ 20,871
2012	32,448	-	632,284	38,506	76,288	15,612
2013	32,448	-	-	-	78,595	13,305
2014	32,448	-	-	-	80,969	10,930
2015	32,448	-	-	-	83,417	8,483
2016-2020	119,747	-	-	-	219,739	10,007
2021-2025	75,108	-	-	-	-	-
2026-2029	18,750	-	-	-	-	-
Total	<u>\$ 375,845</u>	<u>\$ -</u>	<u>\$ 1,842,140</u>	<u>\$ 170,230</u>	<u>\$ 624,284</u>	<u>\$ 79,208</u>

B. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2010, the City's total debt margin was \$13,685,014 and the unvoted debt margin was \$6,766,001.

**CITY OF MENTOR-ON-THE-LAKE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 11: **PENSION PLAN**

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 Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of 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 in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in 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 Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's contribution rate of 14.00 percent was allocated to fund pension benefits for members of: the Traditional Plan was 8.50 percent from January 1 through February 28, 2010 and 9.00 percent from March 1 through December 31, 2010; the Combined Plan was 9.27 percent from January 1 through February 28, 2010 and 9.77 percent from March 1 through December 31, 2010. The City's required contributions for to the Traditional Pension and Combined plans for the years ended December 31, 2010, 2009, and 2008 were \$158,075, \$166,237, and \$159,372, respectively; 91.71 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$13,104, is recorded as a liability within the respective funds.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 11: **PENSION PLAN** (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 information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 E. Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's contributions to OP&F for the years ended December 31, 2010, 2009, and 2008 were \$183,940, \$189,440 and \$188,959, respectively; 72.27 percent has been contributed for 2010 and 100 percent for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$51,579, is recorded as a liability within the respective funds.

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS**

A. Ohio Public Employees Retirement System

Plan Description - Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan is a defined contribution plan; and 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.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

CITY OF MENTOR-ON-THE-LAKE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in 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 Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2010 local government employer contribution rate was 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for local government employers. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.50 percent from January 1 through February 28, 2010 and 5.00 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2010 which were used to fund post-employment benefits were \$57,320.

CITY OF MENTOR-ON-THE-LAKE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

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

OP&F provides access to post-employment health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town Street, Columbus, OH 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions for 2010, 2009, and 2008 that were used to fund post-employment benefits were \$43,604 for police and \$16,305 for firefighters, \$45,818 for police and \$16,053 for firefighters, and \$46,630 for police and \$15,939 for firefighters, respectively.

NOTE 13: **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, the Equitable Financial Companies Deferred Compensation Plan or the Security Benefit Life Insurance Company/Financial Network of America, 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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 13: **OTHER EMPLOYEE BENEFITS** (Continued)

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.

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 14: **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, 2010.

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
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

NOTE 15: 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 CompManagement, Inc. 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 16: 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
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 16: **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.

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
Budget basis	\$ (102,881)	\$(11,301)	\$ (70,870)	\$(20,651)
Net adjustment of revenue accruals	28,472	-	-	-
Net adjustment of expenditure accruals	17,823	(9,475)	783	(3,536)
Net adjustment of other sources/uses	59,767	-	-	-
Adjustment for encumbrances	10,985	-	4,270	6,193
GAAP basis	<u>\$ 14,166</u>	<u>\$(20,776)</u>	<u>\$ (65,817)</u>	<u>\$(17,994)</u>

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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**

To the Members of City Council
City of Mentor-on-the-Lake, Ohio

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, Lake County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the City of Mentor-on-the-Lake, Ohio's basic financial statements and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mentor-on-the-Lake, Ohio'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, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mentor-on-the-Lake, Ohio's internal control over financial reporting.

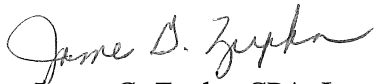
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Mentor-on-the-Lake, Ohio's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

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

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

March 22, 2011

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Dave Yost • 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
MAY 10, 2011**