

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Mentor-on-the Lake, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. 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

June 26, 2012

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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, 2011, 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, 2011 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.

As discussed in Note 3, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, 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

April 20, 2012

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$44,541.
- General revenues accounted for \$3,287,068 or 76.56 percent of total governmental activities revenue. Program specific revenues accounted for \$1,006,554 or 23.44 percent of total governmental activities revenue of \$4,293,622.
- The City had \$4,249,081 in expenses related to governmental activities; \$1,006,554 of these expenses was offset by program specific charges for services, grants and contributions. The remaining expenses of the governmental activities of \$3,242,527 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,287,068.
- 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 \$2,578,677 in 2011. This represents an increase of \$209,128 from 2010 revenues. The expenditures of the General Fund, which totaled \$2,356,036 in 2011, increased \$227,153 from 2010. The net increase in fund balance for the General Fund was \$141,003 or 91.91 percent.
- The Safety Forces Levy Fund had revenues of \$617,028 in 2011, which is a decrease of \$24,892 from 2010 revenues. The expenditures in the Safety Forces Levy Fund totaled \$576,491 in 2011, which decreased \$86,205 from 2010. The net increase in fund balance was \$40,537, resulting in an ending fund balance of \$21,368.
- The Police Levy Fund had revenues of \$402,773, which is a decrease of \$29,219 from 2010 revenues. The expenditures totaled \$412,254 in 2011, which decreased \$85,555 from 2010 expenditures. The net decrease in fund balance was \$9,481, resulting in an ending fund balance of \$27,131.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

- The Fire Levy Fund had revenues of \$320,198 in 2011, which is a decrease of \$21,999 from 2010 revenues. The expenditures totaled \$313,291 in 2011, which decreased \$46,900 from 2010 expenditures. The net increase in fund balance was \$6,907, resulting in an ending fund balance of \$11,453.
- The Andrews Road Construction Fund had no revenues other than transfers to service the short-term notes payable in 2011. This is a decrease of \$230,000 from 2010 revenues. The expenditures totaled \$306,214 in 2011, which is an increase of \$242,739 from 2010 expenditures. The net decrease in fund balance was \$362,145, resulting in an ending fund balance of \$1,172,922.
- In the General Fund, the actual revenues and other financing sources were \$39,716 higher than they were in the final budget revenues and actual expenditures and other financing uses were \$90,754 less than the amount in the final budget expenditures. These variances are the result of the City's conservative budgeting. The final budget revenues and other financing sources were \$207,340 higher than they were in the original budget and final budget expenditures and other financing uses were \$21,900 higher than they were in for the original budget expenditures.

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 2011?" 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, 2011
(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 19-20 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 11.

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
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(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 21-30 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 31 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 32-66 of this report.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

Government-wide Financial Analysis

The table below provides a summary of the City's net assets for 2011 and 2010.

	Net Assets	
	2011	2010
ASSETS		
Current and other assets	\$ 5,159,942	\$ 5,336,450
Capital assets, net	6,945,271	7,105,225
Total Assets	<u>12,105,213</u>	<u>12,441,675</u>
LIABILITIES		
Current liabilities	2,821,943	2,787,242
Long-term liabilities	2,809,804	3,225,508
Total Liabilities	<u>5,631,747</u>	<u>6,012,750</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,666,434	3,347,956
Restricted	2,269,288	2,685,509
Unrestricted	537,744	395,460
Total Net Assets	<u>\$ 6,473,466</u>	<u>\$ 6,428,925</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$6,473,466. At year-end, unrestricted net assets were \$537,744.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 57.37 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, 2011, were \$3,666,434 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, \$2,269,288, 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 \$537,744.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

The table below shows the changes in net assets for fiscal year 2011 and 2010.

	Changes in Net Assets	
	<u>2011</u>	<u>2010</u>
REVENUES		
Program Revenues:		
Charges for services	\$ 675,134	\$ 589,872
Operating grants and contributions	331,420	312,551
Capital grants and contributions	-	258,460
Total Program Revenues	<u>1,006,554</u>	<u>1,160,883</u>
General Revenues:		
Property taxes	1,535,549	1,614,756
Income taxes	987,803	819,833
Unrestricted grants and entitlements	676,383	779,226
Investment income	1,224	1,706
All other revenues	86,109	29,217
Total General Revenues	<u>3,287,068</u>	<u>3,244,738</u>
Total Revenues	<u>4,293,622</u>	<u>4,405,621</u>
EXPENSES		
Program Expenses:		
General government	722,275	718,371
Security of persons and property	2,366,545	2,469,591
Public health and welfare	59,725	65,189
Transportation	559,784	614,935
Leisure time activities	50,231	64,919
Refuse services	440,552	294,169
Other	12,550	11,943
Interest and fiscal charges	37,419	18,522
Total Expenses	<u>4,249,081</u>	<u>4,257,639</u>
Change in Net Assets	44,541	147,982
Net Assets - Beginning of Year	6,428,925	6,280,943
Net Assets - End of Year	<u>\$ 6,473,466</u>	<u>\$ 6,428,925</u>

Governmental Activities

Governmental activities net assets increased \$44,541 in 2011. This increase is primarily due to a slight reduction in expenses for 2011 versus 2010 coupled with revenues exceeding expenses for 2011.

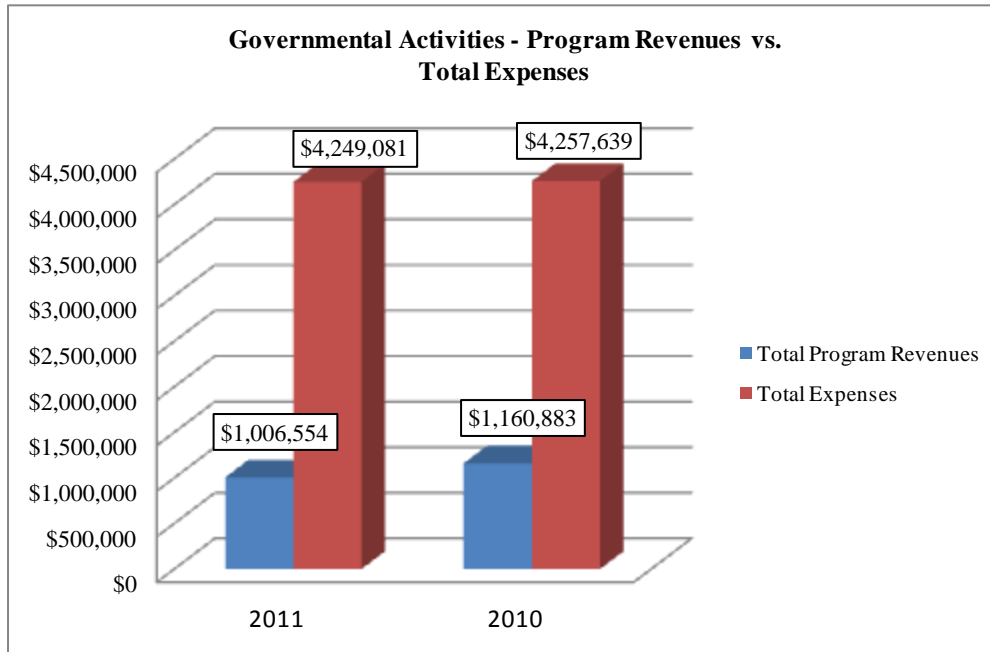
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,366,545, which accounted for 55.70 percent of the total expenses of the City. These expenses were partially funded by \$234,002 in direct charges to users of the services and operating grants and contributions. General government expenses totaled \$722,275, which was partially funded by \$131,031 in direct charges to users of the services.

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

The state and federal government, along with similar agencies, contributed to the City a total of \$331,420 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the operating grants and contributions received, \$304,450 subsidized transportation programs.

General revenues totaled \$3,287,068 and amounted to 76.56 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,523,352. 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 \$676,383.

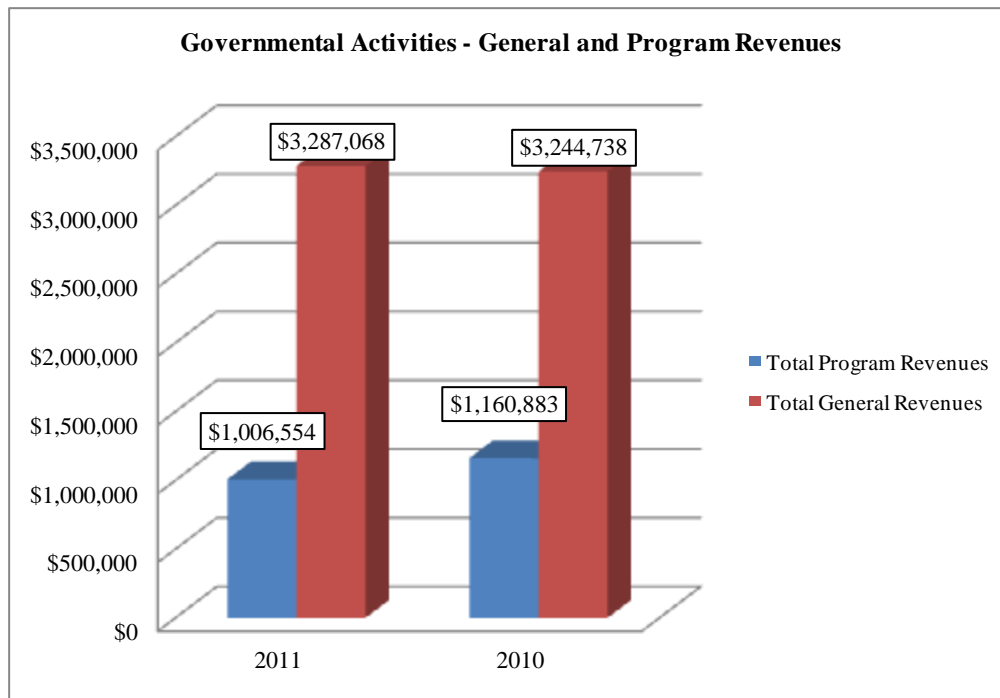
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported 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, 2011
(CONTINUED)**

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
General government	\$ 722,275	\$ 591,244	\$ 718,371	\$ 620,375
Security of persons and property	2,366,545	2,132,543	2,469,591	2,250,296
Public health and welfare	59,725	59,725	65,189	65,189
Transportation	559,784	255,334	614,935	72,384
Leisure time activities	50,231	45,451	64,919	62,304
Refuse services	440,552	108,261	294,169	(4,257)
Other	12,550	12,550	11,943	11,943
Interest and fiscal charges	37,419	37,419	18,522	18,522
Total cost of service	<u>\$ 4,249,081</u>	<u>\$ 3,242,527</u>	<u>\$4,257,639</u>	<u>\$ 3,096,756</u>

The dependence upon general revenues for governmental activities is apparent, with 76.31 percent of expenses supported through taxes and other general revenues.



**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned 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 21-22) reported a combined fund balance of \$1,684,635, which is \$193,891 less than last year's combined fund balance total of \$1,878,526. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds.

	Fund Balances/ (Deficits) 12/31/2011	Fund Balances/ (Deficits) 12/31/2010	Increase (Decrease)
Major funds:			
General	\$ 294,422	\$ 153,419	\$ 141,003
Safety forces levy	21,368	(19,169)	40,537
Police levy	27,131	36,612	(9,481)
Fire levy	11,453	4,546	6,907
Andrews Road construction	1,172,922	1,535,067	(362,145)
Other nonmajor governmental funds	157,339	168,051	(10,712)
Total	<u>\$ 1,684,635</u>	<u>\$ 1,878,526</u>	<u>\$ (193,891)</u>

General Fund

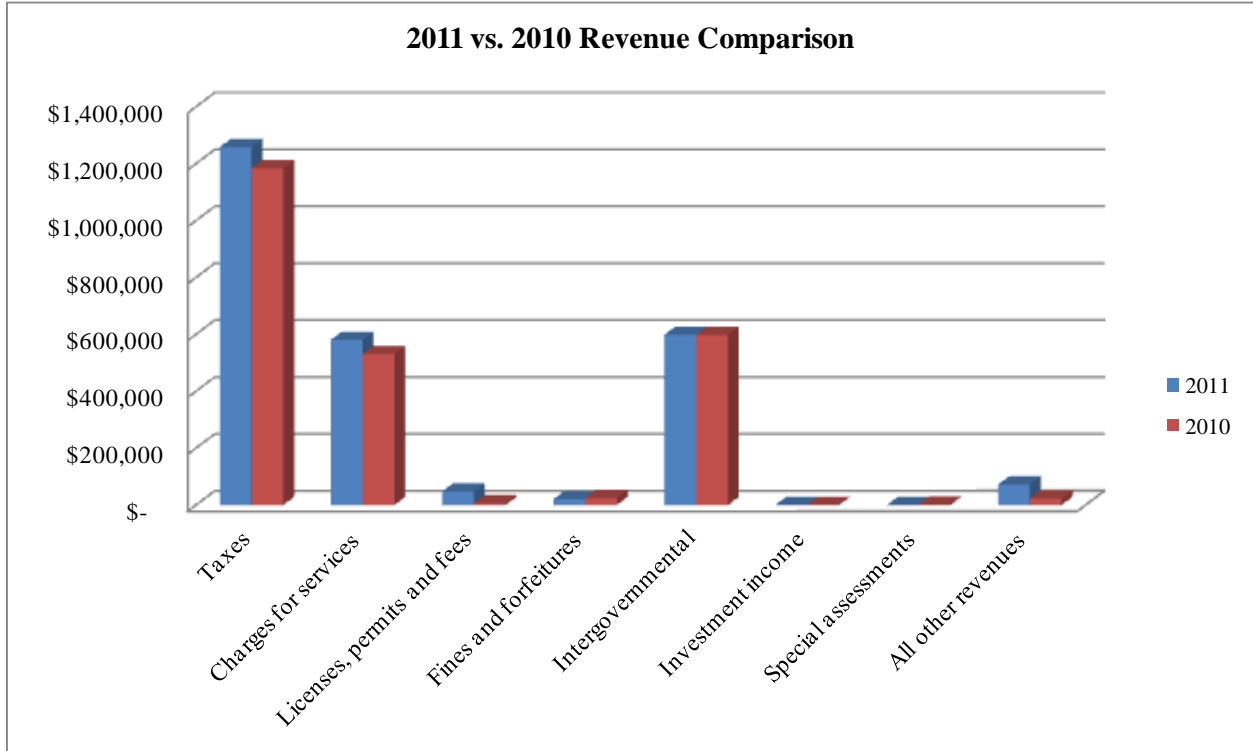
The City's General Fund balance increased \$141,003, primarily due to increases in revenues. The table that follows assists in illustrating the revenues of the General Fund.

	2011 Amount	2010 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$ 1,258,301	\$ 1,183,832	6.29%
Charges for services	580,784	531,036	9.37%
Licenses, permits and fees	47,537	6,772	601.96%
Fines and forfeitures	20,104	24,675	-18.52%
Intergovernmental	598,820	598,044	0.13%
Investment income	1,004	1,070	-6.17%
Special assessments	-	1,264	-100.00%
All other revenues	72,127	22,856	215.57%
Total	<u>\$ 2,578,677</u>	<u>\$ 2,369,549</u>	<u>8.83%</u>

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

Tax revenue represents 48.80 percent of all General Fund revenue. Income and property tax revenues increased during 2011. Charges for services and licenses, permits, and fees were the other main contributors in the increase total revenues for 2011.

The following graphs show the breakdown of General Fund revenues for 2011 and 2010:



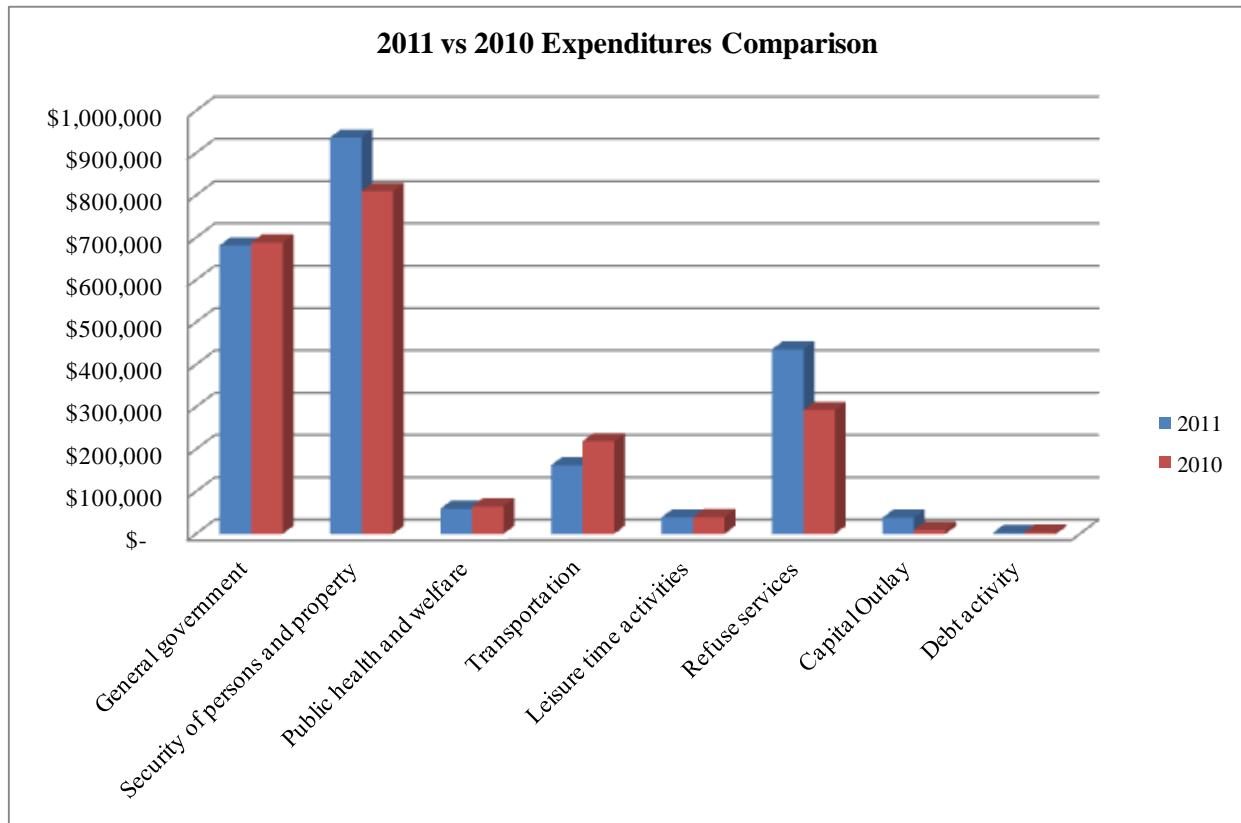
The table that follows assists in illustrating the expenditures of the General Fund.

<u>Expenditures</u>	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Percentage Change</u>
General government	\$ 681,645	\$ 688,530	-1.00%
Security of persons and property	936,593	810,230	15.60%
Public health and welfare	59,725	65,189	-8.38%
Transportation	162,241	219,140	-25.96%
Leisure time activities	39,057	39,477	-1.06%
Refuse services	436,098	292,798	48.94%
Capital Outlay	38,223	9,705	293.85%
Debt activity	2,454	3,814	-35.66%
Total	<u>\$ 2,356,036</u>	<u>\$ 2,128,883</u>	<u>10.67%</u>

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

The most significant increases were in the areas of security of persons and property, refuse services and capital outlay. All other expenditures remained comparable to 2010.

The following graphs show the breakdown of General Fund expenditures for 2011 and 2010:



Safety Forces Levy Fund

The fund balance of the City's Safety Forces Levy Fund increased \$40,537, primarily due to a decrease in expenditures. Revenues decreased from \$641,920 in 2010 to \$617,028 in 2011. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures decreased from \$662,696 in 2010 to \$576,491 in 2011.

Police Levy Fund

The fund balance of the City's Police Levy Fund decreased \$9,481, primarily due to expenditures exceeding revenues. Revenues decreased from \$431,992 in 2010 to \$402,773 in 2011. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$497,809 in 2010 to \$412,254 in 2011.

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

Fire Levy Fund

The fund balance of the City's Fire Levy Fund increased \$6,907, primarily due to decreased expenditures. Revenues decreased from \$342,197 in 2010 to \$320,198 in 2011. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$360,191 in 2010 to \$313,291 in 2011.

Andrews Road Construction Fund

The City's Andrews Road Construction Fund's fund balance decreased to \$362,145 in 2011. The Fund had increased debt service expenditures as compared to 2010 and no revenues as compared to prior year. The increase in debt service expenditures is a result of the Northeast Ohio Areawide Coordinating Agency (NOACA) paying their share of one of the State Infrastructure Bank (SIB) loans which is being reflected on the City's financial statements. Expenditures increased from \$63,475 in 2010 to \$306,214 in 2011 as a result of the construction project being completed and going into the debt retirement phase.

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 \$2,644,716 were more than final budgeted revenues and other financing sources by \$39,716. Actual expenditures and other financing uses of \$2,475,311 were \$90,754 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, 2011
(CONTINUED)**

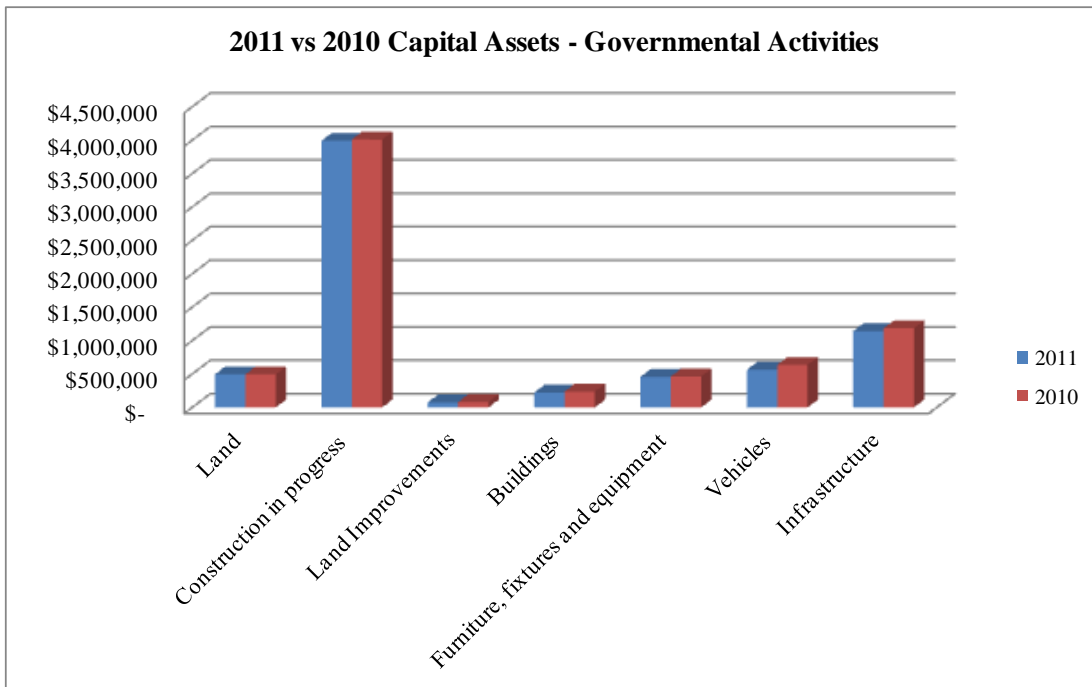
Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the City had \$6,945,271 (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 2011 balances compared to 2010:

	Capital Assets at December 31, (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 495,279	\$ 495,279
Construction in progress	3,989,793	4,009,196
Land Improvements	75,804	82,035
Buildings	220,919	235,940
Furniture, fixtures and equipment	458,198	462,854
Vehicles	562,615	635,774
Infrastructure	1,142,663	1,184,147
Total Capital Assets	<u>\$ 6,945,271</u>	<u>\$ 7,105,225</u>

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010:



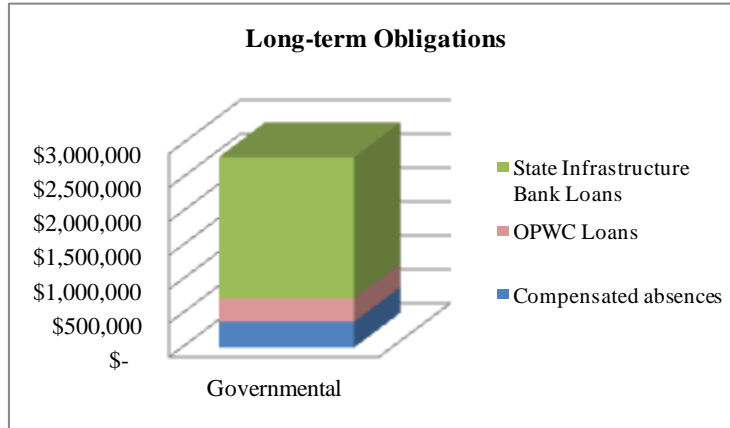
**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2011 and 2010. See Note 10 for details regarding the City’s long-term liabilities.

	2011	2010
Compensated absences	\$ 380,967	\$ 383,239
OPWC Loans	343,399	375,845
State Infrastructure Bank Loans	2,085,438	2,466,424
Total outstanding debt	\$ 2,809,804	\$ 3,225,508

A comparison of the long-term obligations of 2011 by category is depicted in the chart below.



Economic Conditions and Outlook

The City 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 unexpended 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, 2011 increased to \$633,056. This increase is a direct result of two police officers and one firemen not being replaced through attrition and a reduction of general expenditures in anticipation of a very difficult financial year in fiscal year 2012 and mainly in fiscal year 2013. As a result of the national economy downturn, the Lake County Auditor is estimating an 8 to 10 percent reduction in property values for fiscal year 2012 which are collectable in fiscal year 2013. This will have a negative effect on all “bedroom communities” such as ours who rely heavily on real estate property taxes.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

The State of Ohio has several shared revenues with local municipalities; the most significant is the Local Government Fund. Four years ago, the Ohio General Assembly amended the distribution formula for the Local Government Fund so that the local municipalities share in 3.86 percent of all the State's general revenues collected. Since the State of Ohio was faced with an \$8 billion deficit they decided to balance their budget on the backs of Local Governments. The Governor submitted his budget to the General Assembly which proposed to reduce the Local Government Fund by 25 percent during the first year of the State's biennium budget and by another 50 percent in the second year of the biennium. The State removed the planned 10 year reimbursement of the tangible personal property tax that was in place due to the enactment of the CAT tax that the former Governor instituted. To make matters worst, the State also eliminated the Estate Tax as of fiscal year 2013; the City averaged \$60,000 from that source over the last five fiscal years.

Over the last few years the City has reduced its full time work force by 16 percent. With the reduction of the property values to be in place for the next three fiscal years and no real hope of the State of Ohio restoring cuts to our Local Government Fund, it does not look like a very bright future for the basic services provided to our residents. If the housing market and employment picture does not improve in the near future, residents in our community and all others will see a very different level of basic services provided to the citizens for years to come.

Fiscal year 2012 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, 2011**

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 1,350,184
Accounts Receivable	10,732
Intergovernmental Receivable	1,981,110
Prepaid Items	13,394
Income Taxes Receivable	233,512
Property Taxes Receivable	1,571,010
Nondepreciable Capital Assets	4,485,072
Depreciable Capital Assets	2,460,199
Total Assets	12,105,213
LIABILITIES	
Accounts Payable	45,442
Accrued Wages and Benefits	50,913
Intergovernmental Payable	51,630
Pension Obligation	51,641
Accrued Interest Payable	9,417
Unearned Revenue	1,612,900
Notes Payable	1,000,000
Long-term Liabilities:	
Due within one year	1,680,851
Due in more than one year	1,128,953
Total Liabilities	5,631,747
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,666,434
Restricted for:	
Debt Services	139,064
Capital Projects	1,860,713
Street Construction, Maintenance and Repair	137,080
Fire and Safety Services	76,610
Other Purposes	55,821
Unrestricted	537,744
Total Net Assets	\$ 6,473,466

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, 2011**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 2,366,545	\$ 207,032	\$ 26,970	\$ (2,132,543)
Public Health Services	59,725	-	-	(59,725)
Leisure Time Activities	50,231	4,780	-	(45,451)
Refuse Services	440,552	332,291	-	(108,261)
Transportation	559,784	-	304,450	(255,334)
General Government	722,275	131,031	-	(591,244)
Other	12,550	-	-	(12,550)
Interest and Fiscal Charges	37,419	-	-	(37,419)
Total Governmental activities	\$ 4,249,081	\$ 675,134	\$ 331,420	(3,242,527)
General Revenues:				
Property and Other Local Taxes levied for:				
				322,524
				113
				1,212,912
Income Taxes levied for:				
				987,803
				676,383
				1,224
				86,109
				<u>3,287,068</u>
				44,541
				<u>6,428,925</u>
				<u>\$ 6,473,466</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, 2011

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 507,926	\$ 22,178	\$ 32,990
Accounts Receivable	9,799	-	-
Intergovernmental Receivable	196,218	40,436	23,449
Prepaid Items	9,772	-	2,693
Income Taxes Receivable	233,512	-	-
Property Taxes Receivable	330,327	550,542	363,947
Total Assets	<u>\$ 1,287,554</u>	<u>\$ 613,156</u>	<u>\$ 423,079</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 44,058	\$ -	\$ 109
Accrued Wages	35,487	810	8,443
Intergovernmental Payable	34,419	-	-
Pension Obligation Payable	35,522	-	-
Accrued Interest Payable	1,130	-	-
Deferred Revenue	361,928	76,726	45,981
Notes Payable	140,000	-	-
Unearned Revenue	340,588	514,252	341,415
Total Liabilities	<u>993,132</u>	<u>591,788</u>	<u>395,948</u>
Fund Balances:			
Nonspendable	9,772	-	2,693
Restricted	-	21,368	24,438
Committed	19,589	-	-
Assigned	44,391	-	-
Unassigned (Deficit)	220,670	-	-
Total Fund Balances	<u>294,422</u>	<u>21,368</u>	<u>27,131</u>
Total Liabilities and Fund Balances	<u>\$ 1,287,554</u>	<u>\$ 613,156</u>	<u>\$ 423,079</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, 2011
(CONTINUED)**

<u>Fire Levy</u>	<u>Andrews Road Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 38,491	\$ 281,737	\$ 466,862	\$ 1,350,184
-	-	933	10,732
18,664	1,546,430	155,913	1,981,110
905	-	24	13,394
-	-	-	233,512
289,491	-	36,703	1,571,010
<u>\$ 347,551</u>	<u>\$ 1,828,167</u>	<u>\$ 660,435</u>	<u>\$ 5,159,942</u>
\$ 835	\$ -	\$ 440	\$ 45,442
2,524	-	3,649	50,913
11,339	-	5,872	51,630
13,245	-	2,874	51,641
-	5,245	1,694	8,069
36,592	-	133,485	654,712
-	650,000	210,000	1,000,000
271,563	-	145,082	1,612,900
<u>336,098</u>	<u>655,245</u>	<u>503,096</u>	<u>3,475,307</u>
905	-	24	13,394
10,548	1,172,922	252,612	1,481,888
-	-	22,941	42,530
-	-	-	44,391
-	-	(118,238)	102,432
<u>11,453</u>	<u>1,172,922</u>	<u>157,339</u>	<u>1,684,635</u>
<u>\$ 347,551</u>	<u>\$ 1,828,167</u>	<u>\$ 660,435</u>	<u>\$ 5,159,942</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Total Governmental Funds Balance	\$	1,684,635
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Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		6,945,271
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Property and other local taxes	100,944		
Income taxes	177,635		
Intergovernmental revenues	375,024		
Charges for services	1,109		
Total			654,712

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(1,348)
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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	(343,399)		
Compensated absences	(380,967)		
SIB Loans	(2,085,438)		
Total			(2,809,804)

Net Assets of Governmental Activities	\$	6,473,466
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The notes to the financial statements are an integral part of this statement.

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**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, 2011**

	General Fund	Safety Forces Levy	Police Levy
REVENUES			
Property Taxes	\$ 321,608	\$ 536,106	\$ 355,348
Income Taxes	936,693	-	-
Intergovernmental	598,820	80,872	46,897
Interest	1,004	50	65
Licenses and Permits	47,537	-	-
Fines and Forfeitures	20,104	-	-
Charges for Services	580,784	-	-
All Other Revenues	72,127	-	463
Total Revenues	2,578,677	617,028	402,773
EXPENDITURES			
Security of Persons and Property	936,593	576,491	412,254
Public Health	59,725	-	-
Leisure Time Activities	39,057	-	-
Refuse Services	436,098	-	-
Transportation	162,241	-	-
General Government	681,645	-	-
Capital Outlay	38,223	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	2,454	-	-
Other	-	-	-
Total Expenditures	2,356,036	576,491	412,254
Excess (Deficiency) of Revenues Over (Under) Expenditures	222,641	40,537	(9,481)
OTHER FINANCING SOURCES (USES)			
Transfers In	32,762	-	-
Transfers Out	(114,400)	-	-
Total Other Financing Sources (Uses)	(81,638)	-	-
Net Change in Fund Balances	141,003	40,537	(9,481)
Fund Balances - Beginning of Year	153,419	(19,169)	36,612
Fund Balances - End of Year	\$ 294,422	\$ 21,368	\$ 27,131

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, 2011
(CONTINUED)**

Fire Levy	Andrews Road Construction	Other Governmental Funds	Total Governmental Funds
\$ 282,645	\$ -	\$ 36,290	\$ 1,531,997
-	-	-	936,693
37,327	-	315,328	1,079,244
72	-	333	1,524
-	-	-	47,537
-	-	1,556	21,660
-	-	24,044	604,828
154	-	13,365	86,109
<u>320,198</u>	<u>-</u>	<u>390,916</u>	<u>4,309,592</u>
313,291	-	50,182	2,288,811
-	-	-	59,725
-	-	1,823	40,880
-	-	-	436,098
-	-	323,320	485,561
-	-	4,400	686,045
-	-	6,087	44,310
-	295,710	117,722	413,432
-	10,504	23,113	36,071
-	-	12,550	12,550
<u>313,291</u>	<u>306,214</u>	<u>539,197</u>	<u>4,503,483</u>
<u>6,907</u>	<u>(306,214)</u>	<u>(148,281)</u>	<u>(193,891)</u>
-	35,969	217,438	286,169
-	(91,900)	(79,869)	(286,169)
-	(55,931)	137,569	-
6,907	(362,145)	(10,712)	(193,891)
4,546	1,535,067	168,051	1,878,526
<u>\$ 11,453</u>	<u>\$ 1,172,922</u>	<u>\$ 157,339</u>	<u>\$ 1,684,635</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, 2011**

Net Change in Fund Balances--Total Governmental Funds \$ (193,891)

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	53,501	
Depreciation	(209,416)	
Total	(155,915)	(155,915)

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. (4,039)

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

Property and other local taxes	3,252	
Income taxes	51,110	
Intergovernmental revenues	(71,441)	
Charges for services	1,109	
Total	(15,970)	(15,970)

Repayment of OPWC and State Infrastructure Bank (SIB) loans are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 413,432

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	2,272	
Accrued interest on bonds	(1,348)	
Total	924	924

Change in Net Assets of Governmental Activities \$ 44,541

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Property Taxes	\$ 320,410	\$ 321,510	\$ 321,608	\$ 98
Income Taxes	820,000	940,000	959,764	19,764
Intergovernmental Revenues	569,930	629,870	633,509	3,639
Interest	1,000	1,000	1,004	4
Licenses and Permits	6,120	45,920	50,267	4,347
Fines and Forfeitures	30,000	20,000	18,765	(1,235)
Charges for Services	532,200	512,700	588,127	75,427
All Other Revenues	116,000	128,000	63,771	(64,229)
Total Revenues	<u>2,395,660</u>	<u>2,599,000</u>	<u>2,636,815</u>	<u>37,815</u>
EXPENDITURES				
Current:				
Security of Persons & Property	939,770	960,270	934,336	25,934
Public Health	62,000	62,000	59,725	2,275
Leisure Time Activities	43,300	43,300	39,193	4,107
Refuse Services	411,693	411,693	404,467	7,226
Transportation	175,966	175,966	162,715	13,251
General Government	698,941	700,341	673,084	27,257
Capital Outlay	73,195	73,195	63,165	10,030
Total Expenditures	<u>2,404,865</u>	<u>2,426,765</u>	<u>2,336,685</u>	<u>90,080</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(9,205)</u>	<u>172,235</u>	<u>300,130</u>	<u>127,895</u>
OTHER FINANCES SOURCES (USES)				
Transfers - Out	(114,400)	(114,400)	(114,400)	-
Other Financing Sources	2,000	6,000	7,901	1,901
Other Financing Uses	(24,900)	(24,900)	(24,226)	674
Total Other Financing Sources (Uses)	<u>(137,300)</u>	<u>(133,300)</u>	<u>(130,725)</u>	<u>2,575</u>
Net Change in Fund Balance	(146,505)	38,935	169,405	130,470
Fund Balance - Beginning of Year	285,122	285,122	285,122	-
Prior Year Encumbrances Appropriated	10,985	10,985	10,985	-
Fund Balance - End of Year	<u>\$ 149,602</u>	<u>\$ 335,042</u>	<u>\$ 465,512</u>	<u>\$ 130,470</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 534,290	\$ 536,090	\$ 536,106	\$ 16
Intergovernmental	70,230	80,830	80,872	42
Interest	50	50	50	-
Total Revenues	<u>604,570</u>	<u>616,970</u>	<u>617,028</u>	<u>58</u>
EXPENDITURES				
Current:				
Security of Persons & Property	609,000	609,000	600,511	8,489
Total Expenditures	<u>609,000</u>	<u>609,000</u>	<u>600,511</u>	<u>8,489</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,430)</u>	<u>7,970</u>	<u>16,517</u>	<u>8,547</u>
OTHER FINANCES SOURCES (USES)				
Other Financing Uses	(7,000)	(7,000)	(6,546)	454
Total Other Financing Sources (Uses)	<u>(7,000)</u>	<u>(7,000)</u>	<u>(6,546)</u>	<u>454</u>
Net change in Fund Balance	(11,430)	970	9,971	9,001
Fund Balance - Beginning of Year	12,207	12,207	12,207	-
Fund Balance - End of Year	<u>\$ 777</u>	<u>\$ 13,177</u>	<u>\$ 22,178</u>	<u>\$ 9,001</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 360,250	\$ 355,350	\$ 355,348	\$ (2)
Intergovernmental	46,660	46,860	46,897	37
Investment Earnings	150	150	65	(85)
Total Revenues	<u>407,060</u>	<u>402,360</u>	<u>402,310</u>	<u>(50)</u>
EXPENDITURES				
Current:				
Security of Persons & Property	435,570	435,570	400,118	35,452
Total Expenditures	<u>435,570</u>	<u>435,570</u>	<u>400,118</u>	<u>35,452</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(28,510)</u>	<u>(33,210)</u>	<u>2,192</u>	<u>35,402</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Sources	-	460	463	3
Other Financing Uses	(6,700)	(6,700)	(6,300)	400
Total Other Financing Sources (Uses)	<u>(6,700)</u>	<u>(6,240)</u>	<u>(5,837)</u>	<u>403</u>
Net change in Fund Balance	(35,210)	(39,450)	(3,645)	35,805
Fund Balance - Beginning of Year	32,061	32,061	32,061	-
Prior Year Encumbrances Appropriated	4,270	4,270	4,270	-
Fund Balance - End of Year	<u>\$ 1,121</u>	<u>\$ (3,119)</u>	<u>\$ 32,686</u>	<u>\$ 35,805</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 286,530	\$ 282,640	\$ 282,645	\$ 5
Intergovernmental Revenues	36,320	37,320	37,327	7
Interest	80	80	72	(8)
Total Revenues	<u>322,930</u>	<u>320,040</u>	<u>320,044</u>	<u>4</u>
EXPENDITURES				
Current:				
Security of Persons & Property	355,193	355,193	317,606	37,587
Total Expenditures	<u>355,193</u>	<u>355,193</u>	<u>317,606</u>	<u>37,587</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(32,263)</u>	<u>(35,153)</u>	<u>2,438</u>	<u>37,591</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Sources	-	-	154	154
Other Financing Uses	(6,000)	(6,000)	(5,430)	570
Total Other Financing Sources (Uses)	<u>(6,000)</u>	<u>(6,000)</u>	<u>(5,276)</u>	<u>724</u>
Net change in Fund Balance	(38,263)	(41,153)	(2,838)	38,315
Fund Balance - Beginning of Year	32,644	32,644	32,644	-
Prior Year Encumbrances Appropriated	6,193	6,193	6,193	-
Fund Balance - End of Year	<u>\$ 574</u>	<u>\$ (2,316)</u>	<u>\$ 35,999</u>	<u>\$ 38,315</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, 2011**

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 98,704
Cash and Cash Equivalents in Segregated Accounts	9,008
Total Assets	\$ 107,712
Liabilities	
Deposits Held and Due to Others	9,008
Undistributed Monies	98,704
Total Liabilities	\$ 107,712

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, 2011**

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, 2011
(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, 2011
(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 restricted for related expenditures.

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

Fire Levy Fund - The Fire Levy Fund accounts for all transactions relating to the fire tax levy and restricted for 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 or committed 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, 2011
(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, 2011
(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, 2011
(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, 2011, but which were levied to finance year 2012 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, 2011, 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, 2011
(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 2011.

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, 2011
(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 2011, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31, 2011.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the General Fund during 2011 amounted to \$1,004, which included \$470 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, 2011
(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, 2011
(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, 2011.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, 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, 2011
(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

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

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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

M. **Fund Balance** (Continued)

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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, 2011
(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 2011.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. **Changes in Accounting Principles**

For fiscal year 2011, the City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in no reclassification of fund balances on the City's governmental fund financial statements. However, it did result in a change in the presentation of the governmental fund balances.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City's financial statements

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

B. Deficit Fund Balances

Fund balances at December 31, 2011, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Fire Vehicles	\$ 56,544
Radio Equipment	1,210
OPWC – Holly Drive	60,484

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the Radio Equipment Fund and 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 balance in the Fire Vehicles Fund was 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.

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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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

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 (STAR Ohio).

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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

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, 2011, the carrying amount of all City deposits was \$1,153,236. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2011, \$542,937 of the City's bank balance of \$1,190,967 was exposed to custodial risk as discussed below, while \$648,030 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits 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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

C. Investments

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAR Ohio	<u>\$ 303,950</u>	<u>\$ 303,950</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 STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 303,950</u>	<u>100.00 %</u>

D. Reconciliation of Cash and Investments to the Statements

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, 2011:

<u>Cash and Investments per Footnote</u>	
Cash on Hand	\$ 710
Carrying Amount of Deposits	1,153,236
Investments	<u>303,950</u>
Total Cash and Investments per Footnote	<u>\$1,457,896</u>
 <u>Cash and Investments per Statements</u>	
Governmental Activities	\$1,350,184
Agency Funds	<u>107,712</u>
Total Cash and Investments per Statements	<u>\$1,457,896</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2011 (other than public utility property) represent the collection of 2011 taxes. Tangible personal property taxes received in 2011 were levied after October 1, 2010, on the true value as of December 31, 2010. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is zero percent for 2011. 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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

NOTE 5: **TAXES** (Continued)

A. **Property Taxes** (Continued)

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, 2011, was \$24.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real Property Tax	\$ 132,800,650
Public Utility Tangible Personal Property Tax	<u>4,673,790</u>
Total Assessed Valuation	<u>\$ 137,474,440</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2011. 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 \$936,693 for fiscal year 2011.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), 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, 2011.

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

<u>Governmental Activities</u>	
Property Taxes	\$ 1,571,010
Income Taxes	233,512
Accounts	10,732
Intergovernmental:	
Homestead & Rollback Reimbursements	109,507
Local Government	169,407
Gasoline & Excise Taxes/Auto Registration	153,157
NOACA	1,546,430
Other	2,609

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, 2011
(CONTINUED)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balances 12/31/2010	Additions	Disposals	Balances 12/31/2011
Governmental Activities				
Nondepreciable Assets:				
Land	\$ 495,279	\$ -	\$ -	\$ 495,279
Construction in progress	4,009,196	6,045	(25,448)	3,989,793
Total Nondepreciable Assets	<u>4,504,475</u>	<u>6,045</u>	<u>(25,448)</u>	<u>4,485,072</u>
Depreciable Assets:				
Land Improvements	124,613	-	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	673,248	24,420	(11,848)	685,820
Vehicles	1,312,339	23,036	(20,773)	1,314,602
Infrastructure:				
Roads	889,172	25,448	-	914,620
Storm sewers	598,789	-	-	598,789
Total Depreciable Assets	<u>4,198,261</u>	<u>72,904</u>	<u>(32,621)</u>	<u>4,238,544</u>
Less Accumulated Depreciation				
Land Improvements	(42,578)	(6,231)	-	(48,809)
Buildings	(364,160)	(15,021)	-	(379,181)
Furniture, fixtures and equipment	(210,394)	(29,076)	11,848	(227,622)
Vehicles	(676,565)	(92,156)	16,734	(751,987)
Infrastructure:				
Roads	(220,238)	(53,569)	-	(273,807)
Storm sewers	(83,576)	(13,363)	-	(96,939)
Total Accumulated Depreciation	<u>(1,597,511)</u>	<u>(209,416)</u>	<u>28,582</u>	<u>(1,778,345)</u>
Total Depreciable Assets, Net	<u>2,600,750</u>	<u>(136,512)</u>	<u>(4,039)</u>	<u>2,460,199</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,105,225</u>	<u>\$ (130,467)</u>	<u>\$ (29,487)</u>	<u>\$ 6,945,271</u>

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

Security of Persons and Property:	\$ 82,192
Leisure Time Activities	9,351
Transportation	94,629
General Government	23,244
Total Depreciation Expense	<u>\$ 209,416</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

NOTE 8: INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2011, 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>Andrews Road Reconstruction Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 32,762	\$ 32,762
Andrews Road Reconstruction Fund	-	-	35,969	35,969
Nonmajor Governmental Funds	114,400	91,900	11,138	217,438
	<u>\$114,400</u>	<u>\$ 91,900</u>	<u>\$ 79,869</u>	<u>\$286,169</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, 2011:

	<u>Interest Rate</u>	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>
Various purpose improvements Bond anticipation notes	1.650%	\$ 915,000	\$ -	\$ (915,000)	-
Various purpose improvements Bond anticipation notes	1.550%	-	1,000,000	-	1,000,000
Total Notes Payable		<u>\$ 915,000</u>	<u>\$1,000,000</u>	<u>\$ (915,000)</u>	<u>\$1,000,000</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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

During 2011, the City retired the \$915,000 bond anticipation notes that were due on June 22, 2011, and issued \$1,000,000 in bond anticipation notes to finance the following projects: \$650,000 was issued for the State Route 283 project, \$60,000 was issued for the Holly Drive project, \$140,000 was issued for the purchase of miscellaneous equipment in the General Fund, and \$150,000 was issued for the purchase of radio equipment. 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, and the Radio Equipment Fund, a nonmajor governmental 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 1.55 percent interest rate and are scheduled to mature on June 21, 2012.

As of December 31, 2011, none of the proceeds from the \$150,000 BAN issued for Radio Equipment were used. The City anticipates using the proceeds in 2012 for the purchase of radio equipment.

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

NOTE 10: LONG-TERM OBLIGATIONS

A. Changes in Governmental Activities' Long-Term Obligations

During the fiscal year 2011, the following changes occurred in the City's governmental activities' long-term obligations:

	Interest Rate	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Amounts Due in One Year
Governmental Activities:						
OPWC Loans:						
1996 - 15 years						
OPWC 93 (Salida Rd.)	0%	\$ -	\$ -	\$ -	\$ -	\$ -
1996 - 20 years						
OPWC 94 (Harbor Creek)	0%	47,337	-	(8,607)	38,730	8,608
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	71,250	-	(7,500)	63,750	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	92,195	-	(6,586)	85,609	6,586
2005 - 20 years						
OPWC 05 (Weber Area)	0%	33,813	-	(2,253)	31,560	2,254
2007 - 20 years						
OPWC 07 (SR 283)	0%	131,250	-	(7,500)	123,750	7,500
Total OPWC Loans		<u>375,845</u>	<u>-</u>	<u>(32,446)</u>	<u>343,399</u>	<u>32,448</u>
Other Long-Term Obligations:						
SIB Loan # 070A10	0%-3%	1,842,140	-	(295,710)	1,546,430	1,546,430
SIB Loan # 070B10	0%-3%	624,284	-	(85,276)	539,008	76,288
Compensated absences		383,239	163,558	(165,830)	380,967	25,685
Total Other Long-Term Obligations		<u>2,849,663</u>	<u>163,558</u>	<u>(546,816)</u>	<u>2,466,405</u>	<u>1,648,403</u>
Total Governmental Activities Long-Term Obligations		<u>\$ 3,225,508</u>	<u>\$ 163,558</u>	<u>\$ (579,262)</u>	<u>\$2,809,804</u>	<u>\$1,680,851</u>

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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

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

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 was issued 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, 2011, the City has used 100 percent of the loan proceeds 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 issued in the amount of \$624,284. The City has pledged its general obligation to repay 100 percent of the loan. As of December 31, 2011, 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

Principal requirements to retire the long-term loans outstanding at December 31, 2011, are as follows:

Year	<u>OPWC Loans</u>		<u>NOACA Share SIB Loan # 070A10</u>		<u>City Share SIB Loan # 070B10</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 32,448	\$ -	\$ 1,546,430	\$ 16,524	\$ 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	28,137	-	-	-	85,938	5,953
2017-2021	107,950	-	-	-	133,801	4,054
2022-2026	66,270	-	-	-	-	-
2027-2028	11,250	-	-	-	-	-
Total	<u>\$ 343,399</u>	<u>\$ -</u>	<u>\$ 1,546,430</u>	<u>\$ 16,524</u>	<u>\$ 539,008</u>	<u>\$ 58,337</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

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, 2011, the City's total debt margin was \$12,691,473 and the unvoted debt margin was \$5,817,751.

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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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 visiting www.opers.org/investments/cafr, 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, 2011, 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 and the Combined Plan. The pension allocation for the Traditional Plan was 10.00 during calendar year 2011. The pension allocation for the Combined Plan was 7.95 percent from during calendar year 2011. The City's required pension contributions for the Traditional Pension and Combined plans for the years ended December 31, 2011, 2010, and 2009 were \$117,384, \$158,075, and \$166,237, respectively; 92.19 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009. The unpaid contribution to fund pension obligations for 2011, in the amount of \$12,838, is recorded as a liability within the respective funds.

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

NOTE 11: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund

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 the OP&F for the years ended December 31, 2011, 2010, and 2009 were \$160,116, \$183,940 and \$189,440, respectively; 75.64 percent has been contributed for 2011 and 100 percent for 2010 and 2009. The unpaid contribution to fund OP&F obligations for 2011, in the amount of \$38,803, is recorded as a liability within the respective funds.

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

A. Ohio Public Employees Retirement System

Plan Description - The 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 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.

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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

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

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 visiting www.opers.org/investments/cafr , 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 2011 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 4.00 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for December 31, 2011, 2010 and 2009 which were used to fund post-employment benefits were \$46,953, \$57,320, and \$69,331, respectively; 92.19 percent has been contributed for 2011 and 100 percent for 2010 and 2009 100 percent has been contributed for 2011, 2010 and 2009.

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 on January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

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

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 post-employment 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-retirement 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.

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.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)**

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

B. Ohio Police and Fire Pension Fund (Continued)

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, 2011, 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 to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$38,890 and \$13,435 for the year ended December 31, 2011, \$43,604 and \$16,305 for the year ended December 31, 2010, and \$45,818 and \$16,053 for the year ended December 31, 2009; 75.64 percent has been contributed for 2011 and 100 percent for 2010 and 2009 100 percent has been contributed for 2011, 2010 and 2009.

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, 2011
(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, 2011.

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, 2011
(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 part of restricted, committed, and assigned fund balances (GAAP); and
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, 2011
(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	\$ 169,405	\$ 9,971	\$ (3,645)	\$ (2,838)
Net adjustment of revenue accruals	(66,039)	-	-	-
Net adjustment of expenditure accruals	(37,539)	30,566	(6,140)	7,253
Net adjustment of other sources/uses	32,762	-	-	-
Adjustment for encumbrances	42,414	-	304	2,492
GAAP basis	<u>\$ 141,003</u>	<u>\$ 40,537</u>	<u>\$ (9,481)</u>	<u>\$ 6,907</u>

NOTE 17: **OTHER COMMITMENTS**

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2011, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
Major Funds:	
General	\$ 40,599
Police Levy	304
Fire Levy	2,492
Andrews Road Construction	\$ 2,627
Nonmajor Funds:	
Special Revenue Funds	5,458
Debt Service Funds	16,361
Capital Projects Funds	118,457
Total	<u>\$ 186,298</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

NOTE 18: FUND BALANCES

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

Fund Balances	General	Safety Forces Levy	Police Levy	Fire Levy	Andrews Road Construction	Other Governmental Funds	Total
<i>Nonspendable</i>							
Prepaid Items	\$ 9,772	\$ -	\$ 2,693	\$ 905	\$ -	\$ 24	\$ 13,394
<i>Total Nonspendable</i>	<u>9,772</u>	<u>-</u>	<u>2,693</u>	<u>905</u>	<u>-</u>	<u>24</u>	<u>13,394</u>
<i>Restricted for</i>							
Police Pension	-	-	-	-	-	2,084	2,084
Safety Services	-	21,368	24,438	10,548	-	-	56,354
Other Law Enforcement	-	-	-	-	-	26,450	26,450
EMS Grant	-	-	-	-	-	1,580	1,580
FEMA Grants	-	-	-	-	-	2,524	2,524
ODNR Grant	-	-	-	-	-	1,275	1,275
Streets and Highways	-	-	-	-	-	60,927	60,927
Debt Service	-	-	-	-	-	139,064	139,064
Andrews Rd. Construction Project	-	-	-	-	1,172,922	-	1,172,922
OPWC Capital Projects	-	-	-	-	-	18,708	18,708
<i>Total Restricted</i>	<u>-</u>	<u>21,368</u>	<u>24,438</u>	<u>10,548</u>	<u>1,172,922</u>	<u>252,612</u>	<u>1,481,888</u>
<i>Committed to</i>							
McMinn Memorial Park	-	-	-	-	-	713	713
Labor Day Parade	-	-	-	-	-	263	263
Toys for Kids Program	-	-	-	-	-	1,534	1,534
Municipal Complex Renovations	-	-	-	-	-	6,886	6,886
Recreation Capital Projects	-	-	-	-	-	13,545	13,545
Grade Stake Fees	19,589	-	-	-	-	-	19,589
<i>Total Committed</i>	<u>19,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,941</u>	<u>42,530</u>
<i>Assigned to</i>							
Planned 2012 Appropriations	3,792	-	-	-	-	-	3,792
Other Purposes	40,599	-	-	-	-	-	40,599
<i>Total Assigned</i>	<u>44,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,391</u>
<i>Unassigned (Deficit)</i>							
	220,670	-	-	-	-	(118,238)	102,432
<i>Total Fund Balances</i>	<u>\$ 294,422</u>	<u>\$ 21,368</u>	<u>\$ 27,131</u>	<u>\$ 11,453</u>	<u>\$ 1,172,922</u>	<u>\$ 157,339</u>	<u>\$ 1,684,635</u>

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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, 2011, which collectively comprise the City of Mentor-on-the-Lake, Ohio's basic financial statements and have issued our report thereon dated April 20, 2012, wherein we noted that the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. 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

Management of the City of Mentor-on-the-Lake, Ohio is responsible for establishing and maintaining effective 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*.

We noted certain matters that we reported to management of the City of Mentor-on-the-Lake, Ohio, in a separate letter dated April 20, 2012.

This report is intended solely for the information and use of management, City Council, audit committee, 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

April 20, 2012

**CITY OF MENTOR-ON-THE-LAKE, OHIO
STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Management letter recommendations as of December 31, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



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
JULY 10, 2012